# Green Fiscal Reform in Italy

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Green Budget Europe Annual Conference 2014
Recovery, Jobs and Sustainable Prosperity
A New Agenda for Green Fiscal Reform in Europe
Brussels, 5 November 2014

# A new paradigm for the EU: greening growth

- The financial crisis that broke out in 2008 turned into an economic and public debt crisis with a severe impact on economic growth and employment.
- Notwithstanding all institutional and structural reforms, the sluggish economic growth shows that the pre-crisis paradigm is not any more sustainable economically, socially and environmentally.
- The economic crisis provides an opportunity to define recovery policies in line with a transition to a "green economy", following Europe 2020 strategy for smart, sustainable, inclusive growth.

# A new paradigm for the EU: greening growth

- Against this background, the EU 2020 strategy is delivered through a new EU governance cycle - the European Semester - with potentially strong tools for implementation at the national level.
- European Union Member States are engaged in fiscal consolidation to reduce economic imbalances and to implement structural reforms.
- Country Specific Recommendations (CSRs) for green growth:
  - ✓ Shifting taxation, from productive factors to tax bases less detrimental to growth, in particular environmentally-based taxes
  - ✓ Using taxes to discourage environmental harmful practices
  - ✓ Advocating subsidies to increase consumption and production activities less damaging from an environmental point of view.
- In the context of the European legislation processes, the proposal of amending the EU Directive on the taxation of energy products...

