Senato della Repubblica

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Tax breaks, tax credits, exemptions & Co. The labyrinth of tax expenditures

The Italian system, as described in the second yearly report

September 2018

Exemptions, tax breaks, tax credits, reduced tax rates, subsidies beneficial (or harmful) to the environment: are tax expenditures in Italy too high? *For years the Council of the European Union has been asking our country to promptly reduce "the use and generosity of exemptions and of preferential tax treatments. The national reform programme (PNR) already envisages, for 2017-2018, a* ***review*** *of the entire sector, and even the* ***DEF 2018*** *(economic and financial document) has acknowledged the need to* ***cut tax expenditures****.*

Although such decision has been taken, the reorganisation will not be easy: the ***Yearly report on tax expenditures****, which is supposed to provide the due basic cognisance for all rationalisation processes, identified* ***636 different measures (466 concerning national taxation and 170 concerning local taxation).*** *A real labyrinth of tax breaks and allowances, which has a remarkable financial impact – the missed* ***revenue for the State is estimated to total about 75.2 billion Euros in 2018 –*** *but there* ***seldom is certainty when it comes to figures and crucial information****.*

For example, we are aware of the actual number of ***recipients only for 132 tax measures (out of 466). Over half*** *of these allowances* ***benefit a very low number of taxpayers: less than 30,000*** *(who enjoy the greatest tax rebates, in terms of average value per capita).* ***But only three different tax breaks affect a total of more than ten million people.***

The starting point

In order to monitor fiscal expenditure, legislative decree no.160 of 2015 fielded two tools: the *Yearly report on tax expenditures*, attached to the State budget revenue outlook, and the *Policy Document* attached to the updating notes to the Economic and Financial Document, a government policy document that yearly indicates the expected measures for reducing, eliminating or reforming *tax expenditures.*

Table 1. National tax expenditures: recipient groups, measures per group, subjects involved and value

Group size	Number of measures per group	Recipients per group	Value of measures per group (mln Euros)	Average value per recipient (Euros)	Percentage per group
1 - 1.000	34	7.328	107	14.595	25,8%
1.000 - 10.000	22	96.387	1.162	12.058	16,7%
10.000 - 30.000	17	321.293	684	2.128	12,9%
30.000 - 100.000	20	1.407.684	1.435	1.019	15,2%
100.000 - 500.000	12	2.422.826	2.654	1.096	9,1%
500.000 - 1.500.000	10	6.875.143	1.733	252	7,6%
1.500.000 - 3.000.000	6	12.752.593	4.392	344	4,5%
3.000.000 - 10.000.000	8	43.339.633	12.786	295	6,1%
Over 10.000.000	3	54.725.172	15.711	287	2,3%
Total	**132**	**121.948.059**	**40.664**	**333**	**100,0%**
Negligible effects	22	331			
Size not available	126		13.584		
Non quantifiable	152				
Estimates included in other norms	34				
Overall total	**466**	**121.948.390**	**54.249**		

Source: UVI. Processing based on the data of the 2017 Report.

Analysis

The *2017 Report* – drafted by a committee of 15 experts, working at the Presidency of the Council of Ministers, and known as the Marè committee – **identified 466 national tax expenditures** (468 in the 2016 Report) and **170 local tax expenditures** (166 in 2016), for a total of **636 measures**. Nineteen were to expire in 2017. The overall **financial burden is, for the financial year 2018, -75.2 billion Euros** (-76.5 billion in 2017):

- -**54.248 million** Euros is the financial impact of **national tax expenditures**. It was -54.526 million in 2017;
- -**20.939 million** Euros is the total missed revenues due to **local tax expenditure measures**. In the *2016 Report*, such figure was -22.064 million Euros for 2017.

Forty-four new tax allowances were introduced from 1 January 2016 to 30 June 2017, subtracting 4,889 million Euros from potential State revenues.

The actual figures: a long-standing mystery

The first analysis of tax expenditures in Italy, conducted by the Finance Ministry in 1990, identified **825 measures**. In 2011, the *tax erosion workshop* identified **720** measures. For **457** tax expenditures it was not possible to quantify the financial effect.

The *2016 Report on tax expenditures* listed **610 measures**: 67.5% lacked exhaustive financial indications: out of **468** tax allowances, **316** did not indicate (neither totally, nor partially) costs, recipients and overall sums.

The *2017 Report* does not quantify the effects of **174 national tax measures out of 466**: 37.3% of allowances failed to indicate financial values, labelling them as “non quantifiable” or “negligible sums”. Only **132 measures** indicated the **recipients** and only 130 (that’s 27.9%) featured **exhaustive data** (impact, recipients, sums *per capita*).

