

# ITALY'S TAX ADMINISTRATION

**A Review of Institutional and  
Governance Aspects**

FOR OFFICIAL USE

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## Chapter 1

### Introduction

1. Italy is currently undertaking a series of critically important reforms to improve its long-term growth prospects. The current Government has set out its ambitious reform agenda across many policy areas including education, civil justice, public administration and taxation. Certain reforms have already been made, others are under way and more are in the pipeline. Expectations of effective and decisive government actions are high, in particular regarding the tax system.

2. In this context, and following a request of the Italian Minister of Economy and Finance Pier Carlo Padoan, the OECD Centre for Tax Policy and Administration has carried out a review of the organisational structure and institutional arrangements of Italy's tax administration, with a focus on the Agenzia delle Entrate (the Revenue Agency) and the Agenzia delle Dogane e dei Monopoli (the Customs Agency). The review also highlights certain critical issues related to tax compliance and collection which emerged in the course of the work.

3. Several meetings were held with the Italian authorities, namely the Minister of Economy and Finance and the heads and senior managers of the Italian institutions involved in tax administration. Meetings were also held with labour unions, stakeholders and experts in tax matters, including small and medium sized enterprises (SMEs) and their consultants, to gather a broad range of views on Italy's tax administration (see Annex A for the list of authorities, stakeholders and experts met).

4. A draft of this report was provided to the Italian authorities in January 2016 to check the factual descriptions' accuracy and finalised shortly afterwards.<sup>1</sup>

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## Chapter 2

### Key findings and recommendations

#### A. Key findings

5. **Italy is a high-tax country with a relatively high and stable tax-to-GDP ratio. At the same time, levels of compliance with tax laws are low.** There have been a number of attempts to quantify the extent of tax evasion in Italy, or the Italian tax gap, and all of them show that the numbers are significant. Worryingly, the Italian Value-added tax (VAT) gap is estimated at above 30% for 2013,<sup>2</sup> substantially in excess of the EU-26 average of 15.2%. In the past, several amnesties have been introduced, bringing in additional tax revenue but also nurturing the idea that non-compliance with tax laws can subsequently be solved with payments below what one would have to pay if fully compliant. This era appears to be over and the recent initiative on voluntary disclosure and the positive results reported witness that change in approach.

6. **There is now a significant opportunity to reform tax administration in a way that rationalises resources, provides increasingly high-quality services to taxpayers and secures improved voluntary compliance by taxpayers at large.** According to surveys carried out on behalf of the Italian business association *Confindustria* at the end of 2015, 60% of Italians are in favour of fighting against tax evasion and almost one out of two Italians (48%) judges this task as being a priority for the Government, more important than reducing the tax burden (which is a priority for 23% of the sample), cutting public expenditures (15%) or public debt (12%). Coupling the above with the Government reform agenda, as well as developments at the international level in relation to bank secrecy and base erosion and profit shifting (BEPS), time appears to be ripe for a major reform of the tax administration in Italy.

7. **This opportunity comes with some important challenges.** As noted above, Italy is characterised by a few paradoxes. It is a high-tax country with low levels of compliance. The focus of efforts to reduce non-compliance has historically been on audits and control, which result in assessments that reportedly are often uncollectable, with no comprehensive strategy across the entities involved in tax administration to address this issue in a holistic manner. In line with recent actions such as the preventive communications on taxpayers which did not file their VAT return, there is now a need for reforms aimed at generating significant behavioural change, by both taxpayers and tax administration. Institutional and governance arrangements should be revised to ensure a more strategic political oversight of the tax administration, which should go along with restoring the autonomy of the agencies. A more holistic approach should be introduced to support and enhance voluntary compliance by taxpayers while ensuring that those that do not comply are promptly identified and sanctioned. The collection of tax debt needs to be modernised building on the positive results achieved since the function was brought into the public sphere.

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2. The tax gap is estimated at 34% by the EC Commission (see *Study to quantify and analyse the VAT Gap in the EU Member States, 2015 Report*, prepared by the Center for Social and Economic Research for the EC) and at 30% by the Italian Ministry of Economy and Finance (see Annex 2 to the *Nota di Aggiornamento del documento di economia e finanza 2015*).

Information technology, data analytics and related administrative simplifications can and should be at the centre of these reform efforts.

8. **In short, what is needed is a structural reform which results in behavioural changes of all players rather than purely institutional changes. More coherence will be achieved with increased strategic oversight at ministerial level and with more autonomy of the agencies in the implementation of this strategy. Priority should be given to developing a strategy to tackle non-compliance, coordinating the agencies, the *Guardia di Finanza*, and Equitalia. This strategy should combine a tougher approach on non-compliant taxpayers with a co-operative compliance approach with generally compliant taxpayers, in particular MNEs.**

### *Institutional and governance arrangements*

9. **Tax administration functions in Italy are fragmented across multiple bodies with some roles and responsibilities overlapping.** The current administration of taxes in Italy is characterised by the presence of a number of different entities, to which different rules apply, for example in terms of legal status, objectives, overall performance, and autonomy. These entities include: the Department of Finance in the Ministry of Economy and Finance; the Revenue Agency; the Customs Agency; the *Guardia di Finanza*, Equitalia (in charge of tax debt collection) and the Social Security Institute. Information technology (IT) services are provided by Sogei, a private company owned by the Ministry of Economy and Finance, while Sose, a private company jointly owned by the Ministry of Economy and Finance and the Bank of Italy, provides statistical research and consultancy services. Clearly, the model adopted by Italy entails a matrix approach, with an obvious need for strong co-ordination and strategic leadership. However, **co-ordination across the different bodies involved in undertaking tax administration could be strengthened, and priority setting could be better aligned and managed more strategically.** All the arrangements in place among actors of the Italian tax administration are heavily focused on the operational level and 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. In other words, there is no top-down strategic oversight involving all key actors and, as a result, no substantive over-arching strategy for improving the effectiveness of tax administration.

10. **Existing Conventions between the Ministry of Economy and Finance and the agencies are overly focused on outputs, affecting the agencies' autonomy.** Performance indicators and measures are inwardly focused rather than measuring the overall effectiveness and efficiency of the system. By focusing on detailed outputs rather than outcomes, the Conventions are more operational than strategic. This precludes the agencies from defining their own operational plan, encroaching on their autonomy. **Additionally, although not incentivised directly anymore in the Convention for year 2015, monetary objectives remain important for the calculation of other incentives granted to staff.** This also appears to be the case, in substance, under the recent implementing decrees of the tax reform framework law of 2014. An over-emphasis on the use of revenue targets for tax audit officials can lead to a multiplicity of problems for revenue bodies, and ultimately the whole Government, without necessarily improving overall tax compliance.

