

A Critical Examination of the Italian Tax System

by

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1. - The Italian system of taxation in its essential features dates back to the second half of the XIXth century. The need of a radical reform had however been felt ever since the first years of Italian unity. Evidence of this is afforded by the many plans then drawn up by qualified bodies which met with varying fortune. Here we will only mention the Scialoja plan of 1866, that of Romano of the same year, that of Cambay Digny of 1868, Gagliardo of 1893, Sonnino of 1894, Wollemborg of 1901, Majorana of 1905, Lacava-Giolitti of 1909, Sonnino-Arletti of 1910, Rava of 1914, Meda of 1916, Tedesco of 1919, and Soleri of 1921. But, practically, the first structural reform of this century was made in 1923 with the introduction of the general income tax on total income (*imposta complementare*, the only really personal and subjective tax of our fiscal system), and in 1939-40 with the introduction of a) the ordinary property tax of a proportional and objective character (repealed as from January 1948), and b) the general turnover tax (replacing the tax on sales introduced during the first world war), which partakes of the character of a tax on consumption and a tax on business.

As a result of all this, our system is formed in 1948, apart from some minor and temporary taxes, of:

— a general tax levied on income at the time when it is earned by the tax-payer, represented by the co-existence of four independent taxes, *i. e.* those levied on income from lands, from urban buildings, from capital and work, and on farmers' profits. The rates at which these taxes are levied are proportional, but vary with the nature of the income to which they refer;

— a single tax on total income of each

tax-payer, of a personal and progressive character (surtax, *imposta complementare*);

— a tax on inheritances and donations, graduated according to the degree of kinship, at progressive rates varying with the amount of the share inherited and with the amount of the estate;

— a series of taxes on business transactions, such as stamp and registration duties, those in subrogation of the stamp and registration duties, and numerous minor taxes which are levied substantially on turnover and transfers of capital;

— a very numerous and heterogeneous series of taxes on consumption, such as the general turnover tax (which in part acts as a tax on business transactions) levied on every transfer of goods from the producer to the consumer and on every prestation of services; another series of taxes on consumption (for instance, on public entertainments), sometimes collected in the form of manufacturing taxes (as those on beer, coffee, synthetic textile fibres, electric power, sugar, seed oils, ores, spirits etc.), or as customs' duties, or as fiscal monopolies (salt, tobacco, and lotteries).

Large bodies of public opinion in Italy now realise the need of revising our system of taxation so as to make it more scientific and at the same time more in keeping with new political and social requirements which have made themselves felt of late. Such a reform is made all the more urgent by the overlapping of chaotic war and post-war legislation to which reference has already been made in a previous article. (1)

(1) C. COSCIANI, *Italian Tax Policy*, in this Review, July, 1947, p. 86.

The perception of this need led the Minister of Finance at the end of last year to appoint a committee of experts and representatives of some of the groups concerned, to study the matter and make some systematic proposals. It is to be hoped that it will thus be possible to reach rapid legislative solutions, to be gradually applied.

While awaiting the hoped for measures—which however is neither easy nor imminent—it seems advisable to point out some of the more obvious drawbacks to which the present system gives rise. The following study is made in a critical spirit, leaving out of consideration possible constructive policies. This reserve is required of the writer, as he is a member of the aforesaid study committee.

2. - The Italian system of taxation and fiscal policy give rise, first of all, to a criticism directed against an essentially formal and juridical aspect thereof. In the field of taxation neither practice nor law place any limits on the regulatory powers of the legislator. For instance, Italian legislation is neither morally nor juridically bound to introduce variations in our tax system only once a year, when the budget is presented for approval, as is the case in some foreign countries. Nor is the approval of fiscal measures by the Parliament subject to any special procedure. The absence of such limitations, and the assumption for a long time past by the executive power of the faculty of legislating, has led to the issue by the Government of an extremely numerous sequence of measures affecting taxation. The certainty the Government had of being able to legislate, subject only to a very limited control (rather than approval) exercised by Parliament, has induced it to abound in provisions, often encroaching in directions which might very well have been left to administrative regulations, and to take measures without due consideration, regardless of the probability of changed future needs, and without being firmly resolved to resist contrasting political and economic pressures. This insufficient ponderation has been essentially due to the fact that the Government knows it has the power of issuing when it may wish, and at very brief intervals, further supplementary or innovating decrees. This

has led to the confused and dangerous overlapping of uncoordinated legislative texts, with the result that the system as a whole is understood only by a few specialists.