In **112 local tax expenditures out of 170** (that’s 65.9%) no financial effects are indicated, and only **four measures** reveal the number of recipients.

Table 2 – Tax expenditures: 2017 Report

Type of measure	Quantity	Financial effects for the year 2018 (mln Euros)
NATIONAL	466	54.248
LOCAL	170	20.939
Overall total	**636**	**75.187**

Source: UVI. Processing based on the data of the 2017 Report.

Table 3 – National tax expenditures: nature of measures

Nature	Number of tax expenditures
TAX CREDIT	34
TAX DEDUCTION	39
TAX BREAK	40
BREAK/DEDUCTION	6
EXCLUSION	100
EXEMPTION	108
FIXED TAX RATE	17
FLAT RATE SCHEME	8
SUBSTITUTE TAX SCHEME	24
SPECIAL VAT SCHEME	39
REDUCED TAX RATES	36
OTHER	15
Overall total	**466**

Source: UVI. Processing based on the data of the 2017 Report.

Table 4 – National tax expenditures: the recipients

Recipients	Number of tax expenditures
ASSOCIATIONS, NPOs AND SIMILAR (ONLUS)	35
BANKS AND INSURANCES	11
BUSINESSES AND COMPANIES	31
NATURAL PERSONS	167
NATURAL PERSONS AND LEGAL PERSONS	52
NATURAL PERSONS AND BUSINESSES AND COMPANIES	2
LEGAL PERSONS	9
PARTICULAR SUBJECTS AND CATEGORIES	136
STATE AND PUBLIC BODIES	19
Not specified	4
Overall total	**466**

Source: UVI. Processing based on the data of the 2017 Report.

A closer look. Who benefits from what?

Of the 466 national tax expenditures listed in the 2017 Report, **only 132 (28.3%) show figures concerning the quantity of recipients. For 334 measures (71.7%), information is lacking and it is not possible to process the data**.

More than half of the 132 known expenditures concern less than 30,000 subjects (Figure 1):

- the largest percentage (26%) refers to a class of recipients featuring less than 1,000
- 17% refers to the group featuring between 1,000 and 10,000 recipients
- 13% refers to the group with 10,0000-30,0000 people.

Most of the expenditures for which we have data – 73 measures out of 132, that's 55.4% - **concern a very low overall number of recipients (about 425,000): that's 0.35% of the taxpayers who benefit from tax expenditures in Italy.**

The taxpayers of the first two groups enjoy the greatest average financial benefit: in the group featuring from 1 to 1,000 recipients, the benefit *per capita* is, on average, 14,595 Euros; the figure drops to 12,058 Euros for the group with 1,000 to 10,000 recipients (Table 1).

The average value *per capita* tends to drop and reaches the lowest figure (252 Euros) for measures that benefit between 500,000 and 1,500,000 taxpayers.

