



# ITALY'S TAX ADMINISTRATION

*OECD Review of Institutional and  
Organisational Aspects*

*February 2016*



# Background

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- Italy currently undertaking a series of **critically important reforms** to improve its long-term growth prospects.
- Italian Minister of Economy and Finance Pier Carlo Padoan requested the OECD Centre for Tax Policy and Administration to carry out a review of the organisational structure and institutional arrangements of **Italy's tax administration**
- Several **meetings held**: Heads and senior managers of the 8 institutions involved in tax administration; Labour unions; Multinationals; Business associations; Tax Advisers; SMEs; Experts.
- **Draft** provided to the Italian authorities in January 2016 to check the factual descriptions' accuracy, finalised in mid-February.



## Key findings – *Institutional setting* (1)

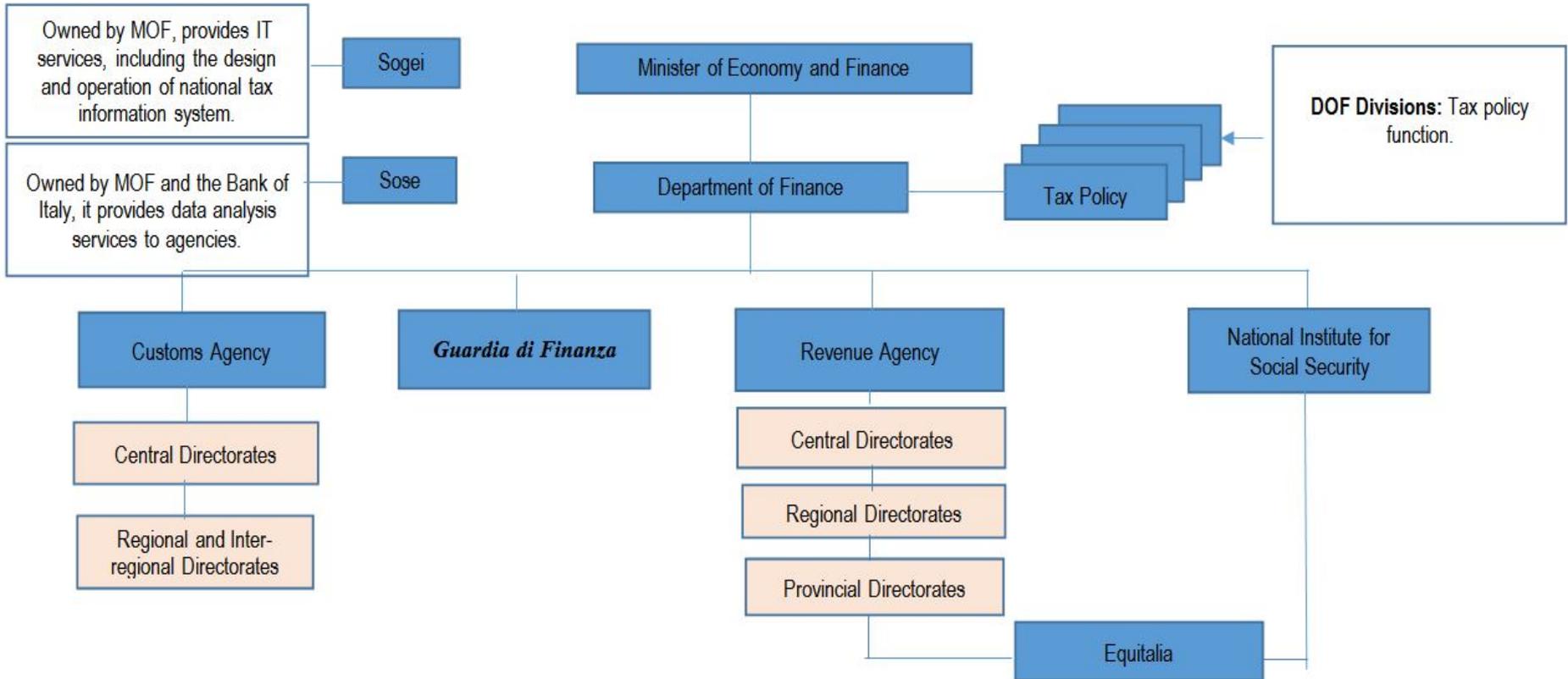
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### **Tax administration functions in Italy are fragmented across multiple (8) bodies**