11. **The autonomy of the two agencies has been slowly taken away in relation to certain key areas. Since their creation, several reforms, spending cuts, and court decisions have impacted the agencies' autonomy 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. Further, 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.

### ***Tax compliance***

12. **Efforts to increase taxpayers' compliance and make it easier for them to comply have followed a path of constant improvement since the creation of the agencies.** Service provision has become more efficient and responsive to endogenous issues. Considerably greater attention has been given to facilitating taxpayers' compliance with the laws. Central to many of these new services is more effective use of IT, principally through the provision of new online services. **Segmentation and modern risk-assessment practices have been introduced over time by the Revenue Agency to work more efficiently.** The results are tangible, with the aggregate tax gap for taxes administered by the Revenue Agency estimated to have fallen from a peak of around 23% in 2004 to 18%-19% in 2013. Recent legislated reforms continue into this direction, and they need to be accompanied by effective implementation and application. At the same time, there are still large margins for improvements and certain key issues that need to be addressed with determination.

13. The current setting requires **a more strategic process for jointly identifying key compliance risks and priorities, how these risks will be addressed, and how resources will be allocated across the board.** In short, 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. Ultimately, what emerges is an insufficient focus on a comprehensive strategy to increase compliance with tax laws, with the different bodies focused largely on output measures rather than on implementing a country-wide approach focused on improved outcomes. **Overlaps in compliance management are clearly a consequence of the existing setting.** For example, there is duplication in terms of risk-assessment, which is only in a small part mitigated by the sharing of information among different institutions. The overlaps in functions, particularly between the agencies and the *Guardia di Finanza*, also generate potential for diverging opinions and differences in approaches regarding the best way to tackle certain situations. This may also be one of the reasons why Italy faces important delays in terms of dispute resolution under bilateral tax treaties.

14. **Given the perceived size of the informal economy and of other critical areas of non-compliance highlighted by the tax gap research of the Revenue Agency, institutional arrangements could be put in place to facilitate the establishment of an overall strategy.** While the methodologies used by the Revenue Agency to provide tax gap estimates were not examined in detail, they could certainly be used to inform, together with the sector studies, an overall strategy to address non-compliance in the informal economy. **VAT is clearly an area of entrenched non-compliance, likely also because of issues concerning VAT filing obligations.** While VAT payments are made monthly, taxable activity is disclosed to tax authorities only annually. Overall, to require taxpayers to submit information on VAT annually, several months after the end of a taxable year, generates substantial time lags which favour VAT fraud and non-compliance, and severely hamper effective tax administration.

15. **The programme of co-operative compliance for Italy's largest taxpayers to be implemented by the Revenue Agency needs to be accompanied by proper steer and clarity regarding competences.** Co-operative compliance programmes are an effective way to generate behavioural changes, at the level of both taxpayers and tax authorities, and hence establish a renewed relationship based on mutual trust and transparency. To achieve this objective, the programme will need effective leadership, a manageable scope, and close nurturing for some years. Most importantly, the responsibilities within the Revenue Agency, and any role of the *Guardia di Finanza* in relation to this programme, need to be clearly elaborated in order to minimise the risks of disruption and inconsistent approaches. **The dividing line between criminal and administrative sanctions for certain behaviours is now clearer but uncertainties remain.** This is an



issue which is relevant across the board and particularly so in the context of the co-operative compliance programme. While it is now clear as a result of the latest law changes that neither transfer pricing violations nor abusive behaviour should trigger a criminal liability, this is still not the case for cases of assessments claiming the existence of a permanent establishment or tax residence in Italy (though it is possible to request advance rulings on these issues).

### ***Tax debt collection***

16. **The amount of outstanding tax debt is exceptionally high in Italy.** While the setting up of Equitalia increased the effectiveness of tax debt collection in its early years of operation, collection performance does not keep apace of the annual amount of tax debt, yet alone reduce prior year arrears, meaning there are in 2016 large margins for improving the existing situation. Total reported tax debt of the Revenue and Customs agencies as of September 2015 exceeded EUR 756 billion (total value of tax debts given to Equitalia minus the amounts collected), an amount roughly equivalent to Italy's total annual tax collections for all levels of government. This is possibly due to several reasons but chiefly the fact that uncollectable debts are not written-off systematically. In addition, **procedural issues greatly impact the integrity of the tax debt inventory.** It is reported that about EUR 180 billion of the inventory of tax debts existing as of September 2015 are for tax debts not due for payment. This is equivalent to about 22% of the stock of tax debts given to Equitalia by the Agencies, and goes down to about 10% when looking at the period 2010-2014. Undue tax debts arise for example in cases where a court decides in favour of the taxpayer, the tax debt was subsequently paid by the taxpayer, or errors were found in the assessment process that brought to the issuance of the *ruolo*. Needless to say, requesting the payment of undue debts dramatically affects the trust of citizens in the fairness and reliability of the entire tax system.

17. **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. In other words, some taxpayers may well report and declare appropriately but then decide not to pay and put in place strategies to hide their wealth. **Tax debt collection strategies and priority setting are neither sufficiently risk-based nor targeted.** Possible strategies to be adopted for effectively and efficiently collecting tax debts appear to be limited by the Law. In fact, the Law currently prevents Equitalia from prioritising the collection of tax debt, which is instead obliged to process all cases, regardless of the chances of success and the amounts involved. This makes the current approach for collecting tax debts process-oriented rather than result-oriented, with clear consequences on its overall performance and also the way it is perceived by ordinary citizens.

### **B. Recommendations**

18. A number of critical reforms are warranted to address the issues outlined above. Although the details vary, practices observed in revenue bodies of other advanced economies show that tax administration functions in these 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 key areas, and particularly with respect to financial matters and human resources policies. However, autonomy does not mean independence. These bodies report to the Minister of Finance and the Government under the control of Parliament. This creates the conditions for a more strategic approach to the management of the overall tax system, and also fosters a close link between the tax administration and the tax policy function.

19. Moving towards the establishment of a more unified form of tax administration in Italy is possible but it would likely raise a number of 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. For example, Equitalia also collects debts for municipalities and other semi-

governmental bodies, Sogei also provides IT services to other government institutions. Sose also identifies the “standard needs” of Italian municipalities. Further, the institutions involved in tax administration have different legal status and hence are subject to different rules in terms of budgets, staff remuneration and other important aspects. The extent of the changes to be implemented may therefore require considerable time and resources, and an evaluation of whether such a reform would be feasible is outside the scope of this review.