Probably now that the new Constitution has come into force and Parliament has been re-established, this spate of legislation will be checked; but a definite solution to the problem will only be secured when the laws on Italian taxation have been really codified, or at least when the fundamental juridical principles on which such legislation is based have been established. This is the earnest desire not only of jurists and students but of the taxpayers themselves. At the present time Italian fiscal legislation is an incognita even for the officials, who have difficulty in keeping up with its new tendencies.

This not only leads to a marked confusion of ideas both juridical and formal, but to an irrational distribution of the burden of taxation over the several groups of tax-payers.

Thus, for instance, the very big shift in the yield of taxation from direct taxes to indirect taxes on consumption is the cause of general complaint. But, at the same time, measures, not always justified by the objective economic and financial situation, have been taken for granting further relief from direct taxation by reducing the rates of the income-tax on incomes of employed workers, and raising the taxable minimums as compared to pre-war figures (even while taking into account the changed value of money). Not only have no steps been taken to make the weight of the progressive rates of the general income tax more effective, even while setting aside demagogic rates which defeat their own purpose, but nothing has been done to improve the distribution of the burdens by modifying taxes on consumption by graduating the rates in function of the marginal character of the consumption of the several commodities. Instead of this, an attempt has been made to improve the distribution of the burden of taxation through the worst of all possible means, that of centering the weight of taxation on property and incomes from property, recourse being had to both ordinary and to extraordinary taxes.

As a result of all this, the present system is far from satisfying rational requirements

whether political or economic, but represents a series of compromises between different tendencies arising from political considerations and corresponding to different finalities, whose purpose is to run counter as little as possible to the interests of the several groups of tax-payers so as to follow the line of least resistance and not the principle of the maximum economic advantage or taxable capacity.

At the present time the Italian tax system infringes systematically the canon of financial productivity, regardless of the fundamental needs of a poor economy such as ours, which should promote by all possible means the formation of savings (instead of this, taxation, as we have said, has been shifted in a marked degree from incomes from work to incomes from capital); which should avoid hindering the growth of business by taxes which yield little (such as some taxes on the transfer of property); and which should place the burden of taxation less on business undertakings than on physical persons (whereas, for a variety of reasons, income-tax often becomes not a tax on the net personal income but a tax on the gross income of concerns).

The chaotic distribution of the burden of taxation is made still worse by wide-spread evasion — both legal and illegal — occurring above all in certain branches of economic activities. Here a vicious circle has been formed which will have to be interrupted. It is formed by the distrust of the fiscal authorities in the tax-payer's returns; and the natural tendency of the tax-payer to evade. A struggle is thus started between tax-administration and tax-payers in which victory often goes not to the party which is in the right, but to the more astute and persistent. The absence of fiscal scrupulousness on the part of the tax-payer, the chronic muddle prevailing in the offices, the practical (not theoretical) insufficiency of the penalties, etc., are all drawbacks which, in one way or another, must be overcome if a real reform of the system of taxation is to be made.

3. - The most perceptible drawback of our system of direct taxation is to be found in the scant importance it gives to *subjective or personal factors*, which, in the case of incomes of

like amount and character, modify the taxable capacity of the individual tax-payer.

However many juridical fictions we may conceive, it is nevertheless difficult to deny that physical persons are the only ones who feel the financial activities of the State. The individual tax-payer alone feels the weight of the sacrifices, entailed by the levy of taxation, and enjoys the benefits of the public services rendered, sacrifices and benefits which he may feel either directly, or indirectly, through the advantages or disadvantages conferred on companies, corporations or third parties with whom he is connected by ties of material interest or by ties of affection. As the physical person is the only real tax-payer, it is evident that in determining the weight of the tax burden, it is necessary to consider the income in relation to personal subjective situations, which vary from one to the other as the result of a whole set of circumstances.