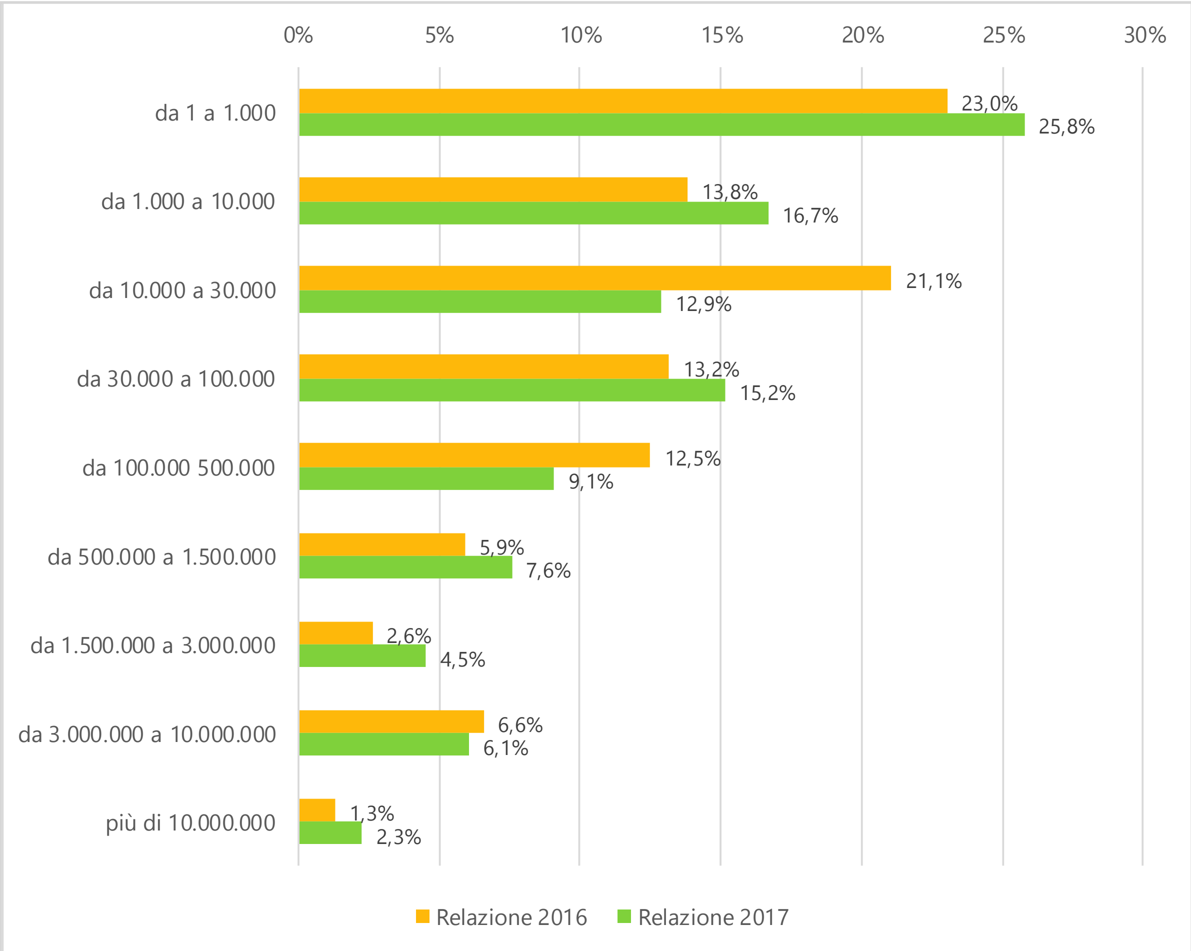
The first two groups are allocated overall resources worth 1,269 million Euros (2.4% of the overall resources), while 103,715 subjects benefit from them (they account for 0.1% of recipients).

The group with more than 10 million recipients absorbs 29% of resources, followed by the measures concerning between 3 million and 10 million recipients, which account for 24%.

The overall value of the measures for which the number of recipients is not indicated accounts for 25% of the financial effects, according to the 2017 Report.

Compared with the *2016 Report*, the number of measures affecting a maximum of 10,000 recipients has increased, soaring from 36.8% to 42.5% of the total: up 2.8% for the 1-1000 recipients group and up 2.9% for the 1,000-10,000 group.

Figure 1- National tax expenditures: distribution according to recipient groups, 2016 and 2017



Source: UVI. Processing based on the data of the 2017 Report.

Few recipients, great benefits (from 6,000 Euros upwards): nine measures

- **Measure no. 58** – deduction, for cooperatives and relevant consortiums, of sums shared out between partners, as restitution or greater compensation; it entails *per capita* financial effects worth **62,518 Euros** to the benefit of **305 IRES (corporate tax) subjects**
- **Measure no. 81** – deduction of sums paid out to consortiums whose companies join in abiding by the law; it entails financial benefits worth **75,370.80 Euros** for **445 IRES/IRAP (corporate tax/regional tax on productive activities) subjects**
- **Measure no. 76** – IRES exemption for corporate revenue, deriving from the venue lease; it entails financial benefits worth **89,095.70 Euros** for **376 recipients** (in terms of IRES/IRAP)
- **Measure no. 237** – tax credit for the purchase, by non-profit and charity organisations, of ambulances and fire-fighting vehicles; it entails *per capita* effects worth **109,243.70 Euros** for **119 recipients**;
- **Measure no. 42** – tax credit on networks of tele-heating running on biomass and thermal energy; it entails *per capita* financial effects worth **111,267.60 Euros** for **213 recipients**
- **Measure no. 68 –** flat-rate tax scheme for ships enrolled in the register; it entails *per capita* financial effects worth **234,444.40 Euros** for **90 recipients** (in terms of IRPEF, personal income tax, and IRES);
- **Measure no. 120** – total deductibility of funds allocated to finance research, as contribution or donation; it entails *per capita* financial effects worth **242,550.20 Euros** for **69 recipients** (in terms of IRES)
- **Measure no. 66 –** flat-rate tax scheme for the tonnage tax; it entails financial benefits worth **467,088.60 Euros** for **79 recipients** (in terms of IRES)
- **Measure no. 445** – flat-rate cadastral and mortgage stamp duties for contributions to closed-end real estate investment funds; it entails *per capita* financial benefits worth **790,737.10 Euros** for **4 recipients**, as allowances on stamp, cadastral and mortgage duties.