- ✓ This (rather unusual) matrix approach needs **strong co-ordination** across the different bodies involved, priority setting alignment, and strategic management.
- ✓ All the arrangements in place among actors of the Italian tax administration (including the conventions with the agencies) are heavily focused on the operational level.
- ✓ There are **no established processes involving all actors to periodically discuss the overall state of the tax system**, identify immediate challenges and priorities, set overall goals and objectives, and/or resolve issues concerning co-ordination.



# Key findings – Institutional setting (1a)



<p><b>Customs Agency:</b> Administers customs and monopolies, and excises, and collects VAT on imports.</p>	<p><b>Guardia di Finanza:</b> Conducts tax controls and tax fraud investigations.</p>	<p><b>Revenue Agency:</b> Responsible for the general administration of tax laws.</p>	<p><b>Equitalia:</b> Responsible for enforced tax, SSC and other state debt collection.</p>	<p><b>National Institute of Social Security:</b> Administers the collection of SSC and the payment of social benefits.</p>
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# Key findings – Institutional setting (1b)

## Category 1

These functions should be designed and carried out so as to encourage and help taxpayers voluntarily comply with the tax laws.

## Category 2

These functions are carried out to record taxpayers' liabilities and to detect and address non-compliance with tax laws, ideally in a manner that deters others from future non-compliance.

Function	Role	Entities performing this role in Italy						
		RA	CA	E	GDF	SSC	Sogei	Sose
TAXPAYER REGISTRATION	Records registration and numbering of taxpayers.	✓	✓			✓		
TAXPAYER EDUCATION	Informs taxpayers of their obligations and responsibilities to comply with the tax laws.	✓	✓	✓	✓	✓		
TAXPAYER SERVICES	Provides information to taxpayers and agents, responds to inquiries (in-person, by phone, in writing) and requests.	✓	✓	✓		✓		
TAX RETURN AND PAYMENT PROCESSES	Activities associated with processing taxpayers' tax returns and payments.	✓	✓			✓	✓	
VERIFICATION PROGRAMMES	Validates the reporting of tax liabilities- return checks, correspondence and field audits, data matching, inspections of records, and in-depth investigations.	✓	✓		✓	✓		
DISPUTE RESOLUTION	Resolves taxpayers' objections and appeals re adjusted assessments and rulings.	✓	✓			✓		
ENFORCED RETURN FILING & DEBT COLLECTION	Activities to secure the filing of outstanding tax returns and payment of tax debts.	✓	✓	✓				
LEGAL/ LAW INTERPRETATION	Tax law interpretation issues (e.g. ruling requests).	✓	✓			✓		
SUPPORT FUNCTIONS	Support activities (e.g. HRM, finance, ICT, planning, internal audit).	✓	✓	✓	✓	✓	✓	✓



## Key findings – *Institutional setting* (2)

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**The autonomy of the two agencies has been progressively taken away over time in the areas of financial autonomy and human resource management (HRM).**

- ✓ While the use of the total resources of each agency should be determined autonomously, in practice this is subject to a number of horizontal cuts decided by Parliament, which detail not only the cuts but also how and where they should be applied, thus limiting the agencies' financial autonomy.
- ✓ Severe limitations apply regarding the agencies' autonomy in relation to hiring and, even more worryingly, internal promotion policies. Similarly, the existing leeway in determining staff remuneration may be severely limited in the future.