Indeed, in modern systems of taxation, the personal character of the tax is more and more emphasised:

(a) in the first place because progressive rates are only conceivable if applied to a personal tax levied on the whole income of the tax-payer. As is known, progressive rates applied to a series of objective taxes give rise to innumerable contradictions and disparities;

(b) in the second place, the exemption of a minimum income from direct taxation can only be granted in the case of personal global taxation, if we are to avoid the drawbacks mentioned under letter (a);

(c) in the third place, personal taxation makes it possible to take into account very variable situations which modify the respective taxable capacity of individual tax-payers possessing incomes of the same amount and character. Only personal taxation can take into account the family circumstances of the tax-payer, the number of his children, his age, his liabilities, his personal burdens not connected with the production of the tax income, and other similar factors.

The personal character of the tax is a fundamental requisite for the postulate of the taxable capacity; so true is this that tax systems, having passed already from the taxation of

gross income to that of net income, are now passing from the taxation of net income calculated on an *objective* basis, to that of net income calculated on a *subjective* basis.

In Italy the Anglo-Saxon system of a single personal tax on income has not been accepted, but preference has been given to a system based on a series of objective taxes, on top of which has been placed a personal tax (*complementare*) quite independent of the others. But neither in Italy nor in France, where a similar criterion has been adopted, has it been possible to avoid the need of personalising direct taxes, as far as possible. Thus, in the case of the taxes on income, some factors of a strictly personal character are taken into consideration in the case of the taxation of income of employed workers (such as the deduction of a fixed amount for each source of earned income). The result of all this is that our system of taxation now offers a series of drawbacks:

(a) the prevalence of objective taxation and therefore the scanty importance of the personal tax which before the war accounted for only about 8% of the total yield of direct taxation. This leads to two consequences:

— the progressive character of taxation on the income as a whole is quite small, although in theory the maximum rate of the surtax rises to 75%. The progressive character is however assured by other means, more harmful to economic interests, such as the many and excessive forms of taxation on capital secured by the estate and inheritance taxes, the tax on the transfer of wealth, and the heavier rate of taxation on investment income as compared to earned income (leaving out of consideration, of course, the extraordinary capital levy):

— the limited importance of the personal, child, dependent allowances and personal burdens, which affect only the surtax and only in an excessively small degree;

(b) the failure to offset the profits secured from some sources of income by the losses that may be suffered in the case of other sources belonging to the same tax-payer, thus giving rise to excessively high taxation;

(c) the marked inequality between the several taxes arising from the fact that the ob-

jective direct taxes are independent of each other. While some incomes are assessed at their actual amount (incomes of companies and incomes of employed workers), others are assessed on a flat basis (individual undertakings), and yet others on the basis of an average or normal income (income from land). In some cases income is assessed year by year; in others it is assessed at a fixed amount over a more or less lengthy period of time. All uniformity in the assessment of taxation is thus lost, and, passing from objective to personal taxation, it is not possible to base the assessments on the individual elements composing the income, so as to proceed to the calculation of the global income. It therefore becomes necessary in assessing the surtax, to make synthetic, inductive assessment based on purely external manifestations and on indices which are easily susceptible of error;

(d) marked disparities from income to income as a result of the application of different rates in the case of the several taxes which are independent one of the other, although such divergencies have no logical or rational justification. Another cause of disparities is to be found in the grant of taxable minimums differing one from the other, and deductions at source admitted in some cases and not in others, taking into consideration not the whole income of the tax-payer, but only the several parts thereof. As a result of this, the minimum taxable amounts and deductions at base may add up and be cumulative;

(e) assessment at the source is indeed applied on a large scale, but the collection of the tax rarely takes place at the time at which the amount is actually received by the tax-payer. Even in those cases in which assessment is made at the source (as for instance in the case of income-tax on wages and salaries through pay-roll deduction), the Government does not make the collection at the time when the income matures, as is done, for instance, on a large scale in England (e.g. under the P.A.Y.E. system), but only later on, under the usual procedure applied in the case of direct taxes, to the serious inconvenience either of the Treasury or of the tax-payer in those cases in which money is subject to marked variations in value.