Many recipients (over 10 million): only three benefits

Measure no. 124 – deduction of the rateable value of a property used as main residence and the pertinent fixtures; it entails a financial impact of 3,630 million Euros for the period 2018-2020 and, according to the *Report*, benefits **26.1 million recipients**, with a *per capita* benefit of **141.4 Euros**.
Actually, UVI has acknowledged that, in 2016, 17.6 million taxpayers (8.5 million less than expected) benefited from it, for a total of 8,793 million (more than twice the amount) and an average deduction of 500 Euros (more than thrice the predicted amount). Despite taking into account the fact that the data refer to different financial years (2016 showing the final figures of the Finance Ministry and 2018 showing the outlook of the 2017 Report), this inconsistency of figures should be looked into.
Measure no. 159 – tax allowance for **healthcare-related**, medical and special assistance and services expenses; it entails a financial impact of 3,117 million Euros for a total of **17.5 million people**, whose *per capita* economic benefit is **178 Euros**.
Measure no. 286 – credit allocated to the holders of subordinate job income or similar not exceeding 26,000 Euros (**80 Euro bonus**); its financial effects are expected to be worth 8,964 million Euros, involving **11.15 million people**. The report does not indicate the *per capita* value.
According to the Finance Ministry studies on IRPEF (personal income tax) data, in 2016 the bonus involved 54% of employees, for a total of 9.4 billion Euros and 11.5 million recipients: that's a 4.5% increase compared with the sum allocated in 2015. About 20% of the assignees (roughly 2.3 million people) received a bonus exceeding the net tax due in 2016: for them, the bonues was a monetary transfer for the part exceeding the net tax (that's 960 million Euros). Another 1.7 million taxpayers had to return the bonus, either entirely or partially, for a total of about 480 million Euros. Starting from 2018, an extra cost of 210.8 million Euros is expected.

Below 60 Euros: tax expenditures with the lowest financial impact

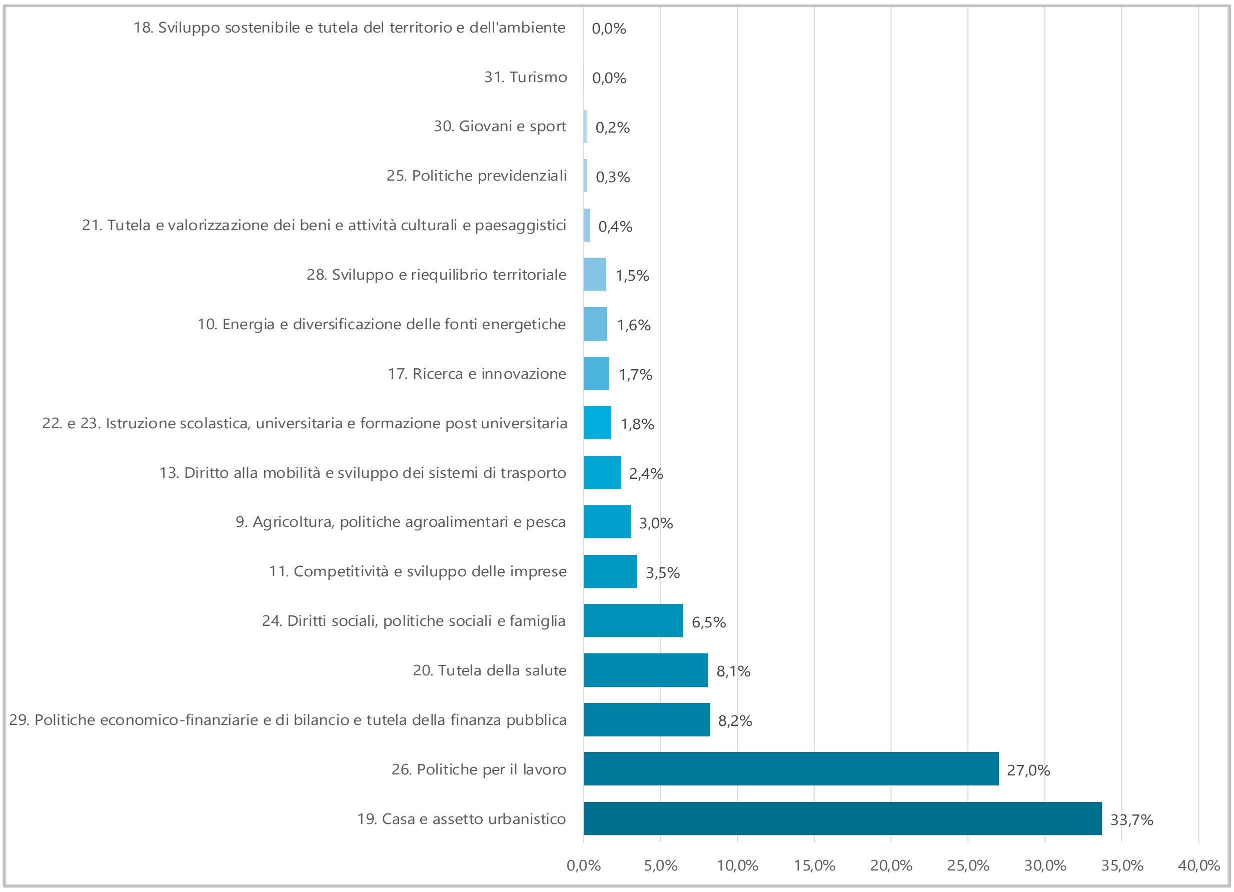
Some tax allowances benefit few subjects (which fall within the group ranging from 1 to 1,000 units) but they ensure financial effects with a large *per capita* sum. On the contrary, the **tax expenditures that involve a lot of taxpayers offer benefits below 100 euros.**