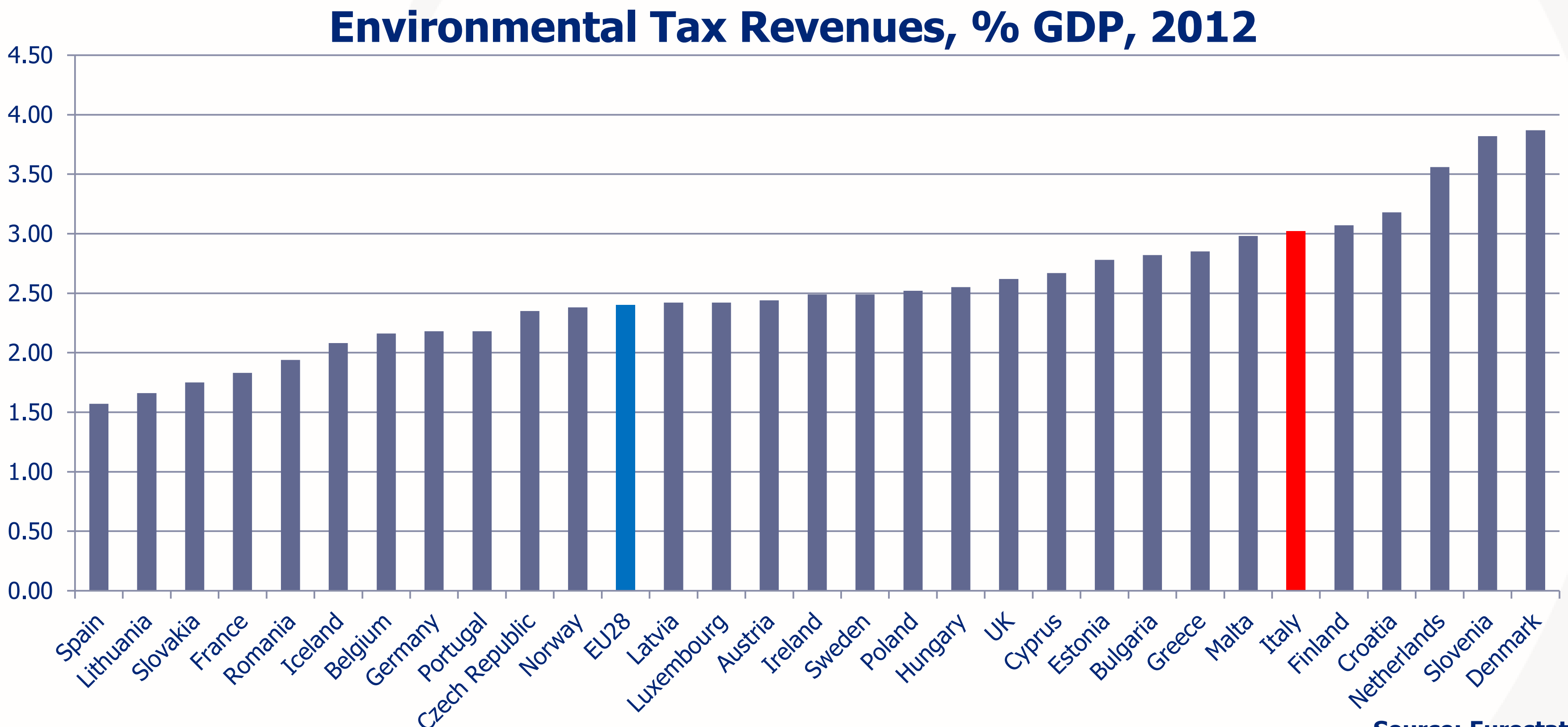
# Greening growth…the policies in Italy

- Italy has received a CSR suggesting to pursue a more environmental-friendly fiscal policy every year since 2012
- In 2014 the European Council has endorsed a specific CSR for Italy calling for a "*Further shift [of] the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets*"
- Several policy actions have been enacted:
  - ✓ Increase environmental taxes
  - ✓ Reduce environmentally harmful subsidies and tax expenditure
  - ✓ Increase environmental friendly expenditures

# Increasing environmental taxes…

| | 2008 | | 2010 | | 2012 | |
|---|---|---|---|---|---|---|
| | million euros | %GDP | million euros | %GDP | million euros | %GDP |
| Taxes on energy products and fuel | | | | | | |
| Excise duties on fuels | 23.452 | 1,5% | 22.948 | 1,5% | 27.994 | 1,8% |
| Tax on electrical energy | 3.051 | 0,2% | 3.051 | 0,2% | 3.086 | 0,2% |
| Excise duty on energy products | 469 | 0,0% | 586 | 0,0% | 564 | 0,0% |
| Other taxes | 39 | 0,0% | 49 | 0,0% | 57 | 0,0% |
| Tax on natural gas | 2.837 | 0,2% | 4.794 | 0,3% | 4.336 | 0,3% |
| Total (a) | 29.848 | 1,9% | 31.428 | 2,0% | 36.037 | 2,3% |
| Taxes on vehicles | | | | | | |
| Motor vehicles tax | 5.781 | 0,4% | 5.840 | 0,4% | 6.033 | 0,4% |
| Tax on insurance for civil liability (for vehicles) | 2.071 | 0,1% | 2.005 | 0,1% | 2.576 | 0,2% |
| Tax on vehicles | 246 | 0,0% | 288 | 0,0% | 159 | 0,0% |
| Tax for registration of vehicles | 1.249 | 0,1% | 1.155 | 0,1% | 1.368 | 0,1% |
| Total (b) | 9.347 | 0,6% | 9.288 | 0,6% | 10.136 | 0,6% |
| Taxes on pollution | | | | | | |
| SO2 and NOx pollution tax | 25 | 0,0% | 16 | 0,0% | 14 | 0,0% |
| Tax for environmental protection and environmental safety | 269 | 0,0% | 274 | 0,0% | 378 | 0,0% |
| Total (c) | 294 | 0,0% | 290 | 0,0% | 392 | 0,0% |
| Others taxes (d) | 631 | 0,0% | 605 | 0,0% | 717 | 0,0% |
| TOTAL (a+b+c+d) | 40.120 | 2,5% | 41.611 | 2,7% | 47.282 | 3,0% |