Students, political men and men of practical experience are generally agreed on the need of giving a definitely subjective character to our direct taxes. Nevertheless, this need causes serious anxiety to all those who advocate it, for a series of reasons which may be briefly summed up as follows:

(a) Personal taxation is much more difficult to collect than objective taxes, as it increases the number and the difficulty of the assessments that have to be made. This is indeed true; it cannot however be denied that the difficulties have been greatly exaggerated. Were a system to be introduced similar to that of the British income-tax, under which it is to the advantage of the tax-payer to return his global income so as to offset the burden of a very high rate of taxation by a series of notable deductions and of the exemption of a fixed amount, to which he is only entitled at a later stage, generally through the repayment of the surplus paid, the fiscal authorities would at once have the assistance of the tax-payer, whose interest it would be to facilitate assessments, instead of hindering them as is now the case in Italy. It is true that if, in the case of income of employed workers, a system similar to the P.A.Y.E. were introduced, the subject who pays the income and deducts therefrom the tax, would object to the introduction of a much more laborious procedure. But this would not exclude the possibility of offsetting this drawback by offering him other advantages, such as the saving of the premium on the tax, which he now has to pay. Indeed, if the tax were paid to the Treasury instead of being collected through the ordinary channels, the premium would no longer be charged. Lastly, it is incorrect to suppose that personal taxation practically discards assessment and collection at source, especially when the personal tax for large bodies of tax-payers is not progressive. This is exhaustively shown by the British tax system.

(b) It is said that if personal taxation is to be progressive, and if substantial taxable minimums are to be granted, the Treasury would have to accept losses which would be excessive for a poor economy like the Italian, with a very low average rate of income. But this remark

is based rather on commonplaces than on logical arguments.

As far as the progressiveness of the tax is concerned, there is no reason why the present direct proportional taxes should not continue to be proportional, even if unified in a single tax. All that need be done would be to grant tax-payers in receipt of average incomes, personal deductions of a more substantial kind in fixed amounts, and thus in practice a certain degree of progression would be secured. The deductions, indeed, would become of less importance as the income grew, and therefore the quota exempted would diminish, and the incidence of the tax would increase.

In the case of the taxable minimum, two remarks may be made, one technical, the other practical. Generally speaking, the curve of distribution of incomes (except for the few very large ones) is pretty much the same in all countries with an adequately developed economy; the mass of taxable incomes agglomerates nearly everywhere around the average income of the community. It would therefore be unreasonable to think of fixing a taxable minimum for the tax-payers of our country in an amount equal—when converted into lire—to that allowed by richer countries. A comparison drawn between the taxable minimums of two countries—e.g. England and Italy—can only be made by taking into consideration the percentage of national income comprised in the amount exceeding that minimum in England, and by finding out in the case of Italy, what minimum income would include the like percentage of national income. If this method were followed, it would be seen that it would be possible to grant Italian tax-payers, taxable minimums adjusted to our average income.

Looking at the matter from a practical standpoint, we are led to another observation too often forgotten in Italy. The income obtained from work only accounts in Italy for 60% of the national income, and a huge percentage of recipients of incomes, whose number probably approaches the total, are in receipt of incomes obtained from work only, with or without the addition of incomes of some other description. Now, in Italy, incomes obtained from work only are either exempt from taxation (as in the case of agricultural labour-

ers, or, if they are taxed, they are entitled to large allowances (240,000 lire per annum). Practically speaking, there are therefore very few recipients of income in Italy who are not entitled to the exemption of a more or less considerable part of their income. Therefore the introduction of a minimum exempted, even if only a small one, in the case of the existing objective taxes also when duly unified, would probably not entail a substantial loss for the Treasury.

(c) It is said that the grant of allowances (for children, etc.) would entail heavy, unbearable loss on the Treasury. Here we seem to be brought up against one of two alternatives. Either it is held that the subjective, personal circumstances now taken into consideration in the case of direct taxes, are too small, or else it is not so held. In the latter case we start from the supposition that the present tax system is the desirable ultimate, and therefore there is no wish to change it. In the former case, the conclusions drawn by those who fear the possible fiscal consequences, would not seem to be well founded. Were it so wished, the global yield could be maintained unchanged. Evidently, it would be a question of rearranging the internal distribution of the tax. Every facility granted to the tax-payers as a "personal advantage" may be compensated by a proportional increase of the rate of the personal tax, unless it be preferred to have recourse to indirect taxation. The problem need not be envisaged as one of collecting more or less, but as one of deciding in whose favour the shift of taxation should be made.

In conclusion, and to sum up, it does not seem that any decisive obstacles stand in the way of giving our direct taxes a more personal character.