# Key findings – Tax compliance

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- ✓ **Path of constant improvement since the creation of the agencies and of Equitalia.**
- ✓ **But, there is a need for a holistic, coherent, and co-ordinated strategy or plan for improving tax compliance.**
  - Without this, the fragmentation of work efforts results in every single institution setting its own priorities and simply trying to avoid overlaps.
- ✓ **Specific issues identified:**
  1. VAT and filing obligations;
  2. Co-operative compliance for largest taxpayers needs clarity regarding competences;
  3. Dividing line between criminal and administrative sanctions for certain behaviours is now clearer but uncertainties remain (permanent establishment and residence).



# Key findings – Tax collection

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- ✓ **Integrity of the tax debt inventory impacted by procedural issues (above 780 BEUR of outstanding tax debts)**
- ✓ **Equitalia's powers to enforce the collection of tax debts have progressively been limited by the legislature**
  - ✓ While on the one hand these limitations were introduced to support debtors in financial difficulties, on the other hand they have nurtured a culture of “evasion from collection” which also helps explain the high stock of outstanding debts.
- ✓ **Tax debt collection strategies and priority setting are neither sufficiently risk-based nor targeted**



## Recommendations: *International practices and Italian context*

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- Tax administration functions in other countries are generally unified into a **single revenue body** which is in charge of the process end-to-end.
- These bodies generally enjoy **substantial autonomy** in all areas, and particularly with respect to financial matters and human resources policies.
  - **Autonomy does not mean independence.** These bodies report to the Minister of Finance and the Government, under the control of Parliament - fostering the link between tax administration and tax policy.
- **Establishment of a more unified form of tax administration in Italy possible but likely raise complexities.**
  - Several of the institutions currently involved in tax administration also carry out other functions, reflecting a more horizontal approach in certain areas of public sector administration.
  - Extent of the changes and evaluation of whether feasible outside the scope of this review.
- **Yet, it appears that certain critical matters need to be addressed urgently.**



## Recommendations - *Institutional setting*

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- Provide **more strategic political oversight of the tax administration** and shift the focus of the Conventions concluded with the agencies from outputs to **outcomes and high-level indicators**.
- **Restore the autonomy of the agencies urgently**, taking advantage of the major public administration reform.
- **Reduce the existing fragmentation and overlapping of roles** and responsibilities among the institutions involved in tax administration.



## Recommendations - *Tax compliance*

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- Devise a **multi-faceted country-wide strategy** for improving compliance with tax laws, drawing on international practices and on tools and resources already available
  1. Address key aspects of VAT non-compliance, coordinating the agencies, the *Guardia di Finanza*, and Equitalia, revising VAT return filing obligations, use of e-invoices;
  2. Exploit full potential of sector studies and of the tax gap research;
  3. Quickly implement a centralised high net worth individual unit;
  4. Ensure access to, and interoperability among, different IT systems.
  
- Continue the recent reform efforts by providing **additional certainty and predictability to investors** and by nurturing the **new co-operative compliance programme**
  1. Clearly elaborate the responsibilities within the Revenue Agency and any role of the *Guardia di Finanza* in this programme;
  2. Take steps to ensure that the programme's scope is manageable for the short and medium term;
  3. Further clarify the dividing line between civil and criminal tax issues;
  4. Improve Italy's ability to solve mutual agreement procedures.