20. Yet, it appears that certain critical matters need to be addressed urgently. The introduction of a more strategic approach to the management of the tax administration and the restoration of the agencies’ autonomy are very much warranted to ensure better overall co-ordination. Addressing these issues quickly, together with the overlapping roles between the Revenue Agency and the *Guardia di Finanza*, as well as the procedural issues related to the tax debt collection process, is likely to trigger immediate and tangible results. On the basis of these considerations, recommendations are outlined below regarding the institutional and governance aspects of tax administration, together with more targeted recommendations on tax compliance and tax debt collection.

### ***Institutional and governance arrangements***

- **Provide more strategic political oversight of the tax administration and shift the focus of the Conventions concluded with the agencies to outcomes and high-level indicators rather than operational outputs, building on international trends and practices, and in line with recent reforms. To this end, in addition to institutional changes to ensure strategic political oversight, consideration could be given to:**
  - modifying the objectives of the agencies to reflect increased emphasis on voluntary tax compliance, including via the use of operational indicators and measurements derived from tax gap estimates;
  - introducing performance indicators related to building trust and confidence in the agencies;
  - ensuring that the incentives provided to staff are not linked to the amount of revenue collected following controls and audits but rather to outcomes and high-level indicators linked to voluntary compliance.
- **Restore the autonomy of the agencies urgently, taking advantage of the major public administration reform. In this context,**
  - ensure that the agencies have the freedom to decide how to achieve required budgetary cuts;
  - evaluate granting full autonomy in hiring and promoting staff as originally envisaged when the agencies were set up.
- **Reduce the existing fragmentation and overlapping of roles and responsibilities among the institutions involved in tax administration by giving proper consideration to:**
  - progressively ensuring that tax audits and control responsibilities fall within the exclusive competence of the Revenue Agency, while strengthening the *Guardia di Finanza*’s mission in relation to tax fraud and other economic crimes, leveraging on its unique features in these respects;

- establishing a separate tax debt collection function within the Equitalia, responsible for all aspects of enforced tax debt collection, and possibly also including social security contribution (SSC) debts given their "national" and "taxation" character.

### ***Tax compliance***

In light of the organisational and governance changes recommended above and in order to improve the overall management of tax compliance and reduce Italy's tax gap,

- **Devise a multi-faceted country-wide strategy for improving compliance with tax laws, drawing on international practices and on tools and resources already available. In this context, priority could be given to:**
  - addressing key aspects of VAT non-compliance, coordinating the agencies, the *Guardia di Finanza*, and Equitalia. Particular and urgent attention should be given to revamping VAT return filing obligations (e.g. by requiring the monthly and quarterly submission of VAT return) with thresholds to avoid imposing unnecessary compliance burdens on small traders, and simplify the annual VAT return, as well as to the use of e-invoices;
  - exploiting the full potential of sector studies and of the tax gap research. More specifically, the focus should be on the full and quick implementation of the recent law changes related to the use and scope of the tax gap research programme which could be expanded to include SSC and excises. Further steps could be taken to benchmark the tax gap estimation methodologies with those being deployed by other revenue bodies and the tax gap research could be utilised to measure progress over time and devise adjustments to the overall strategy;
  - quickly implementing a centralised high net worth individual (HNWI) unit and fully benefit *inter alia* of information stemming from the global commitment on the Common Reporting Standard (CRS);
  - ensuring access to, and interoperability among, different IT systems, and developing strategies and tools to use and provide relevant data and information on cross-border activities and transactions in line with the reforms derived from the BEPS Project.
- **Continue the recent reform efforts by providing additional certainty and predictability to investors and by nurturing the new co-operative compliance programme. In this context, priority could be given to:**
  - clearly elaborating the responsibilities within the Revenue Agency and any role of the *Guardia di Finanza* in this programme in order to minimise the risks of disruption and inconsistent approaches;
  - taking steps to ensure that the programme's scope is manageable for the short and medium term, based on a systematic assessment of the skills and experience required and available resources;
  - further clarifying the dividing line between civil and criminal tax issues, in particular in ensuring that, in relation to issues such as permanent establishment and tax residence, criminal consequences arise only in case of tax fraud;

- improving Italy’s ability to solve mutual agreement procedures in a timely manner and measuring progress over time.

***Tax debt collection***

In light of the organisational and governance changes recommended above and in order to improve tax debt collection performance,

- **Increase the accuracy and integrity of the tax debt inventory, with consequences for effective case actioning and operational efficiency. In this context, priority could be given to:**
  - ensuring there is an effective tax debt write-off policy in place and that it is being applied as required;
  - taking 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. With a total of more than 20% of the stock of tax debts not due for payment, this should become a priority of all the institutions involved;
  - providing the tax debt collection function with appropriate powers and reconsider in particular the rules regarding instalment plans;
  - granting the debt collection function the freedom to prioritise in its collection strategy.



## Chapter 3

### Overall trends in tax collection and compliance

*This chapter provides context to the specific matters examined by setting out data on Italy's tax collection and compliance, as well as the tax compliance burden.*

#### A. Tax collection as a share of GDP

21. **Tax collections in Italy as a share of official GDP are relatively high by European and OECD standards and have risen marginally in recent years.** Table 1 provides an account of officially reported tax collections in Italy (covering all levels of Government for the major categories of tax) for the four years up to 2013. Within the overall aggregates displayed, SSC are the major source of Government revenue, equivalent to around 30% of all revenue received, with the personal income tax (PIT) also being a significant source of revenue. Over the years indicated, tax contributions from PIT, corporate income tax (CIT) and excises have increased modestly, SSC revenue has been relatively stable, while VAT revenues have declined marginally.

Table 1. **Overall tax collection in Italy as a share of GDP (2010-13)**

Tax type	2010	2011	2012	2013
PIT	11.2	11.1	11.1	11.7
CIT	2.7	2.6	2.9	3.2
VAT	6.1	6.0	6.0	5.8
Excise	3.5	4.0	4.4	4.3
<b>Sub-totals</b>	<b>23.5</b>	<b>23.7</b>	<b>24.4</b>	<b>25.0</b>
SSC	13.0	12.9	13.0	13.1
Other taxes	5.3	5.3	5.5	5.8
<b>Totals</b>	<b>41.8</b>	<b>41.9</b>	<b>42.9</b>	<b>43.9</b>
<b>OECD averages</b>	<b>32.8</b>	<b>33.3</b>	<b>33.8</b>	<b>34.2</b>
<b>EU-28 member averages</b>		<b>38.8</b>	<b>39.8</b>	..

Source: OECD Revenue Statistics 2015 and Taxation Trends in the European Union (2014).