4. - Another problem to which our system of taxation has given an unsatisfactory settlement is that of the *qualitative discrimination of incomes*; i.e. the problem of the different treatment that should be meted out to the several incomes of like amount but of a different type, or quality, or character. Substantially, the problem is one special aspect of the process of deducting all costs from gross incomes. It

is a question of making all incomes of any description, homogeneous so as to be able to treat them all in the same way when their amounts, considered over a certain length of time, are equal. It is more especially a question of making incomes of different origin (arising from work or from capital), or of different duration (temporary or perpetual incomes), or varying in time (fluctuating, cyclical and steady incomes) homogeneous. To secure a homogeneous income it must be made uniform in time, by setting aside part thereof in the period in which it matures, in whole or in part, so as to transfer it to the period in which the income is null or inferior to the average. For these reasons incomes from work are taxed less heavily than incomes from capital. This is a preferential treatment accepted by almost all systems of taxation.

How is this fiscal discrimination made in Italy? All the systems known are applied, and they overlap one another in disorder:

(a) in the first place, the rates at which income-tax is levied are graduated according to the nature of the income. The rates rise from only 4% (after the deduction of the 240,000 lire which are tax free) on earned incomes, to 26% on investment income, and to an undefined amount which varies from one District to another, but which is always very high, in the case of incomes from real estate.

This system, which amounts in practice to dividing the income into as many schedules as are the sources from which it comes, and applying to each schedule a different rate, offers the serious drawback of making it impossible to arrive at a fair discrimination in the case of mixed incomes obtained in varying measures both from work and from capital. The small business in which the main source of income is work, is treated on the same footing as the big concern in which income from capital is the principal feature.

It is indeed true that a remedy can be found for this defect by classifying certain kinds of undertakings in other groups which are more in keeping with the nature of the income. Thus recently, artisans' workshops have been transferred from Cat. B (mixed capital and earned incomes) to Cat. C-1 (independently

earned incomes) for the purpose of income-tax. But this is only possible to a limited extent and for a limited number of cases, and is not a system which can provide a radical solution for the drawbacks complained of. It has been suggested that the present Cat. B should be undoubled, assigning company incomes to the first sub-class, which would pay a heavier rate, and to the second class, for which the rate would be lower, the incomes of partnerships. But this would evidently be too formal a criterion to adopt, as an income does not necessarily change its character for the mere fact that the concern producing it is organised as a company. Nor would better results be secured by classifying the concerns according to the amount of their capital, as while there are many concerns which can only be carried on with a capital of their own, there are others which can be carried on with the capital of others, the company's capital being in the nature of a guarantee (banks). A preferable system, though difficult to apply in practice, is that which, in the case of income from mixed sources, separates the part of the income which should be imputed to the entrepreneur for the work he performs, taxing the two sections of the income in the two corresponding schedules;

(b) In the second place, until December 31, 1947, the system followed was that of levying, in addition to the general tax on income, a property tax. This system provided an automatic solution for the problem of mixed incomes, as the part of the income derived from work is not capitalised, and therefore pays only income tax, while the part of the income imputable to capital bears not only the burden of income tax but also that of the property tax.

This system not only provides an excellent solution for the problem of the taxation of mixed incomes, but it also avoids levying taxation on those parts of the income which are not really such, but mere allotments against the risk of losing the invested capital and the probable loss of future income. The exemption of allotments (*quote*) against risk from taxation is a premium granted to the more dynamic forces on the market and is not without beneficent effects.

Undoubtedly this system offers dangers and real disadvantages; the chief among these being the extreme facility with which the objective tax changes from a tax on income into a tax on capital.

This is true above all in the case of capital which, for the time being, is either not yielding an income or else only an extremely low one. Such a tax therefore presupposes adjustments (exemption or differential rates) which are inevitably arbitrary. Another drawback consists in the fact that it taxes not only actual, but also expected incomes which are now being capitalised. But in spite of all this, the system would seem to be better than any other, and it is to be hoped that the ordinary property tax will be reintroduced into our fiscal system, and that the already high rates of the tax on incomes from capital will be proportionately reduced;

(c) in the third place the discrimination referred to, is carried out by levying taxes on capital of an irregular character, such as those on inheritances and gifts, and stamp and registration duties. It is evident that instead of levying 1% on capital each year, it is quite possible to levy 10% on all sales of property (on the supposition that the average interval between one sale and another is of ten years duration), and to levy 35% on property when inherited on the supposition that the average interval between such successions is of 35 years. But when we compare this to the previous system we find it has greater defects, as it cuts heavily into savings and seriously hinders business. It is much to be hoped, therefore, that the taxes on business transfers (registration and stamp duties) will be repealed and their yield transferred to the taxes on capital incomes.