The tax expenditures with the greatest *per capita* sums concern productive activities, especially IRES/IRAP revenues. **Tax expenditures with low *per capita* financial impacts and a large number of recipients** mainly concern the taxation of natural persons, hence **affect IRPEF revenues**.

For example:

- **Measure no. 417,** stamp duty exemption for criminal case-related certificates issued by the judicial authority: 9,302,966 recipients for a *per capita* impact of **16.0 Euros**.
- **Measure no. 16,** reduced VAT for agricultural producers under the exemption scheme: 620,224 recipients (VAT), for a *per capita* benefit of **24.5 Euros**.
- **Measure no. 255,** deduction of veterinary-related expenses: 725,505 recipients for a *per capita* impact of **29.9 Euros** (IRPEF).
- **Measure no. 254,** deduction of free donations to associations supporting social action: 66,573 recipients for a *per capita* impact of 39.2 Euros (IRPEF).
- **Measure no. 456,** deduction for season memberships at sports clubs, gyms, swimming pools, for children aged 5-18: 1,744,662 recipients for a per capita benefit of **42.3 Euros** (IRPEF).
- **Measure no. 55,** exemption from the sums to be allocated to the capital increase of cooperatives: 27,489 recipients (IRES) with *per capita* financial effects worth **54.6 Euros**.
- **Measures 228 and 229,** deduction of cheques regularly paid due to will or donation or resulting from judicial authority orders, and deduction of costs borne by foster parents for the adoption procedure: the two measures involve 97,130 recipients for a financial effect of 57.4 Euros (IRPEF).
- **Measures 232 and 233,** deduction of the compensation resulting from loss of goodwill for non-residential property, and deduction of free donations for the payment of legal costs for individuals under the patronage of the State: 97,130 recipients (the same figure indicated for measures 228 and 229) with a *per capita* financial impact of **58.8 Euros** (IRPEF).

Figure 1 - National tax expenditures: distribution based on different public policies (2018)



Source: UVI. Processing based on the data of the 2017 Report.

*T-B: **18**. Sustainable development and safeguard of territory and environment; **31**. Tourism; **30**. Youth and Sports; **25**. National insurance policies; **21**. Preservation and enhancement of cultural and landscape heritage and assets; **28**. Territory development and rebalancing; **10**. Energy and diversification of energy sources; **17**. Research and innovation; **22** and **23**. School, university and post-graduate education; **13**. Right to mobility and transport systems development; **9**. Agriculture, agro-industrial policies and fisheries; **11**. Enterprise competitiveness and development; **24**. Social rights, social and families; **20**. Health safeguard; **29**. Economic-financial and budgetary policies and safeguard of public finances; **26**. Labour policies; **19**. Housing and town planning.*

A closer look. What public policies are pursued through tax expenditures?