22. **Despite the relatively high overall level of tax collections and their recent growth, there are several publicly-available data and research studies which provide indications of substantial non-compliance with the tax laws, resulting in considerable revenue leakage, particularly in relation to the VAT.** Amnesties, in which punishments provided by the Law are reduced or removed for certain outstanding offences, have been prevalent in Italy in the past. There have been overall 80 tax amnesties in the 150 years of the Italian State. During tax amnesties, substantial penalties for unpaid taxes were reduced or erased. While tax amnesties have quickly raised significant amounts of revenue, they also likely engaged additional costs for Italy, as they encouraged further evasion, nurturing the idea that non-

compliance with tax laws can subsequently be solved in the course of an amnesty programme. In that respect, a study from the Ministry of Economy and Finance confirmed that tax amnesties have played an important part in maintaining a tax evasion culture in Italy,<sup>3</sup> an issue which lately was also underlined in the end-of-year speech of the President of the Republic Sergio Mattarella.

## **B. Estimates of the tax gap in Italy**

### ***(i) Studies on Italy's tax evasion and the overall tax gap***

23. **Several tax gap and tax evasion studies and analyses have been conducted on Italy.** According to the Ministry of Economy and Finance, the tax gap in Italy is estimated at an average of EUR 91.4 billion per year for the period 2007-2013, approximately 6.6% of Italy GDP. According to the study, EUR 44 billion relate to direct taxes, EUR 40 billion to VAT and EUR 7 billion to the regional tax on productive activities. Most recently, the Italian business association *Confindustria* has carried out a study on Italy's tax evasion and estimated it to have amounted to EUR 122.2 billion in 2015, around 7.5 % of Italy's GDP. According to this study, Italy failed to collect EUR 40 billion of VAT, EUR 23.4 billion of PIT, EUR 5.2 billion of CIT, EUR 3 billion of regional tax, EUR 16.3 billion of other indirect taxes and EUR 34.4 billion of SSC. According to this study, if Italy were able to reduce its tax evasion by half, allocating the additional revenue collected to reduction of the overall tax burden, GDP would increase by 3.1%, and more than 335 000 jobs could be created.

24. **Revenue Agency officials periodically carry out work to estimate the overall tax gap.** Each year an estimate is made of aggregate tax evasion using a "top down methodology", and the resultant tax gap reflects overall revenue leakage for Italy's PIT, CIT, VAT, and the regional tax on productive activities. As a result of this work, estimates of the tax gap at the territorial level are produced. It is therefore possible to estimate non-compliance and its trends for the different regions and provinces of the country.

25. **The estimated tax gap for the taxes administered by the Revenue Agency (which exclude excises and SSC) has fallen from a peak of around 23% for 2004 to 18%-19% for 2013.** A gap of this magnitude is equivalent to revenue leakage for 2013 of around EUR 92 billion. There are no estimates of tax gaps and related revenue leakage for either SSC or excises made by the Revenue Agency. According to the work undertaken, a portion of the estimated tax gap is "recovered" each year as a result of enforcement programmes carried out by the Revenue Agency and other agencies. This recovered amount was approximately EUR 14.2 billion in 2014.

26. **Relatively few OECD countries regularly undertake similar comprehensive tax gap estimation programmes, limiting the scope to make comparisons of Italy's tax gap findings with other advanced economies.** The most comparably-sized advanced economy for which similar tax gap data is available is the United Kingdom. Its national revenue body, Her Majesty's Revenue and Customs (HMRC), publishes a detailed account of its tax gap research findings each year. It includes multi-year tax gap data similar to Italy, for all taxes it manages (including SSC and excises).<sup>4</sup> Work to enhance HMRC's tax gap estimation methodologies is ongoing. In the most recent HMRC report, the aggregate tax gap for the United Kingdom is estimated to be 6.4% for fiscal year 2013-2014, on a downward trend from a peak

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3. See Ministry of Economy and Finance, *Rapporto sulla realizzazione delle strategie di contrasto all'evasione fiscale*, Ministry of Economy and Finance, October 2014.

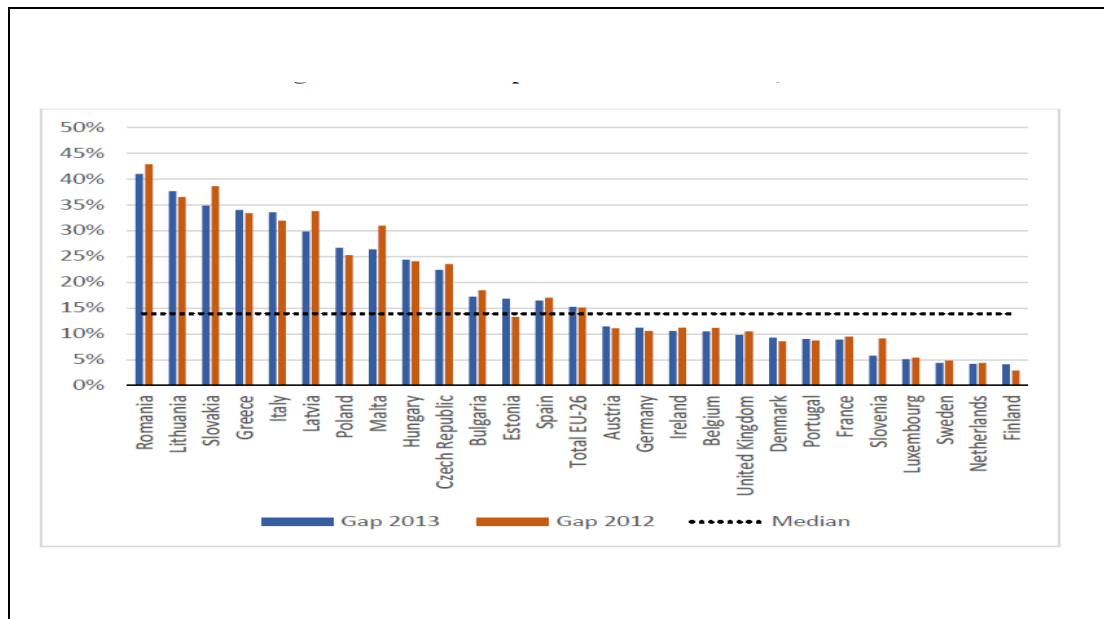
4. In 2013, an International Monetary Fund (IMF) technical assistance team completed a review of HMRC's tax gap estimation methodology and found that the methodologies and models used were comprehensive in their coverage, and both sound and consistent with the general approaches followed by other countries, see United Kingdom, Technical Assistance Report—Assessment of HMRC's Tax Gap Analysis, IMF Country Report, No13/314.