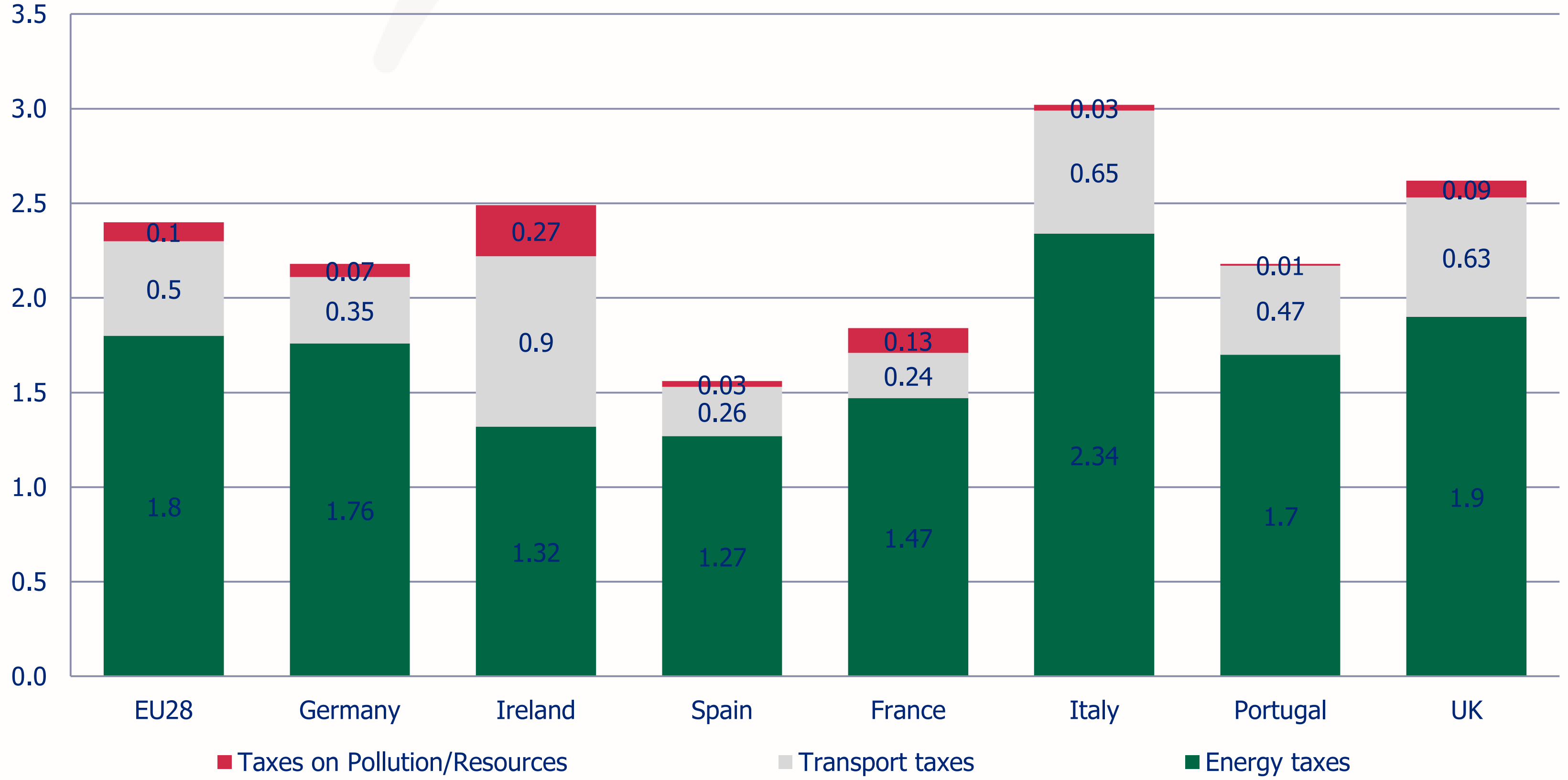
# Increasing environmental taxes…




**Source: Eurostat**

# Increasing environmental taxes...

**Environmental tax revenues , by type of tax, % GDP, 2012**



# Reducing tax exemption and environmentally harmful subsidies…

- The Italian tax system allows for a number of excise-tax exemption, reductions and rebates for specific fuel and industrial sectors
- Italy has been detecting tax expenditures since 2010 in an annex to the budget law
- The three most costly Environmental-related tax exemptions in terms of foregone revenues are:
  - ✓ Tax relief for trucking companies (0,1% of GDP)
  - ✓ Energy tax breaks for agriculture (0,06% of GDP)
  - ✓ Fuel tax exemption for shipping (0,04% of GDP)
- These exemptions allow an erosion of the tax base and have the side-effect of increasing the consumption of electricity, fuel, diesel, petrol therefore resulting harmful to the environment