According to the OECD, tax expenditures can be considered **public spending put in place through the fiscal system: a special tax allowance** entails – for specific taxpayer groups or activity sectors – lower taxation **in view of the public policy pursued** (for example: redistribution of income, healthcare safeguard, support to education).

Figure 2 distributes, among the spending missions indicated in the State Budget, the resources associated with the 292 tax expenditures whose impact in 2018 has been quantified. It is not possible to analyse the 174 non quantified national measures.

- about **33,7%** of resources are allocated to mission 19, **housing and town planning**, with funds totalling 18,286 million Euros
- mission 26 follows, **labour policies**, with about **27%** of resources (14,649 million)
- mission 29, **economic-financial and budget policies**, accounts for **8.2%** (4,446 million Euros)
- mission 20, **health safeguard,** is allocated 4,388 million Euros, **8.1**%
- mission 24, **social rights and social/family policies**, is allocated about **6.5%** of resources (3,520 million Euros)
- mission 11, **enterprise competitiveness and development**, is assigned **3.5%** of resources (1,896 million Euros).

National tax expenditures allocate to these six missions a total of 47,185 million Euros, which account for roughly 87% of the overall total for 2018 (54,248 million Euros).

Table 5 – Distribution of resources among expenditure missions. Report for 2016 and 2017 (lower revenues)

Missioni	Effetti finanziari 2017 (in milioni di euro)	Effetti finanziari 2018 (in milioni di euro)	
19. Casa e assetto urbanistico	15.603,36	18.285,83	
26. Politiche per il lavoro	19.206,18	14.648,95	
29. Politiche economico-finanziarie e di bilancio e tutela della finanza pubblica	4.221,05	4.446,14	
20. Tutela della salute	4.117,89	4.388,04	
24. Diritti sociali, politiche sociali e famiglia	3.395,48	3.519,66	
11. Competitività e sviluppo delle imprese	1.841,76	1.896,49	
9. Agricoltura, politiche agroalimentari e pesca	1.592,01	1.653,35	
13. Diritto alla mobilità e sviluppo dei sistemi di trasporto	829,08	1.309,76	
22. e 23. Istruzione scolastica, universitaria e formazione post universitaria	867,22	990,12	
17. Ricerca e innovazione	763,39	926,27	
10. Energia e diversificazione delle fonti energetiche	890,12	863,31	
28. Sviluppo e riequilibrio territoriale	886,95	816,66	
21. Tutela e valorizzazione dei beni e attività culturali e paesaggistici	44,20	224,92	
25. Politiche previdenziali	135,89	137,92	
30. Giovani e sport	118,98	129,98	
31. Turismo	12,00	11,30	
18. Sviluppo sostenibile e tutela del territorio e dell'ambiente	0,42	0,11	
Totale complessivo	**54.525,98**	**54.248,80**	

Source: UVI. Processing based on the data of the 2017 and 2016 Reports.
L-R: Missions; Financial Impact 2017 (min Euros); Financial Impact 2018 (mln Euros).
*T-B: **19**. Housing and town planning; **26**. Labour policies; **29**. Economic/financial and budgetary policies and safeguard of public finances; **20**. Health safeguard; **24**. Social rights, social policies and families; **11**. Enterprise competitiveness and development; **9**. Agriculture, agro-industrial policies and fisheries; **13**. Right to mobility and transport system development; **22** and **23**: School, university and post-graduate education; **17**. Research and innovation; **10**. Energy and diversification of energy sources; **28**. Territory development and rebalancing; **21**. Preservation and enhancement of cultural and landscape heritage and assets; **25**. National insurance policies; **30**. Youth and sports; **31**. Tourism; **18**. Sustainable development and safeguard of territory and environment.*

The *2017 Report,* compared with the 2016 one, shows **an increase in the resources allocated to mission 19 (housing and town planning), which rise to 2,682 million Euros**, reaching the top spot. Funds allocated to mission 26, **labour policies, drop by about 4.5 billion Euros**: this is probably due to the decision not to consider, in the *2017 Report*, the 12 measures concerning article 17 of the TUIR (consolidation bill on income tax) as separate taxation.

With unchanged methodological criteria, mission 26 would have been allocated an extra 321 million Euros, and **that would have shown, for 2018, an overall increase in funds allocated to tax expenditures: from 54,248 million to 59,140.4 million Euros.**

As for other missions, there is a **drop in resources** allocated to mission 10, **energy and energy source diversification**; mission 18, **sustainable development and safeguard of the territory and the environment**; mission 28, **development and territorial rebalancing**; mission 31, **tourism**.