## Recommendations - *Tax debt collection*

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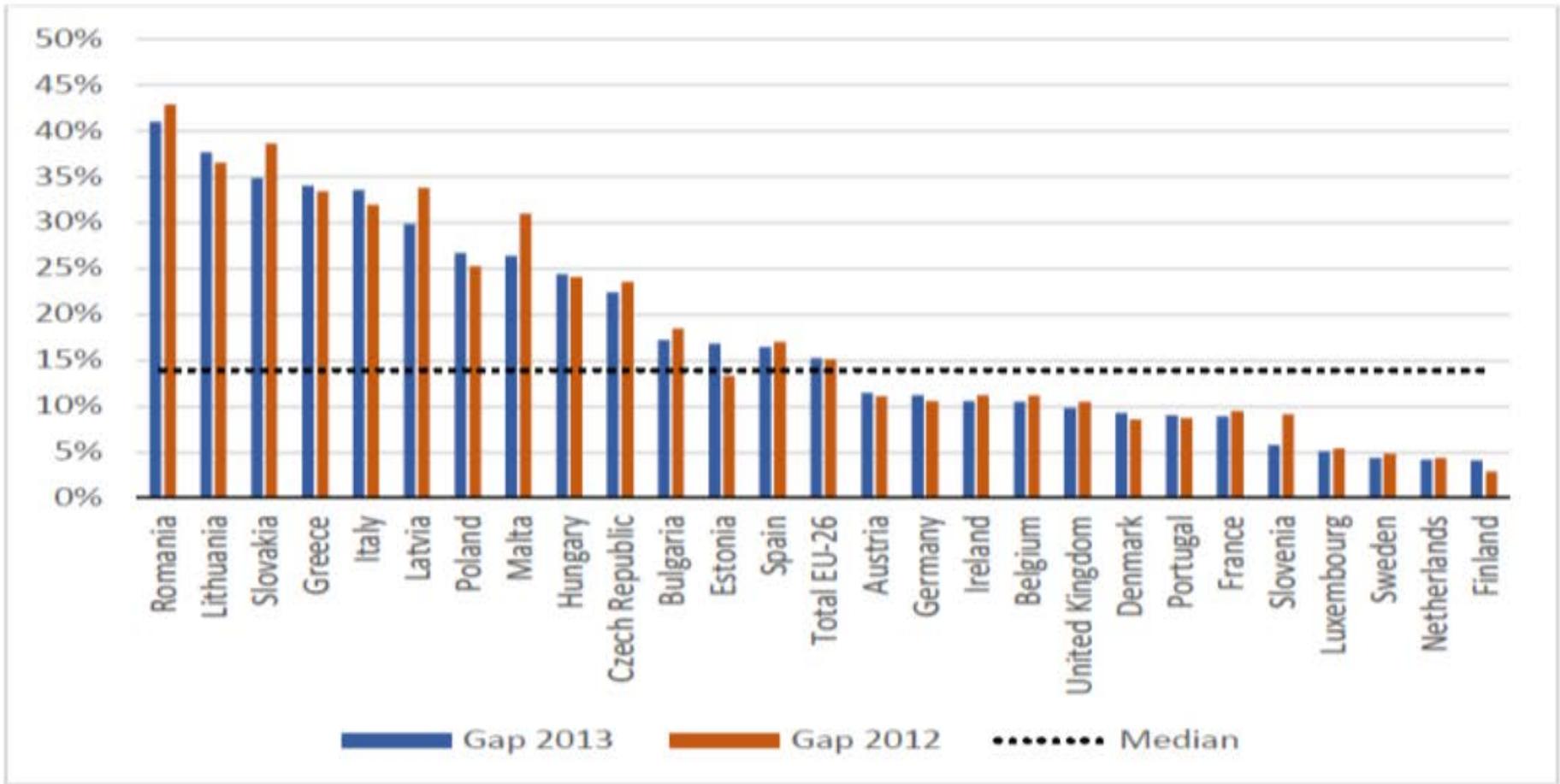
- **Increase the accuracy and integrity of the tax debt inventory, with consequences for effective case actioning and operational efficiency:**
  1. Ensure there is an effective tax debt write-off policy in place and that it is being applied as required;
  2. Take urgent action to ensure that the tax debt collection function is fully informed in a timely manner of situations where taxpayers' liabilities are fully paid or extinguished;
  3. Provide the tax debt collection function with appropriate powers and reconsider in particular the rules regarding instalment plans;
  4. Grant the debt collection function the freedom to prioritise in its collection strategy.