5. - Another defect of our system of taxation consists in the *notion of income* accepted by our legislation and by our fiscal practice.

The rules followed by the Italian system of taxation vary with the type of income.

Incomes of employed workers (Cat. C-2 of the income-tax), incomes of share companies taxed on the basis of their balance-sheets (Cat. B of the income-tax) and incomes from capital only (Cat. A of the income-tax) are taxed on the basis of the actual income received

by year. They account for a mass of incomes which before the war amounted to about half of all assessed incomes.

Incomes from buildings are practically taxed under a system similar to that of the tithe based on the gross income. Thus from the rent received by the house-owner, the amount deducted is not that of the actual expenses incurred but a percentage equal to one third of the rent. A reform, however, not yet in force has shifted the basis of the tax from the gross income to the ordinary average income.

The incomes from personal undertakings (Cat. B of the income-tax) and professional incomes (Cat. G-1 of the income-tax) should legally be taxed on the basis of the income actually earned but in practice, as it is difficult to require the tax-payer to keep books showing precisely the actual income obtained, the assessment is made on the basis of the normal average income calculated on the basis of the turnover.

Income from lands (the rent of the land and in part the farmers' profits) are assessed as provided by law on the basis of the income obtained from the farm over a long period of years, *i.e.* on the basis of the average income, funded after assessment over a period of not less than five years. In practice, the assessed income relates rather to the land objectively considered, parcel by parcel, than to the farm considered as the working of a series of lands, and the duration of the period during which the taxable income may not be altered is unspecified as the data have not been brought up to date. (It should be noted that the pre-war fiscal policy tended steadily to shift the basis of the assessments from the actual income to the ordinary average income).

As these notes show, there are marked differences in the manner of fixing the taxable value for the different types of income. This disparity is aggravated by the fact that the rates for the various types of income are fixed regardless of the criterion used for their valuation which nevertheless affects the ultimate amount of the tax. In other words, the tax levied on an average income allows of compensation between good years and bad years, whereas the tax levied exclusively on the actual income obtained year by year, does not allow

of carrying forward losses to be deducted from the profits of the following years, and is levied in reality on an income higher than that actually received. Now this fact is not taken into consideration as a reason for moderating the rates on incomes calculated year by year as compared to those for which the average is calculated or a flat rate fixed.

The problem of the uniformity of the criteria to be followed in fixing the notion of income therefore arises.

If the problem is to be solved in a satisfactory manner, two premises of a positive character must be borne in mind in studying it:

— we are living in a period of great monetary instability, and either for strictly monetary reasons or because of the situation of the "conjuncture" we are witnessing constant and vast waves of rising or falling prices which either sum up or more rarely offset one another in the course of time. Even on the so-called "hard money" markets, our century offers us movements in the general price level on a scale unknown in the previous century. Nor does the social, political, economic and technical outlook allow us to foresee that the situation will change in the near future;

— the present period is, moreover, characterised by notable economic instability, ascribable in part to political conditions, in part to the changed requirements of the technique of production. As in the past century, so again now, this economic instability expresses itself in constant shifts in costs, proceeds, and, generally speaking, in prices and incomes. Nor does it seem that this great instability (precariousness) of incomes is likely to cease in the near future, especially if it be true that we are passing through a transitional stage in which we are shifting from national economies to economies on a wider basis, whether inter-governmental or of international groups.

Both these circumstances contribute to make it very probable that the purely nominal and the real variations of income will continue in the future with the same frequency and intensity as in the past.

If we accept this as the *de facto* situation, then the problem must be studied from a different point of view to that from which it has

been considered in the past, or to that which might be suggested by purely technical considerations. The assessment of the average, or normal, or flat-rate of income, which to-day is widely applied by Italian legislation, loses under such circumstances all its advantages and threatens to become worthless shortly after its application.

It is however pointed out by those who favour a differential treatment for some incomes (incomes from land) to that used in the case of others (income from personalty) that the present system of cadastre, under which taxable income remains unchanged over a long period of time, encourages agrarian improvements, as the higher income obtained by the operating landowners remains untaxed. This is an argument which certainly had its weight in the XIXth century, under a static, peaceful economy, but which has lost all value under the circumstances above referred to. In such an intensely dynamic age as ours, taxation is a factor of little importance. And in any case it is difficult to understand why recourse should be had to fiscal manoeuvres to encourage production in the case of agriculture, and not in that of industry.

