



Bill delegating the Italian government to reform the tax system

Tax & Legal Alert
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This Tax & Legal Alert summarises the main aims of the bill delegating the Italian government to introduce a fiscal reform. The bill was approved by the Council of Ministers on 16 March 2023.

In particular, the bill delegates the government to issue, **within 24 months**, one or more legislative decrees to overhaul the tax system, which is one of the priorities identified in the National Recovery Plan.

The bill is divided into three main sections: the first sets out the general principles of the fiscal reform, the second establishes the criteria for the reform of certain taxes, and the third focusses on procedures and sanctions.

The general aims of the tax reform (articles 2-4)

The general aims that the fiscal reform must set out to achieve include:

- a **more efficient tax framework and a lower tax burden** (also in order to stimulate economic growth and a higher birth rate);
- the **prevention of and reduction in tax avoidance and evasion, also through greater use of technology** (AI and e-invoicing) and the establishment and enhancement of **reward-based forms of cooperation** between taxpayers and the tax administration (e.g. cooperative compliance);
- reorganisation of the **tax reporting and payment system**;
- alignment of Italian tax law with **EU principles and OECD recommendations** (in particular, proper implementation of the BEPS project);
- the introduction of measures to ensure **greater international tax competitiveness**, also by providing investment incentives, while adhering to the principle of non-harmful tax competition;
- a **review of the Charter of Taxpayer Rights**, in order to: place a stronger obligation on tax authorities to explain the reasons for notices; reinforce the principle that **the law should offer certainty and reliability**; simplify the tax ruling system (e.g. by simplifying dialogue with business associations and professional practices for less complex questions, or by imposing a fee for tax ruling applications); extend application of the **'right to be heard' principle** as a condition of validity of notices of assessment; strengthen the possibility for the authorities to apply the **self-correction and cancellation mechanism**.

The criteria for the reform of certain taxes (articles 5-13)

Section II of the delegation bill is dedicated entirely to the principles and criteria guiding the reform of certain taxes.

With regard to **personal income tax (IRPEF)**, there will be an overhaul of the system and a gradual reduction in taxation, while the way in which taxpayers can deduct various types of expenses will be rationalised. This rationalisation will take account of the purposes of such expenses and consider, in particular, household composition and the costs of raising children, with a special focus on protecting homes, health, education and pension schemes, and on improving the energy efficiency and earthquake proofing of existing housing stock.

With regard to **corporate income tax (IRES)**, there will be: an overhaul of the system, based on the introduction of a lower IRES rate, which will be applicable provided that, in the two financial years subsequent to that in

which income is produced: (i) it is reinvested, also by recruiting new workers; (ii) it is set aside and not used for purposes outside the business. The delegation bill also provides for:

- the simplification of the systems by which tax bases are realigned with book values;
- the rationalisation of the system by which tax is calculated from accounting data;
- a review of the deductibility of interest expense;
- an overhaul of the regime governing the offsetting of tax losses and the circulation of tax losses of companies participating in extraordinary transactions or tax groups;
- the elimination of distortions deriving from application of the rules on business contributions and those on share exchanges made through contributions;
- the simplified taxation of third-sector entities.

There will also be an overhaul/rationalisation of the:

- rules governing inactive companies;
- criteria for determining business income;
- tax incentives for businesses and the mechanisms for calculating and claiming them;
- territorial tax aid, in compliance with the EU rules on State aid.
- taxation of enterprises that access mechanisms governed by the Business Crisis and Insolvency Code.

There will also be an organic **overhaul of IRAP**, designed to gradually phase out the tax and simultaneously introduce a surtax.

With regard to **VAT**, the bases for the tax will be reviewed in order to bring them closer into line with EU law. The exemption rules will be rewritten and the number of VAT rates will be reduced. The rules on deductions will be revised, with a view to aligning them more closely with the actual use of goods and services employed in VAT transactions, restricting the 'pro rata' rule (i.e. the rule on the deductible percentage of input VAT) to goods and services used for more than one purpose (special rules are being planned for the real estate sector). The VAT group rules will also be rationalised in order to simplify the procedures for accessing and applying this mechanism (also by eliminating the 'all in, all out' criterion), as will the rules for third-sector entities.

With regard to **indirect taxes** other than VAT, there will be a simplification of registration tax, inheritance and gift tax, and stamp duty.

With regard to **customs legislation**, the intention is to modernise the Italian rules in order to align them with developments in EU law. Among other things, this will involve enhancing the customs one-stop shop to simplify interaction between customs bodies and businesses, completely digitalising goods import and import processes, and streamlining the procedures by which duties are calculated, assessed and collected.

With regard to **excise duty and other indirect taxes on production and consumption**, the bill provides for, among other things, new rates for energy products (motor and other fuels) and electricity, and the promotion, within the limits imposed by EU rules on excise duty exemptions and reductions, of the generation of electricity, methane gas and natural gas from biomass or other renewable sources.

The criteria for the reform of tax procedures and sanctions (articles 14-19)

Section III of the bill is dedicated to the principles and criteria guiding the reform of tax procedures and sanctions.

Among other simplification measures, the bill proposes **the alignment of the deadlines for reporting and paying taxes, the introduction of reward-based mechanisms to encourage the use of pre-populated returns**, and the suspension of service of notices in August and December.

During tax assessments, there will be greater use of **digital technology** and, in particular, AI, in order to acquire more data and information to prevent errors by taxpayers, to confine audits to taxpayers posing the highest risk, and to reduce tax avoidance and evasion, maximising levels of voluntary compliance by taxpayers.

The **cooperative compliance system** will be reinforced by gradually reducing the entry threshold, by **increasing the associated rewards** (especially with regard to administrative and criminal penalties), and by introducing special endorsement mechanisms in the form of certificates issued by qualified professionals.

For smaller firms, a **two-year advance tax agreement** will be introduced: primarily, this will mean that any additional income earned by the taxpayer over and above the level agreed with the Italian Revenue Agency (which will also use new digital technology) will be disregarded.

Application of the **'right to be heard' principle** will be a condition of validity for all tax assessments.

The tax reform intends to **boost the efficiency of the tax collection system**, also through annual planning of collection processes and **gradual elimination of the system of listed debts and tax bills**, to speed up collection times and the start of precautionary and enforcement measures.

With regard to **tax litigation**, the **mediation process will be eliminated and tax proceedings will become more digitalised**, through a simplification of procedural rules, an obligation to use standard templates for submissions, the introduction of penalties for failure to use online facilities, and, upon request by one of the parties, the holding of remote hearings with the right of the other party to attend in person.

The bill provides for **wide-ranging changes to tax, administrative and criminal sanctions**, including those for infringements of customs and excise rules.

In particular, the delegation bill requires the government to **avoid duplications of sanctions that are incompatible with the principle that no offence can be punished twice** and to review cases that, because they have been settled through tax proceedings, **are not punishable or are subject to lighter penalties**.

With regard to administrative penalties, **tax penalties are to be rendered proportional**, bringing them into line with the standards of other EU countries and reducing the burden.

Finally, the delegation bill gives priority to a **systematic overhaul** of the current tax rules, to be undertaken within 12 months by codifying them. The aim is to simplify and clarify the tax system, increase awareness of tax rules, and give taxpayers more certainty.

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