

Public Finance

Davide Cipullo

Università Cattolica del Sacro Cuore

a.a. 2024/2025

The Italian Tax System II

Regional Tax on Productive Activities (IRAP)

- ▶ The tax is due for the habitual exercise of an independently organized activity, aimed at the production or exchange of goods or the provision of services.
- ▶ Taxpayers: operators of business and self-employment activities, operating both individually and collectively; private non-commercial entities; administrations and public entities.
- ▶ It is a so-called *derived own tax*, as it is **established and regulated** by national law, but the **income is attributed to the regions**.
- ▶ Regions have tax autonomy **within the limits established by state law**.

Regional Tax on Productive Activities (IRAP)

- ▶ The tax base of IRAP is different from that of income taxes: IRAP applies to the **value of net production resulting from the activity carried out in the region** or autonomous province (similar but not equal to the tax base of VAT).
- ▶ The ordinary rate is 3.9%. The rate for the banking/financial sector is 4.65%, while the rate for the insurance sector is 5.9%.
- ▶ Regions and autonomous provinces, by their own law, have the power to **vary the rates**, differentiating them by **sectors** of activity and **categories** of taxpayers.
- ▶ The Budget Law 2015 provided for the full **deductibility from IRAP of the cost incurred for permanent employment**.

Unique Municipal Tax (IMU)

- ▶ Numerous economic reasons lead to considering property taxes as the most suitable sources for financing local authorities.
 - ▶ Principle of benefit.
 - ▶ Contained risk of tax competition.
 - ▶ Certainty of revenue.
 - ▶ The proximity of the tax base to the municipal government level brings advantages in terms of assessment and *tax compliance*.

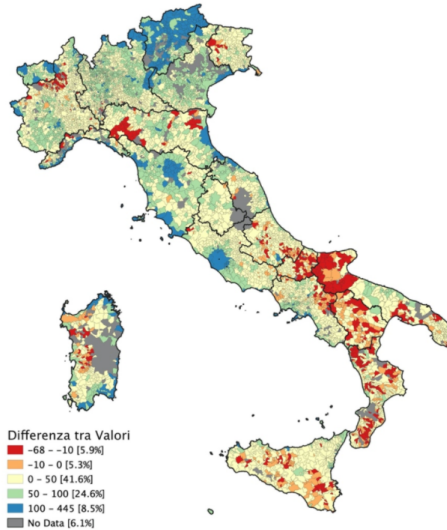
Unified Municipal Tax (IMU)

- ▶ The 2020 budget law reorganized property taxation in Italy, **merging the pre-existing IMU and TASI into a new IMU**.
- ▶ The base rate is 0.86% (equal to the sum of the previous IMU and TASI).
- ▶ The IMU tax base is the **value of the property**, calculated by multiplying the **cadastral income value** by a coefficient depending on the **cadastral category**.
 - ▶ Example: a residential property (category A) with a cadastral income of 300 euros has an IMU taxable base of $300 \times 1.05 \times 160 = 50400$ euros.
- ▶ Municipalities have the authority to **modify the base rate**.
- ▶ The so-called *main residence* or *first home* **is not taxable for IMU purposes**.

Unified Municipal Tax (IMU)

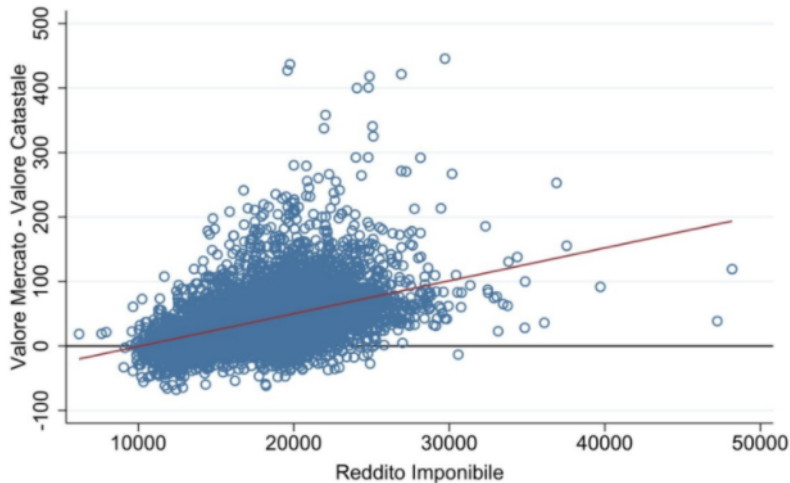
- ▶ A critical aspect of IMU is the calculation of the taxable base, represented by the **cadastral** value of the property (rather than the actual market value).
- ▶ This poses a problem both in terms of the **amount of revenue** and in terms of **fairness**.
- ▶ A 200 sqm property with a market value of 200000 euros will likely be subject, under the same cadastral category, to an IMU probably four times higher than a two-room apartment of 50 sqm with a market value of 200000 euros.
- ▶ Potential regressive effect of IMU and other property taxes – among those subject to them.