There is a remarkable increase, in terms of percentage, of the resources allocated to mission 21, **preservation and enhancement of cultural and landscape heritage and assets** (from 44.20 to 224.92 million Euros).

A closer look. New tax expenditures introduced between 2016 and 2017

Forty-four allowances were introduced from 1 January 2016 to 30 June 2017: 33 in 2016 (five of which not quantified) and 11 in 2017 (four not quantifiable).

Table 6 – Expenditures introduced in 2016: effects, north of 100 million Euros

Measure identification number in the list	Expenditure description	Financial impact for 2018 (mln Euros)
287*	Lifting taxation from productivity bonuses. A 10% substitute tax, for a maximum of 3,000 Euros, for private employees with a maximum income of 80,000 Euros.	1.135,7
398**	VAT variations for competitive exam procedures	340
451	Tax credit for technological upgrading and option for the telematic issuing of daily payments	244,5
From 197 to 202	Tax credit for companies working in the cinema and audiovisual fields	140

** Measure introduced in 2015, modified in 2016. ** Measure introduced in 2015, effective as of 1 January 2016*
Source: UVI. Processing based on the data of the 2017 Report.

More than half (almost 58%) of the resources in 2016 for tax expenditures (roughly 1.14 billion Euros) was allocated to the **Labour policies** mission.

Table 7 – Expenditures introduced in 1H 2017: effects, north of 100 million Euros

Measure identification number in the list	Expenditure description	Financial impact for 2018 (mln Euros)
143	Substitute tax for IRPEF, surtaxes, registration taxes and stamp duties (so-called *cedolare secca*) with tax rates of 21% / 15% for house rents	1.611,1
103	Introduction and extension of the super amortisation	1.131,0
104	Extension of the hyper amortisation	
121	*Patent box*	135,4

Source: UVI. Processing based on the data of the 2017 Report.

In the first semester of 2017, 55% of the resources allocated for 2018 through tax expenditures went to the **housing and town planning** mission, which refers to measure no. 243 (**'*cedolare secca' substitute tax***).

Even the **Enterprise competitiveness and development** mission benefits from a remarkable allocation, which refers to measure no. 103 – Extension of the **super amortisation** – and measure no. 104 – extension of the **hyper amortisation**.

Only for measure no. 143 (*cedolare secca*) does the *Report* indicate both the quantity of recipients (1,841,396) and the *per capita* value (-874.9 Euros). For all other expenditures, this information provided was incomplete.

The EU Council Directive 2011/85/EU of 9 November 2011, setting the requirements for the budgetary frameworks of the Member States, under Chapter VI – *Transparency of general government finances and comprehensive scope of budgetary frameworks* – and under article 14, paragraph 2, **sets forth that Member States must publish detailed information on the impact of tax expenditures on revenues**.

What does the EU say?

The Council of the European Union, in its Recommendation of 12 July 2016, concerning Italy's national reform programme (PNR), urged our country to "*reduce the number and scope of tax expenditures*". Even for the **2017-2018 period**, the Council once again urged us to take "***firm action to reduce the number and scope of tax expenditures***", stressing that – despite Italian national legislation calling for it on a yearly basis – the tax expenditures review has been once again postponed.

In May 2018 the **European Commission's recommendation for a Council recommendation**, raised the issue yet again: among other things, Italy should "*shift taxations away from labour, **including by reducing tax expenditure and reforming the outdated cadastral values***". In the general considerations of the recommendation, under item 12, the Commission reasserted that the **number and scope of tax expenditures**, in particular for reduced VAT rates, **are particularly high in Italy, and their rationalisation has been postponed, despite being envisaged and expected by the national legislation itself.**

What does Italy say?

The National Reforms Programme (PNR), attached to the 2017 Economic and Financial Document, includes, among the actions to be implemented, **the review/abolition of tax expenditures for the years 2017 and 2018**. The goal is that of optimising tax expenditures according to the policies supporting **taxation sustainability and reduction**. According to the PNR, the publishing, in 2016, of the first *Report on tax expenditure*, was an important step towards transparency: it would be the government's starting point for a reorganisation of tax allowances.

In 2017 the government presented its first *Policy Document* on tax expenditures. Based on the current laws (article 10-*ii*, paragraph 5-*ii* of law no. 196 of 2009) **the report should indicate:**

- **the measures** the government wants to implement, with the budget law, in order **to reduce, eliminate or reform tax expenditures** that are entirely or partially unjustified or obsolete, given the changes in social and economic needs, or that overlap expenditure programmes that have the same purpose;
- **the specific proposals** for eliminating, reducing, modifying or confirming the tax expenditures that **have been in place for five years**.