# ANNEX 1- DATA AND FIGURES



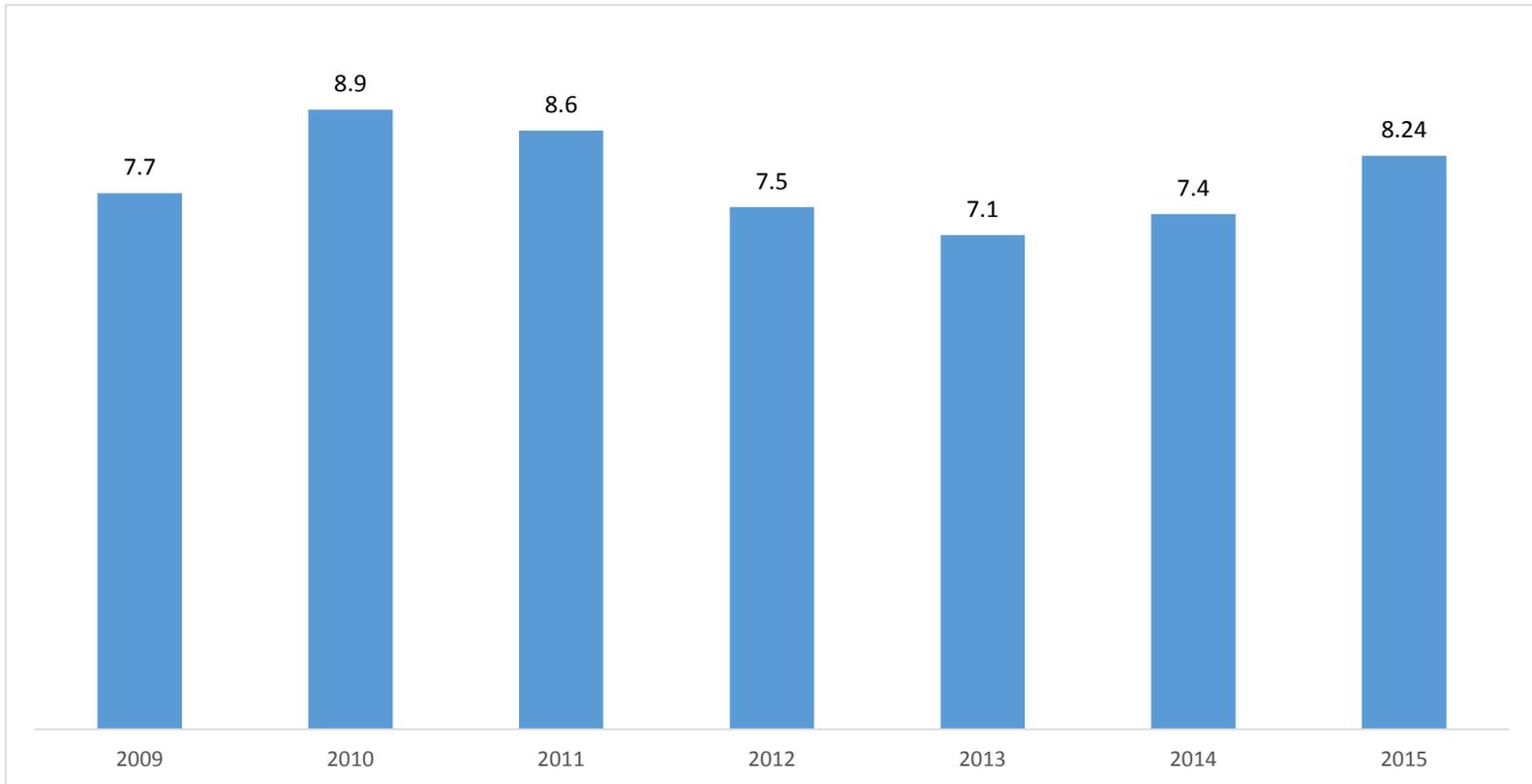
# VAT Gap in EU 26 Countries (2012-13)



Source: Study to quantify and analyse VAT Tax Gap in the EU Member States, 2015 Report.