estimate of 8.4% observed for 2005-2006.<sup>5</sup> While there is a significant disparity between the reported aggregate tax gap estimates for the United Kingdom and Italy, there are inherent difficulties in making cross-country comparisons. The reported Italian outcomes however appear to reflect non-compliance issues and serious revenue leakage. Such issues have been outlined in a number of prior reports on Italy.<sup>6</sup>

**(ii) The VAT gap**

27. Research has been carried out on behalf of the European Commission (EC) to estimate the size of the VAT gap and its trend over time in each of European Union member states, including Italy. The most recent report was published in September 2015.<sup>7</sup> Concerning Italy, the research finds that **Italy’s VAT gap is estimated to have been 34% for 2013, trending slightly upwards over prior years, and substantially in excess of the EU-26 average VAT gap of 15.2%, and the estimated VAT gaps of other large advanced economies such as France (9%), Germany (11%), and the United Kingdom (10%).** Figure 1 displays relevant data for the EU-26 countries. For fiscal year 2013, Italy’s estimated VAT gap was equivalent to EUR 47.5 billion. It is worth mentioning here that the VAT gap is estimated at about 30% by the Ministry of Economy and Finance.<sup>8</sup>

Figure 1. VAT Gap in EU 26 Countries (2012-13)



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

28. **The OECD has also carried out substantial work on VAT Revenue Ratio (VRR) in OECD member jurisdictions.** The VRR measures the difference between the VAT revenue actually collected and what would theoretically be raised if VAT was applied at the standard rate to the entire potential tax base in a “pure” VAT regime and all revenue was collected. In other words, it provides an indicator that combines the effect of loss of revenues as a consequence of exemptions and reduced rates, fraud, evasion

5. Measuring tax gaps 2015 edition, Tax gap estimates for 2013-14. HMRC. October 2015.  
 6. OECD Economic Surveys – Italy, 2015, OECD; Tax Administration Series, 2015, OECD.  
 7. See *Study to quantify and analyse the VAT Gap in the EU Member States, 2015 Report*, prepared by the Center for Social and Economic Research for the EC.  
 8. See Annex 2 to the *Nota di Aggiornamento del documento di economia e finanza 2015*.



and tax planning. A VRR close to 1.0 is taken as an indicator of a VAT bearing uniformly on a broad base with effective tax collection. In practice, the VRR rarely equals to 1.0 and a number of factors may influence the results positively or negatively. For instance, while the “standard” rate refers to the default rate applicable to the tax base, reduced VAT rates are still widely used in OECD countries, mainly for equity or social objectives. Further, the main methodological difficulty in the calculation of the VRR lies in the assessment of the potential tax base, since no standard assessment of the potential VAT base for all OECD countries is available. The potential VAT base includes all supplies of goods, services and intangibles made for consideration by businesses or any other entity. In the absence of a standard assessment of the potential VAT base for all OECD countries, the closest statistic for that base is final consumption expenditure as measured in the national accounts, according to a standard international norm, the System of National Accounts.<sup>9</sup>

29. **OECD work on VRR shows considerable variations in the VRR across OECD countries.** The majority of countries (27 of 33) have a VRR below 0.65 and almost half (15 of 33) have a ratio below 0.50, while the OECD unweighted average is at 0.55. This suggests that in many countries, a considerable part of the potential VAT revenue is not collected. **As for Italy, according to OECD calculations, its VRR for 2012 was substantially below the OECD average, with a result under 0.41.** According to such result, with Mexico and Greece, Italy has one of the lowest VRR of all OECD countries. This broadly confirms available data on tax expenditures that reflect the cost of its multiple tax concessions, and on the VAT gap.

### C. The incidence of tax debts and their trend

30. **Further insights into tax compliance levels can be gained by examining the incidence of aggregate tax debts, for example, by contrasting it with annual net revenue collections.** The computed ratio and its trend over time can be used to infer the degree of seriousness or otherwise of payment non-compliance and whether such non-compliance is increasing, declining, or relatively stable. Information concerning the level of overall tax debts is set out in Table 2, along with a number of related computations, while Figure 2 displays comparative data for other G20 revenue bodies. **The data displayed suggests that tax payment non-compliance is a serious issue for Italy, and is at a level unprecedented among other G20 economies.**

Table 2. **Italy's tax debt inventory (2011-13)**

Debt category	Reported value of tax debt at year-end (EUR billion)			Movement (%): 2011 to 2013
	2011	2012	2013	
Total year-end tax debt (incl. disputed debts) (A)	572	643	715	25
Total year-end tax debt (excl. disputed debts) (B)	425	475	531	25
Total year-end tax debt subject to dispute (C)	147	168	184	25
Computed ratios:				
Disputed year-end tax debt / total tax debt (C/A x 100)	25.7	26.1	25.8	-
Total year-end tax debt (excl. disputed debt)/annual revenue (%)	154.4	169.6	190.8	23.6

9. The measure of consumption in national accounts particularly includes private final consumption expenditure of households; final consumption expenditure of non-profit organisations serving households; final consumption expenditure of general government, including; and individual consumption expenditure of general government.

Figure 2. Year-end tax debt on net revenue collected (2011-13)



Source: OECD Tax Administration Series 2015.

#### D. The tax compliance burden imposed on business

31. **There are indications that the design and administration of Italy's tax system is improving but it is still perceived as not particularly business-friendly.** This latter observation is drawn from internationally-reputed measures of regulatory burden produced by the World Economic Forum's (WEF) Global Competitive Index (GCI) and the World Bank's Doing Business (DB) Series.

32. **The GCI of WEF is a measure of competitiveness and is used to demonstrate where countries rank on a comparative scale and the trend of their performance over time.**<sup>10</sup> The WEF defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the country can earn. The GCI combines 114 indicators that capture concepts that matter for productivity. Its indicators are grouped into 12 pillars, including one in respect of "institutions", which is most directly relevant to the performance of the tax system and its impact on business productivity. **The 2015-2016 series report places Italy in overall 43<sup>rd</sup> position, up six positions from the prior year report.** Concerning the institutions pillar, the report highlights Italy's performance on "burdensome red tape" (ranked 138<sup>th</sup>) and observes that the following factors are the most problematic for doing business in Italy: (i) inefficient government bureaucracy; (ii) tax rates; (iii) access to financing; and (iv) complexity of tax regulations.