Yet the first Policy Document turned out to be **very generic in terms of indicated guidelines**. It did not:

- - feature proposals for reforming or confirming tax expenditures implemented for more than five years running;
- - identify "tax expenditures entirely or partially unjustified, or obsolete, or overlapping expenditures having the same goals", which would be affected by the measures envisaged under the budget law.

The 2018 Economic and Financial Document (DEF) reasserts the need to **reduce unproductive tax expenditures** in order to **reduce the tax system's weight on households and businesses, thus stimulating consumption and investments**.

Conclusions

International bodies and European law call for a clear separation of tax expenditures in budgetary documents, so as to enable a cognisant evaluation of the scope and effectiveness of the several measures.
Over the past years Italy has made **significant progress in adopting international best practices** and even the publishing of the Yearly Report is an important step towards fiscal transparency.

Yet there are still plenty of uncertainties – which are clearly to be seen in the inconsistency between the several checks – **in terms of number and scope of tax expenditures, financial values, recipients, *per capita* sums and classification parameters**. Despite the current national legislation calls for them, ***ex post* analyses on the impact** of tax expenditures and on their **efficacy, in terms of the policy goals** they were introduced for, **are still not available**.

For example, it is possible to thoroughly analyse only 130 national tax expenditures out of 466, thanks to the availability of all the required information (financial impact, quantity of recipients and *per capita* financial benefit).

55.4% of the quantified national tax expenditure measures are allocated to a number of recipients that is not particularly high (no more than 30,000 subjects).

The average value of acknowledged benefits stemming from tax expenditures is greater for the first two recipient groups: €14,595 for the group with 1-1000 recipients; €12,058 for the group with 1,000-10,000 recipients.

The ***2017 Yearly Report***:

- shows a slight increase in the quantified national tax expenditures (from 273 to 292) and a drop in the number of national tax expenditures for which "negligible effects" have been indicated (from 47 to 22)
- shows a percentage of 72.1% (67.5% in the 2016 Report) of national tax expenditures for which not all quantitative data has been provided (cost, quantity and *per capita* sums), meaning that appropriate analyses cannot be carried out
- shows some novelties in terms of identifying a measure as tax expenditure; for example, the exclusion of substitute tax schemes set forth under article 17 of the TUIR (Consolidation bill on income taxation)
- does not feature a list of the measures expiring in 2017
- does not feature a comparison between tax expenditures that have been in place for over five years and expenditure programmes that have the same goals
- does not feature analyses of the micro-economic impacts of the single tax expenditures and of their social effects, as required by the current legislation.

Observations

In order to better check the effectiveness of public policies pursued through tax expenditures, it would be best to:

- prepare studies based on the adoption of **uniform methodological criteria**
- adopt procedures and surveys necessary to **acknowledge, for each measure**, the overall and *per capita* financial impact, **the impact recorded at closure and throughout the entire term** (for example, a five-year period), the specific information on which the YoY figure has been calculated, the **recipients** (identified according to homogeneous classifications), the relevant contribution, the **goals** the tax expenditure aims to achieve, and the **effectiveness of the measure**, in terms of goal achievement
- zero-in on tax expenditure schemes in order to **verify the effectiveness and topicality of the evaluations that led to their introduction**
- **consider** whether **the current laws and the relevant instruments** appropriately help lawmakers reorganise the system
- assess whether it is best to include the reorganisation in the current budget law or if it is preferable to identify **a specific instrument, such as an annual law on tax expenditures**. Such a measure, following a parliamentary scrutiny not limited by the time-frame of the budget law debate, would allow to:

- separately conduct in-depth studies and analyses of the instruments provided by the law (in particular the *Yearly Report on Tax Expenditures*)
- eliminate or reform the existing measures, or introduce new measures, coordinating them systematically, consistent with the current laws
- carry on pursuing the already existing public policies by converting, if necessary, tax expenditures into specific expenditure programmes
- implement instruments that ensure an effective monitoring of the measures in time, both in terms of cost trends and effectiveness in achieving the preset goals.

The dossier

- offers an **exhaustive overview** of tax expenditures
- mentions the **orientations and recommendations** of international bodies, as well as the **foremost Italian and European relevant laws**
- dedicates **great attention to the second *Yearly Report on Tax Expenditures (2017)***, attached to the State budget for 2018 and the budget for 2018-2020
- **analyses data itself**, producing a number of elements that support evaluation.

Credits

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