It is also pointed out that the cadastre is the only means that prevents evasion, which would occur if the Treasury were to attempt to assess the income of each individual farmer. This criticism is perhaps unduly pessimistic, as it is not easy to understand why it should be impossible to do in Italy what is successfully done elsewhere.

On the other hand, it may not be out of place to recall that under the existing cadastre system, a notable, though legally sanctioned evasion does, as a matter of fact, take place owing to the difference between the global taxable income and the real income of the farmer. The remark that the rotation of crops does not allow the income to be ascertained before the close of the four or five year period of a full rotation, has little economic significance. It has little significance both because the rotation is not made over the whole agricultural undertaking, as each year a fourth or a fifth of the area is assigned to each of the several crops, which thus alternate, securing each year for the undertaking a full income; and because,

strictly speaking, industrial undertakings also cannot be said to have closed with a profit or a loss until the whole productive cycle is completed. (2)

The assessment of the actual income is not only the sole rational basis under modern economic conditions, but it is also the sole basis possible for personal taxation, towards which we must inevitably move, and in which the deduction of specific amounts and not of flat rates plays a part.

6. - The notion of income might be duly enlarged by including the capital plus-values secured, which cannot now be assessed for purposes of income-tax. The problem would acquire special importance if it were decided to abolish registration duty, transferring its burden to the ordinary property tax, should it be reintroduced.

The following arguments can be adduced in favour of the taxation of plus-values:

— income-tax is levied both on consumed and saved income. If plus-values are not taxed, a form of saved income is unjustifiably exempted;

— these plus-values are taxed when secured by a Company; but are not taxed when secured by a person; there is no substantial reason for applying a different treatment to the same phenomenon, based on the subject to whom it refers;

— plus-values are income pure and simple; indeed, from the standpoint of quality they offer normally a wider opportunity for taxation, as such values are generally obtained without calling for any special effort;

— the need of such taxation reappears, moreover, constantly when our financial situation becomes difficult; it takes the form of taxation of a contingent and transitory nature. These experiments have always yield unsatisfactory results as they have not been based on homogeneous and sound criteria;

— the taxation of plus-values affords the only means for the rational and complete tax-

(2) Anyhow, the cadastre system might still be kept going not only for its juridical value as a means of proving rights of ownership, but also as a means for identifying the tax-payers and as a valuable auxiliary help in assessing real income.

ation of profits arising from the economic "conjuncture";

— the reasonableness and advisability of such taxation is shown by the recent trend of legislation which aims more and more at bringing such values within the field of the income-tax; we find that this extension has been made in the United States and Germany.

Against their inclusion objections can certainly be raised which cannot be disregarded:

— as a matter of fact, plus-values are already taxed by the duty on transfers. This objection, however, is valueless as the rate of that tax is proportionate to the full value of the goods transferred and not to the difference between the purchase price and the sales price. And a tax may therefore be levied even in the case of a minus-value. In any case, the plus-values are only taxed casually and not on the basis of any reasoning. The above argument can be used rather as affording yet another reason for the repeal of the taxes on transfers of wealth;

— a taxation of plus-values under the progressive tax might turn out to be an excessive measure. This drawback, however, could be easily avoided by extending to the said plus-values the principles applied in the case of in-

comes earned once and for all (*una tantum*). In fixing the rate, the plus-value would be subdivided over the length of time taken to secure it. In this way the tax would not prove an obstacle to the circulation of goods. All the more so, as the rate of the tax, substantial though it may be, on plus-values would certainly in the long run prove to be a lesser burden than the present rate of the tax on the transfer of the whole value;

— there might be a danger, in periods of monetary instability, that such taxation would be levied, above all, on merely nominal plus-values. Setting aside the remark that the same problem now arises for companies at the time when they realize their capital assets either through amortization or through sale, it may perhaps be sufficient to recall that the technique of the index-numbers for the purchasing power of money would seem to make it easy to solve the problem, especially if, in this field, we have the courage to give up once and for all the principle of the nominal value of the currency.

Of course, evident reasons of equity and of fiscal consistency make it absolutely necessary to include in the calculation of income not only plus-values but also minus-value.