Unified Municipal Tax (IMU)



Unified Municipal Tax (IMU)

Figura 2 – Regressione della differenza tra valori di mercato e valori catastali e reddito imponibile pro-capite a livello comunale (2018)



Waste Tax (TARI)

- ▶ The Waste Tax (TARI) is the tribute intended to finance – through **full coverage of costs** – the collection and disposal service of waste.
- ▶ It is due from anyone **owning or holding** at any title premises or open areas capable of producing waste.
 - ▶ Therefore, it is not a property tax, but a tax whose taxpayer is the occupant of the property or land.
- ▶ Municipalities have the autonomy to **adjust the rates according to the average quantities and qualities** of waste produced per unit of area.

Waste Tax (TARI)

- ▶ By the deadline for the approval of the budget forecast in the Municipal Council, the Municipal Council approves the tariffs in accordance with the financial plan of the urban waste management service.
- ▶ The tariff method takes into account three cost items:
 1. **Operating costs:** sum of the costs of sweeping and washing activities, collection and transportation of separate and undifferentiated urban waste, treatment and disposal.
 2. **Capital use costs:** sum of the depreciations of fixed assets, the allocations allowed for tariff recognition, the remuneration of net invested capital, and ongoing investments.
 3. **Adjustment component** of any losses from previous years.

Waste Tax (TARI)

- ▶ The TARI on residential properties is based on the **combination of two taxable bases**:
 - ▶ The size of the property.
 - ▶ The number of occupants (members of the household).
- ▶ Idea: on average, the same number of individuals produces a greater volume of waste if they reside in a larger property; a household composed of more individuals on average produces a greater volume of waste compared to a household composed of fewer individuals.

Waste Tax (TARI)

- ▶ The law provides the opportunity for municipalities capable of accurately measuring the quantity of waste produced by each property or land to **use an alternative tax to TARI**.
- ▶ The **TARIP (Punctual Waste Tax)**, currently used by just over 1000 municipalities (especially in the North, particularly Trentino-Alto Adige and Emilia-Romagna), is not based on the **dimensions of properties**, but on the **quantity of waste actually produced**.

Waste Tax (TARI)

- ▶ TARIP consists of two parts: a fixed component and a variable component.
- ▶ The fixed part is calculated based on the **number of members of the household, the area of residence, and the general services provided by the municipality.**
- ▶ The variable part is quantified based on the actual number of emptying of the undifferentiated waste bin caused by the same household (**volume and weight of undifferentiated waste**), subject to a minimum quota.

Waste Tax (TARI)

- ▶ TARI provides us with some interesting insights from an economic point of view.
- ▶ The taxpayer is the **occupant of the property or land**.
 - ▶ Therefore, in the case of rental, TARI is *de jure* **due from the tenant**.
- ▶ Market dynamics (elasticity of supply and demand for properties in each given local property market) determine whether the tenant will indeed also be the **subject on whom the tax has an impact**, or whether instead the tenant will **shift** the impact onto the landlord.

Waste Tax (TARI)

- ▶ The choice of taxpayer creates a **distortion** in the individual choice of whether to register a rental contract or not.
 - ▶ TARI provides an **incentive to register rental contracts**, which should result in lower evasion of IRPEF/flat tax.
- ▶ This happens because, **for all leases not legally registered, TARI remains the responsibility of the property owner.**

Waste Tax (TARI)

- ▶ How significant is this incentive?
 - ▶ In the Municipality of Milan, a two-person household occupying a 50 sqm apartment must pay approximately 200 euros in TARI.
 - ▶ Let's assume a rent of around 900 euros/month.
 - ▶ Under the flat tax regime, the IRPEF due is $900 \times 12 \times 0.21 = 2268$ euros.
 - ▶ The incentive represented by the choice of TARI taxpayer results in a reduction in effective IRPEF of about 9%.

Waste Tax (TARI)

- ▶ If we consider another real estate market, where a property subject to the same TARI is rented for 500 euros, the IRPEF due under the flat tax regime would be 1260 euros.
- ▶ The incentive represented by the choice of TARI taxpayer would result in a reduction in effective IRPEF of about 16%.

Waste Tax (TARI)

- ▶ Another margin rich in insights from an economic point of view is the choice between TARI and TARIP.
- ▶ Traditional TARI provides each operator or household with an incentive to **free-ride**, as the **production of waste, even undifferentiated, by a household is funded by the tax paid by the community**.
- ▶ TARIP solves this free-riding problem as each taxpayer has a tax debt directly proportional to the **weight and volume of the undifferentiated waste produced** by the taxpayer themselves.
- ▶ In a sense, TARIP can be interpreted as an example of **Pigouvian taxation**.