
Tax reform approved by Council of Ministers. Income brackets reduced to three, flat tax

The Council of Ministers passed a bill requesting Parliament for delegated powers to make radical changes to the tax system. The underlying declared objectives are to reduce tax burdens, simplify procedures, and create a proactive relationship with taxpayers. The biggest change is likely to be the number of income brackets now reduced to three, with a view to introducing a flat tax for everyone by the end of the legislature. However, the three income brackets are not mentioned in the text. Instead, there is explicit mention of the so-called 'incremental' flat tax also for employees, i.e. a reduced income tax rate for increased income compared to the highest income in the previous three years. It will be necessary, as always, to wait for the definitive text to be published in the Official Gazette. As for another important decision by the Council of Ministers - reviving the plan to build a bridge across the Strait of Messina - the statement released by the Presidency of the Council of Ministers uses the formula 'pending agreements', indicating that the details of the provision will be finalised at a later date. However, with regard to the income tax reform, the point is not so much the final text that will be published in the Official Gazette, but the fact that it is an enabling law establishing deadlines and criteria that will require legislative decrees for implementing the Law (to be promulgated over the next 24 months). But first it will have to be approved by Parliament, which has the power to modify considerably the terms of the enabling law. During the meetings with the social partners prior to the government meeting, entrepreneur associations and professional bodies welcomed the draft reform, while it was rejected by the trade unions because the reduction of income brackets would benefit medium-high incomes, and because taxpayer-friendly measures could encourage tax evasion. The so-called 'composition with creditors', with the option of two-year income tax based on previously declared income, is in the crosshairs. Another issue concerns the constitutional principle of progressive tax, which runs counter to the flat tax. Deductions and, in particular, the no tax area (the income bracket excluded from taxation) will require adjustments to circumvent this obstacle, and therefore the practical implementation of this provision is yet to be determined. The enabling law envisages a comprehensive reform of tax deductions and exemptions, the so-called tax expenditures that have been under discussion for years. There are over 600, worth EUR 125 billion budget spending. It represents a reservoir of fundamental importance, along with the recovery of unpaid taxes in order to lower the tax burden with no negative repercussions on public services, starting with healthcare. The question of resources is a critical issue (but certainly not the only one) also with regard to the bill concerning differentiated autonomy, approved by the Council of Ministers with a few minor amendments following talks with local authorities, pending parliamentary discussion. Guaranteeing substantial compliance with Essential Service Levels for all citizens is not a financially 'neutral' endeavour. With regard to the corporate income tax (IRES, in its Italian acronym), the Government plans a reduction provided that revenues are earmarked for investments and employment, and that profits are not used for purposes unconnected with corporate business. The regional tax on productive activities (IRAP) will likewise be modified, with a view to its abrogation. With regard to VAT, the note from the Presidency of the Council of Ministers envisages "streamlining the number and extent of VAT rates" along with "a revision of deduction regulations." The Taxpayer's Statute will likewise undergo revision, "consolidating the taxpayers' legitimate expectation and legal certainty principles, envisaging tax authorities' strengthened responsibility to state reasons, specifying the evidence on which the claim is based, and the right to access tax records, instrumental to the exercise of the legitimate right to be heard."