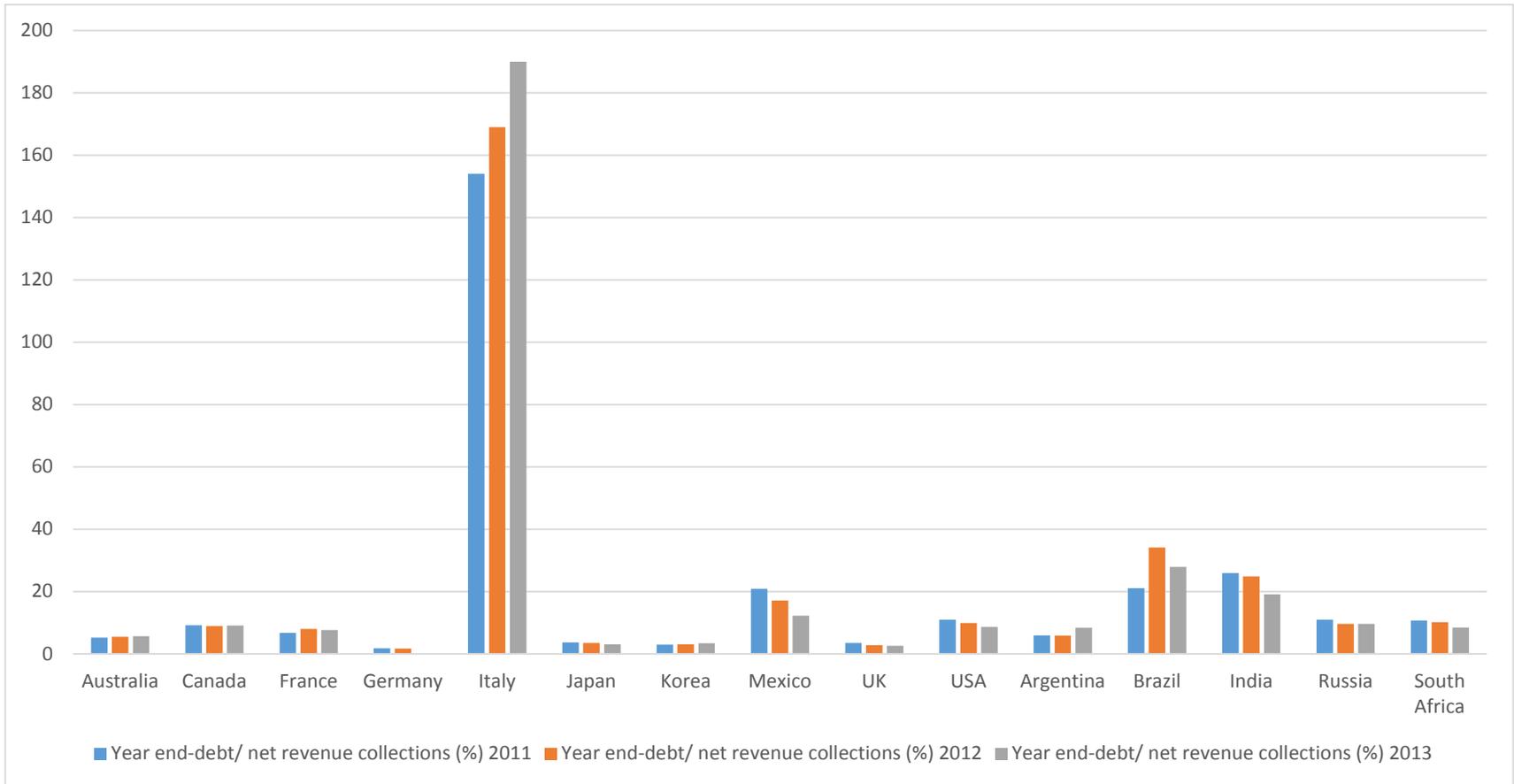
# Debts collected each year (EUR billion)



Source: Equitalia



# % Year-end tax debt on net revenue collected (2011-13)



Source: OECD Tax Administration Series 2015.