# Reducing tax exemption and environmentally harmful subsidies…

- In the previous years two important provisions cutting tax exemptions have been adopted.
- Cutting deductibility of the cost regarding company cars
  - ✓ Companies can deduce now 20% from previous 40% of the costs of car available within the company for general use and only 70% from 90% of the costs of cars assigned to employees for business and personal use (foreseen to increase revenues by about 1.5 billion euro)
- Reducing the tax relief given to diesel used by trucks
  - ✓ Cut 15% of the current amount of tax relief given to trucks using diesel (effective from 01/01/2015)

# Increasing environmental-friendly incentives

- 2014 Stability Law has confirmed measures to promote energy efficiency in civil sectors (i.e. in 2014, 65% of the costs incurred for energy efficient renovation of existing buildings have been tax deductible)
- Two key benefits:
  - ✓ improving energy efficiency in building
  - ✓ spurring economic and employment growth
  - 2015 Stability Law extends through 2015 the tax breaks for energy-efficient upgrades and improvements to residential property (building renovation and energy saving)

# Perspectives of Environmental taxation in Italy

- Law 23/2014 “Delega Fiscale” approved in March 2014
- 12 months to approve legislative decrees
- For the first time environmental fiscal reform is mentioned
- Article 15: review existing environmental and energy taxation and introduce new forms of environmental taxation in order to reduces taxes on labour, favour sustainable economy and review subsidies to renewable energy sources
- Connection with the proposed EU Energy Taxation Directive
- Restructuring energy taxation based on carbon content of fuel

# Proposed EU Energy Taxation Directive

- During EU presidency Italy is putting employment and environment-friendly policies at the center of the EU growth strategy
- In the next ECOFIN, Ministers will have an orientation debate to see if they can move forward discussions at technical level on the revision of the Energy Taxation Directive.
- The new directive proposal (April 2011) provides an opportunity for MS to restructure tax system in a more growth and job-friendly manner:
  - ✓ Room for increase in energy taxation and, more generally, environmental taxation with the view to better promoting the objective of low-carbon and energy-efficient economy, increasing the coherence of the tax treatment of different energy products while minimizing negative effects on the Internal Market
  - ✓ Link to 'European Semester' and fiscal consolidation the taxation of energy products and electricity

# Proposed EU Energy Taxation Directive

- **Split energy taxation into two elements**, basing EU minima rates on objective criteria:
  - ✓ One element based on CO2-related component
  - ✓ Another element based on the energy content of each energy product
- **EU minimum rates of taxation would be progressively increased** addressing the need for a more environmentally friendly framework and for reducing the distortions within the Internal Market
  - ✓ The increase would be more significant for motor fuels than for heating fuels, to take into account the social impact of such increases as well as the need to preserve the competitiveness of EU businesses.
  - ✓ The increase in the EU minima rates would be moderate for less polluting motor fuels, like LPG, Natural Gas, and bio-fuels compliant with sustainability criteria.
  - ✓ The interplay between the EU-ETS Directive and the ETD: special provisions will be proposed to address the risk for a double economic burden for installations covered by ETS (Emission Trading System).

# Concluding remarks

- The new economic governance and fiscal austerity were a response to the debt crisis and the serious threat to employment and recovery due to the financial crisis.
- Thanks to the European Semester and the interplay of the Annual Growth Strategy and the Country Specific Recommendation, **Italy has made important progress in EFR.**
- However, partly as a result of the policies adopted and planned, most European economies have been pushed into a double-dip recession.
- Need to carefully evaluate the coherence of the policy responses promoted at the EU level, within the framework of the European semester in response to the crisis and the quest for growth. A new "investment compact" together with the old fiscal compact?