33. **The World Bank's DB Series provides an annual ranking of almost 190 economies in eleven areas of business regulation based on indicators that record the time and cost to meet important government requirements** (e.g. starting and operating a business, trading across borders, paying taxes, and closing a business).<sup>11</sup> The WB's latest DB Series Report reported Italy as ranking 45 out of 189 countries across all indicators. The rankings for the taxation and trade facilitation-related indicators diverge significantly.

10. Additional information may be found in *Doing Business 2016: Measuring Regulatory Quality and Efficiency* (2015), World Bank, Washington.

11. *Ibid.*

- ***Italy's ranking for the "Paying Taxes" indicator was reported to be 137 of 189 countries covered by the Series.*** Compared with its OECD peers, Italy ranks among the lowest of all OECD countries on this indicator and well below neighbouring and other large European Union member states—Austria (74/189), France (87/189), Germany (72/189), Spain (60/189), Switzerland (19/189) and the United Kingdom (15/189). Importantly the largest negative contributor to this rating comes from the significant time for employers to deal with the requirements of the SSC regime each year.
- ***Along with a number of other European Union member states, Italy ranked first with respect to the "Trading across borders" indicator.*** This indicator records the time and cost associated with the logistical process of exporting and importing goods with three sets of procedures, namely documentary compliance, border compliance and domestic transport.

## Chapter 4

### Designing a modern tax administration

*This chapter discusses ideas and opportunities for institutional and organisational reform, against the background of international trends and practices and the prevailing setup in Italy. Specifically, it examines aspects of the institutional and organisational design appropriate for a modern tax administration and related aspects of governance and accountability. In light of Italy's context, it provides a range of ideas and recommendations for reform.*

#### A. Key elements of a modern tax administration

34. **Building and sustaining a modern national tax administration system is a complex and demanding challenge for all countries.** In a world of rapid change and growing demands on Governments to provide better services and perform more effectively, national revenue bodies have the unenviable mandate to administer multiple taxes involving many citizens and businesses, with an explicit expectation that the tax system will be administered to achieve very high levels of taxpayers' compliance (thus maximising government revenue collection), operate at minimal cost to Government, and with a low compliance burden.

35. **There is a considerable body of practical guidance and experience on the institutional and governance arrangements appropriate for achieving high standards of performance in tax administration.**<sup>12</sup> For international comparative purposes, the OECD's regular comparative series provides an extensive set of observations on practices in over 50 countries, including all countries that comprise the G20 (i.e. the world's largest 19 economies by level of economic output, the OECD (i.e. 34 advanced and emerging economies), and the European Union (i.e. 28 member states). The guidance provided by international bodies on the institutional and governance setups appropriate for tax administration is generally in close alignment and the key elements are outlined in Box 1.<sup>13</sup>

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12. Reference can also be made to published materials of the EC and International Monetary Fund (IMF), which are described and supported in comparative analyses prepared and published by the OECD's Centre for Tax Policy and Administration. See the OECD's most recent comparative series on tax administration 'Tax Administration 2015'.

13. Examples of such include the European Commission's 'Fiscal Blueprints- A Path to a Robust, Modern and Efficient Tax Administration (2007), and the IMF's 'Revenue Administration: Functionally Organised Administration' (2010) and 'Revenue Administration: Autonomy in Tax Administration and the Revenue Authority Model' (2010).

**Box 1. Guidance of institutional/organisational setups and governance arrangements**

Concerning institutional setup, the guidance recommends:

- ***There is a unified body responsible for the administration of both direct and indirect taxes***, and with linkages to the collection of SCC, comprised of all the functions necessary for effective and efficient administration of the tax laws.
- ***The revenue body is structured primarily on a functional basis, but also includes divisions and units to manage the compliance of different taxpayer segments (e.g. large taxpayers)***.
- ***The revenue body has a sufficiently resourced and empowered headquarters operation*** to oversee all aspects of administration conducted at the regional and local levels, but is not primarily responsible for tax policy matters which are seen to best fall within the province of a dedicated policy function in the Ministry of Economy and Finance.
- ***Office networks for tax administration operations (e.g. information processing, service delivery, verification and debt collection) should be designed taking account of viable critical mass and economic considerations***, with dedicated regional/national centres for some functions (e.g. tax return and payment processing).

Concerning features of the governance framework, the guidance recommends:

- ***The revenue body should have adequate autonomy***, sometimes described as being "semi-autonomous", particularly concerning organisational design, managing budgets, and human resource management.
- ***The revenue body employs a robust strategic management framework to prepare medium and short term business plans***, underpinned by clear statements of mission, vision and objectives.
- ***The revenue body employs modern risk management approaches, particularly for managing taxpayers' compliance***.
- ***There is a common and stable legal framework for the administration of all taxes***, as opposed to an individual framework for each tax.
- ***The revenue body has a flexible strategic approach to managing its staff resources, making adjustments to how they are allocated taking account of emerging priorities***.
- ***Tax administration operations are assessed on the basis of a performance management system***. The revenue body is accountable for its operations and is subject to control and assessment.