# Verification activities of Revenue Agency and *Guardia di Finanza*

Body and type of work	2013		2014	
	Number completed	Value of assessments (in EUR billion)	Number completed	Value of assessments (in EUR billion)
<b>Revenue Agency</b>				
- Automated assessments	324 970	469	283 102	406
- Desk audits	205 950	9 462	193 230	8 374
- Field audits	8 749	3 291	8 676	3 754
<b>Customs Agency</b>				
- Field audits	1 365	386	1 425	571
<b><i>Guardia di Finanza</i></b>				
- Field audits	34 294	9 066	33 229	10 204
<b>Totals</b>	<b>575 328</b>	<b>22 674</b>	<b>519 662</b>	<b>23 309</b>

Source: OECD based on Revenue Agency Data



# ANNEX 2 - INTERNATIONAL PRACTICES



# Institutional arrangements in G20 countries

Country	Type of institutional setup for national tax administration	Reporting line(s) in Government	Independent tax administration oversight bodies
Argentina	USB (supported by an Advisory Council)	Minister of Economy	
Australia	USB	Treasurer and Assistant Minister for Revenue	Inspector General of Taxation
Brazil	USB	Minister of Finance	
Canada	USB (overseen by Board of Management)	Minister of National Revenue	Tax Ombudsman
China	Single unified tax body (Ministry)	Minister of Taxation	
France	Single unified tax body operating as a traditional department within the MOF	Minister of Finance and Public Accounts	
Germany	Single unified tax body at regional (Lander) level with central co-ordinating body	Minister of Finance (via State Secretary)	
India	Separate direct and indirect tax bodies, co-ordinated by Revenue Department <sup>1</sup>	Minister of Finance	
Indonesia	Single unified tax body	Minister of Finance	
Italy	Multiple bodies	Minister of Economy and Finance	
Japan	USB	Minister of Finance	
Korea	USB	Minister of Finance	
Mexico	USB (overseen by a Governing Board)	Secretary of Finance and Public Credit	
Russia	USB	Minister of Finance	
Saudi Arabia	Single unified tax body operating as a traditional department within the MOF	Minister of Finance	
South Africa	USB	Minister of Finance	Tax Ombudsman
Turkey	Tax administration body and separate body for tax audits <sup>2</sup>	Minister of Finance	
United Kingdom	USB (overseen by Board of Management)	Financial Secretary to the Treasury	Revenue Adjudicator
United States	USB (overseen by an Oversight Board)	Secretary of the Treasury	Taxpayer Advocate and Inspector General of Tax Administration

*USB: Unified semi-autonomous body*



# Major taxes administered by revenue bodies in G20 countries

Country	Major Taxes Administered by National Revenue Body in 2013 (✓ where applicable)					Administers customs
	PIT	SSC	CIT	VAT	Excises	
Argentina	✓	✓	✓	✓	✓	Yes
Australia	✓	No SSC	✓	✓	✓	No
Brazil	✓	✓	✓	1	✓	Yes
Canada	✓	✓	✓	✓	✓	No
China	✓	No SSC	✓	✓	✓	No
France	✓		✓	✓		No
Germany	✓		✓	✓		No
India	✓	No SSC	✓	No VAT	✓	No
Indonesia	✓	No SSC	✓	✓	2	No
Italy	✓	3	✓	✓		No
Japan	✓		✓	✓	✓	No
Korea	✓		✓	✓	✓	No
Mexico	✓		✓	✓	✓	Yes
Russia	✓		✓	✓	✓	No
Saudi Arabia	No PIT	No SSC	✓			No
South Africa	✓	No SSC	✓	✓	✓	Yes
Turkey	✓		✓	✓	✓	No
United Kingdom	✓	✓	✓	✓	✓	Yes <sup>4</sup>
United States	✓	✓	✓	No VAT	✓	No