## **B. Institutional and organisational set up**

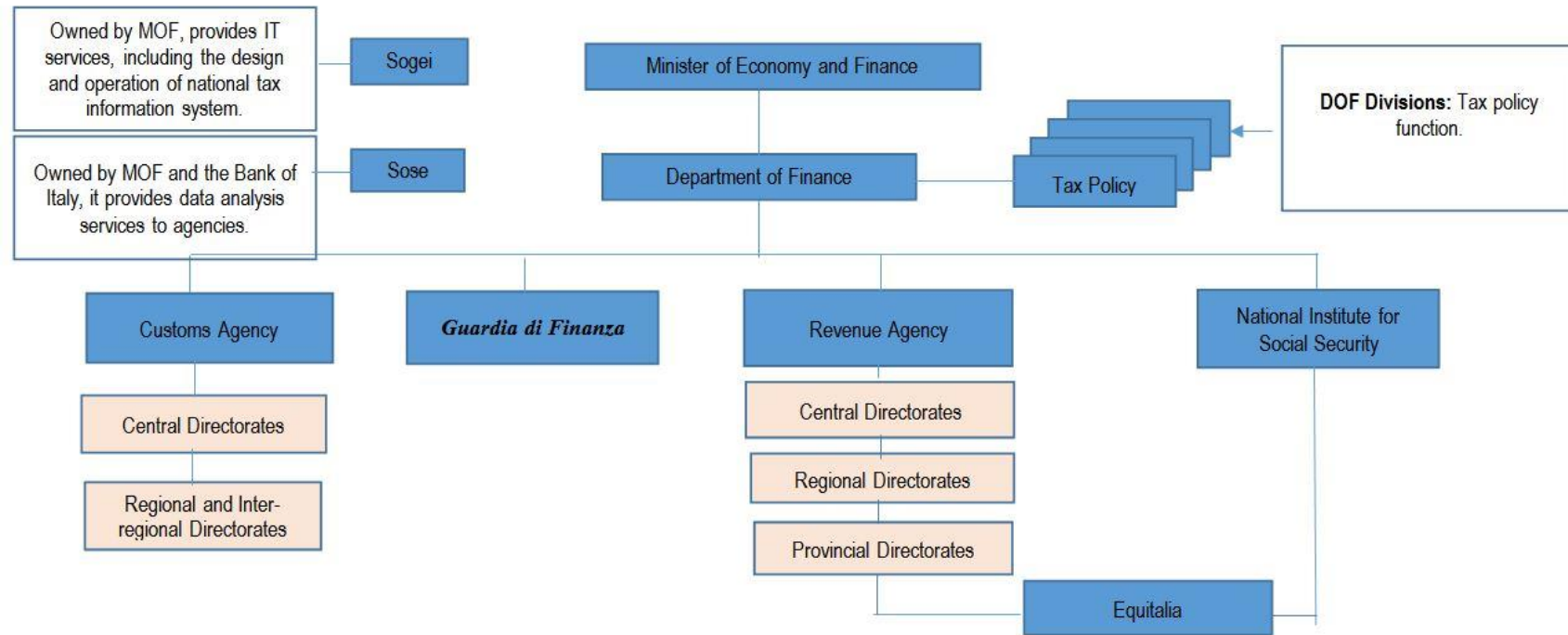
### ***Italy's context***

36. **The current administration of taxes (including SSC) in Italy is characterised by the presence of multiple entities.** These include: the Department of Finance in the Ministry of Economy and Finance; the Revenue Agency; the Customs Agency; the *Guardia di Finanza*, Equitalia, and the Social Security Institute. IT services are provided by Sogei, a private company owned by the Ministry of Economy and Finance, while Sose, a private company jointly owned by the Ministry of Economy and Finance and the Bank of Italy, provides statistical research and consultancy services (lately also for topics

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unrelated to the tax system such as the standards needs of municipalities). Different rules apply to the different actors involved, both in terms of their legal status, their relationship with the Ministry of Economy and Finance, and their overall performance and remuneration policies. Figure 3 depicts the main actors and their functions while additional information is included in Annex C.

Figure 3. Italy tax administration: main entities involved



<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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Source: OECD compilation.

37. **Structural changes are currently envisaged for the existing setting.** The recent framework law on the public administration provides for a major reform of the entire public administration in Italy. Its goals are similar to those that led to the creation of the agencies in the past, namely increase efficiency and effectiveness, and provide additional flexibility to cope with a constantly changing economy. Implementing decrees are in the course of being published. Among other things, the Law provides that agencies of national relevance (thus likely including the Revenue and Customs agencies) would be moved under the supervision of the Prime Minister's office. As a consequence, the current setting is likely to be the subject of broader discussions regarding potential structural changes to be made.

*The Principal-agent relationship between the agencies and the Ministry of Economy and Finance*

38. **The relationship between the Ministry of Economy and Finance and the agencies is based on the common model of principal-agent, in which policy and control is entrusted with the ministry (the principal) and implementation and management is delegated to the agency (the agent).** This relationship is substantiated into the Minister of Economy and Finance's periodic *Atto di Indirizzo* which details Italy's political imperatives regarding the tax system and is the starting point for the definition of the objectives to be achieved by the agencies.

39. **The *Atto di indirizzo* defines Italy's tax policy, the macro-objectives and expected developments with respect to the tax system.** It indicates, in very broad terms, the priorities that the different actors of Italy's tax administration are expected to focus on. In the 2015 *Atto di indirizzo*, particular emphasis was given to spending reviews, functional cost reductions, the State budget reform and its future stability. The reforms of the tax system and the litigation system, as well as the cadastral systems, were also important components of the last *Atto di Indirizzo*. In addition to the fight against tax evasion and tax avoidance, priority was also given to co-operative compliance and the need to further modernise IT systems. Finally, the *Atto di Indirizzo* mandated a focus on reducing the tax gap and that the activities of the agencies needed to place greater emphasis on improving taxpayer services and voluntary compliance.

40. **The direction outlined in the *Atto di Indirizzo* is translated into three-year Conventions concluded by each agency and the Ministry of Economy and Finance, which are then monitored and updated every year.** Among other things, the Conventions outline (i) strategies to be implemented by the agencies; (ii) objectives to be achieved; (iii) management criteria to be met and financial resources granted; (iv) indicators and benchmarks related to objectives; (v) parameters used to measure the agencies' performance; and (vi) economic incentives given in the event the objectives are achieved. The agencies then provide information on their results to the Department of Finance which proceeds to interim and periodical monitoring analysis. The interim analysis mainly focuses on specific management issues while periodical monitoring assesses whether the outcomes and outputs established within the Conventions were achieved. At the end of the process, a monitoring report is provided to the agencies by the Department of Finance. Once this report is signed by the General Director of the Department of Finance and the Directors of the agencies, it is transmitted to the Minister of Economy and Finance.

*Other arrangements for collaboration and co-ordination among actors of Italy's tax administration*

41. **The Ministry of Economy and Finance also issues every year a General Directive which defines the overall objectives and the strategies to achieve them,** based on policy priorities and in line with the Government plans. The General Directive is addressed to the heads of the four departments of the Ministry of Economy and Finance (General Administration, Treasury, Accounting, and Finance) and to the General Commander of the *Guardia di Finanza*. The General Directive assigns annually to the management a total amount of financial and human resources needed to achieve the objectives identified. These resources are then allocated within each department and *Guardia di Finanza* commands, in line with



their operational planning. An independent body dedicated to assess performance, the *Organismo Indipendente di Valutazione* (OIV), reports to the Minister of Economy and Finance about the achievement of the objectives by the four departments, while the General Commander of the *Guardia di Finanza* reports directly to the Minister of Economy and Finance. In general terms, the assessment of the performance is carried out taking into consideration, among other things, the degree of implementation of actions to achieve the objectives, cost levels and the ability to manage financial resources, as well as efficiency in planning activities.

42. **Equitalia and the Revenue Agency conclude three-year Conventions between themselves to outline the objectives regarding the collection of tax debts.** Equitalia provides the Revenue Agency with data and information related to overall collection activity on a yearly basis. In addition, the Revenue Agency and Equitalia exchange information on tax debts and taxpayers' assets in order to ensure the completion of their respective activities. Equitalia's list of execution is made available to the agencies as they can add debtors on it, they may verify their claim and they may cancel or reduce the amount due. Information with respect to assets held by taxpayers is made available to Equitalia through the *Anagrafe Tributaria* (Tax Register).