# Examples of high level performance measures used by revenue bodies (1)

Domain	Examples of measures used	Country
<b>Building trust and confidence in the revenue body's administration</b>	Community satisfaction with the revenue body service, as measured by survey.	Australia
	Perceptions of fairness in disputes, as measured by survey.	Australia
	% of taxpayers contacted by the revenue body compliance efforts who feel the process was satisfactory.	USA
	People surveyed agree that the revenue body listens and responds to feedback.	Australia
<b>Improving taxpayers' compliance</b>	<b>Filing compliance:</b> % of tax returns filed on time (by major tax type).	Australia, France, New Zealand
	<b>Payment compliance:</b>	
	1. % of tax liabilities paid on time (by major tax type).	Australia, France
	2. % of payments made on time (by major tax type).	New Zealand
	3. End-year tax debt (excl. disputed debt)/ total revenue.	Australia
	4. % of collectable debt recovered increases.	New Zealand
	5. % of collectable debt to revenue assessed decreases.	New Zealand
	<b>Correct reporting:</b>	
	1. % of returns filed without errors.	New Zealand
	2. Taxpayers claim their correct entitlements (measured for specific entitlements (e.g. rebates for donations)).	New Zealand
3. Achievement of specific revenue goals relative to compliance and enforcement activities undertaken.	Australia, United Kingdom	
4. Reduction of losses from errors and fraud in tax credits system to achieve specific target level.	United Kingdom	
5. The compliance behaviour of customers who received an audit intervention improves.	New Zealand	
<b>Overall compliance:</b>		
1. VAT tax gap as a proportion of estimated tax base.	Australia	
2. GST assessed to consumer spending follows an appropriate trend.	New Zealand	
3. Voluntary compliance rate increases (derived from tax gap estimates).		
4. Comprehensive tax gap research of all taxes.	United States	
	Australia, United Kingdom, United States	



# Examples of high level performance measures used by revenue bodies (2)

<b>Delivering client focused-services</b>	People surveyed agree that the revenue body makes it easy to access services and information.	Australia, New Zealand
	% of returns filed online.	France, United States
	Proportion of inbound transactions completed digitally, including tax payments.	Australia, France, United States
	Handle 90% of calls across all helplines, achieve a consistent level of at least 80%; handle 80% of correspondence within 15 working days and 95% within 40 working days, with at least 90% passing quality standards.	United Kingdom
	Performance on customer satisfaction index.	United States
	Performance on service quality indicator.	France
<b>Improving revenue body efficiency</b>	Cost to collect \$100 of tax revenue.	Australia, France, New Zealand
	Tax administration expenditure as % of GDP.	Australia
	Achieve cost savings of GBP 198 million in 2014-2015 and GBP 205 million in 2015-2016.	United Kingdom
	Achieve business cost reductions of GBP 250 million in 2015.	United Kingdom
	Annual change in overall productivity.	France
<b>Achieving high levels of employee engagement</b>	Measure of employee engagement based on annual survey and index devised by the revenue body to compare itself with other large agencies.	United States
	Improve employee engagement to achieve Civil Service benchmark of 58% over next two years; similar targets for senior officials.	United Kingdom
	Increase % of staff who feel they have the skills required to do their job to 85% in 2014-2015 and 91% in 2015-2016.	United Kingdom
	Reduce employee absenteeism to average/employee of 7 in 2014-2015 and 6.5 in 2015-2016.	United Kingdom
	Level of employee engagement increases (measured by survey).	Australia



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