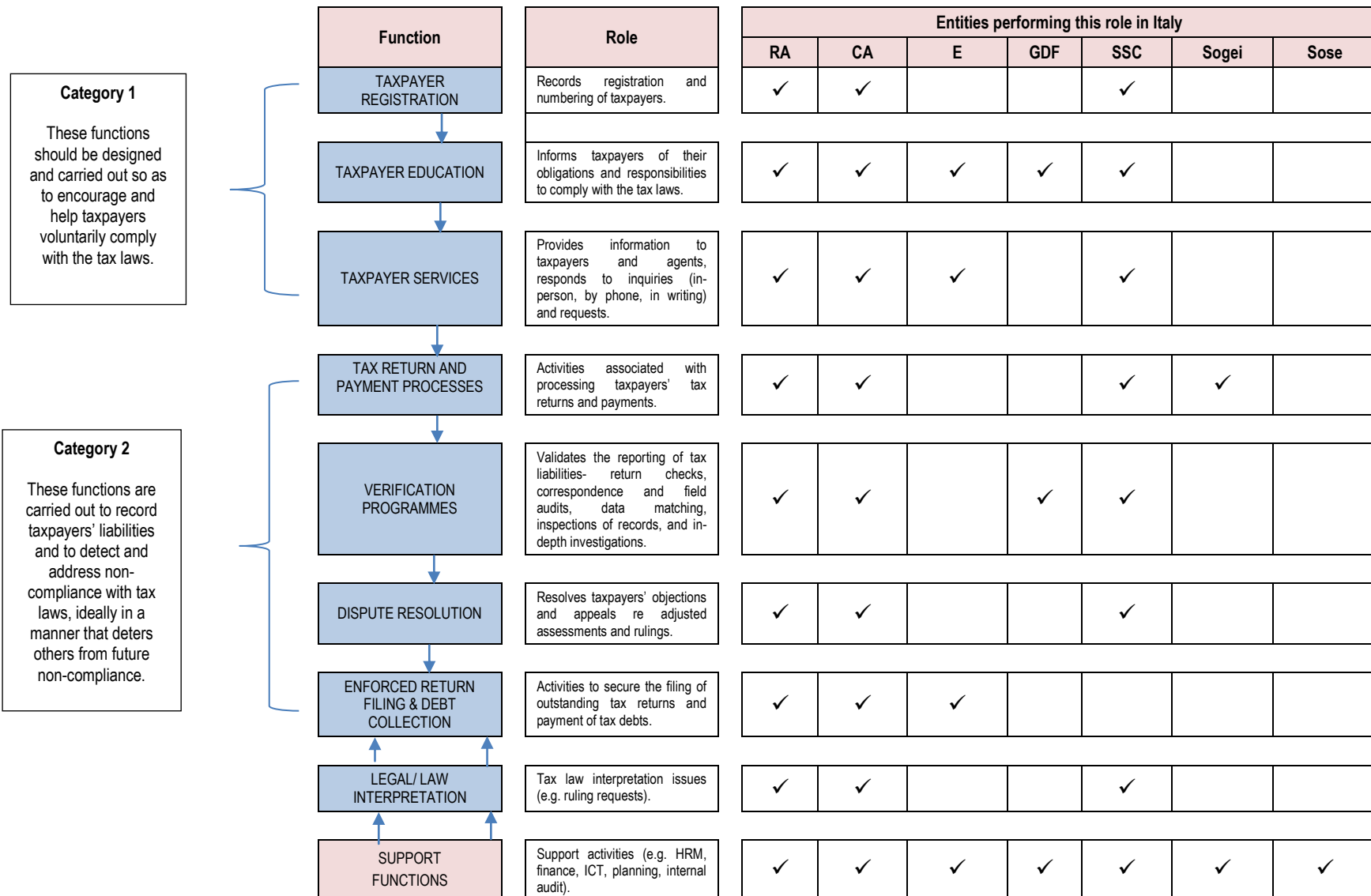
43. **A bi-annual Convention concluded between Equitalia and the Guardia di Finanza aims to ensure the co-operation of the Guardia di Finanza in the case of pledges to collect tax debts** as well as the furnishing of analyses based on available data. The co-operation focuses on taxpayers with tax debts over EUR 100 000 and aims to provide additional safeguards for the activities carried out in collecting those tax debts.

44. **A number of arrangements are reported by the authorities to be in place to coordinate the activities of the agencies and those of the Guardia di Finanza.** Audit co-ordination is done through the electronic procedure of the Unified Audit Model (*Modello Unificato di Verifica* - MUV), according to which the *Guardia di Finanza* and the Revenue Agency immediately notify the commencement, suspension, resumption and conclusion of controls, thus avoiding possible overlapping or reiterations of actions. Some IT applications developed by the *Guardia di Finanza* in collaboration with the Revenue Agency enable joint analyses on targeted taxpayers, as well as the gathering of information on taxpayers with a high-risk profile. In addition to exchanging information and using common databases, co-ordination among the *Guardia di Finanza* and the agencies takes place at the national, regional and provincial level.

#### ***Key issues identified in light of international trends and practices***

45. **Tax administration functions in Italy are fragmented across multiple bodies and there is some overlapping of roles and responsibilities.** Tax administration entails a wide range of functions and processes, some of which cover long time period and maybe complex. As such it is important that the system is designed holistically, implemented carefully and co-ordinated effectively. The current administration of taxes in Italy is characterised by the presence of a number of different entities, to which different rules apply, for example in terms of legal status, objectives, overall performance, and autonomy. Figure 4 depicts the processes of tax administration and its organisation, with the right-hand side displaying how national tax administration functions are organised in Italy. Clearly, the model adopted by Italy entails a matrix approach, with an obvious need for strong leadership and co-ordination.

Figure 4. The functions involved for administering taxes and the responsible bodies in Italy



Source : OECD compilation.

46. **Co-ordination across the different bodies involved in undertaking tax administration could be strengthened, and priority setting could be better aligned and managed more strategically.** The only tool to ensure co-ordination and steer among the different actors involved is the Minister's *Atto di indirizzo*, which is issued yearly and provides only a generic overview of the objectives and priorities of the tax administration in its entirety, while bilateral relationships are then held with the two agencies based on a three-year Convention which is updated every year. Similar arrangements are not in place with the *Guardia di Finanza*, which follows the directions included in the Minister of Economy and Finance's General Directive, yet another document. Equitalia, Sose and Sogei have their individual arrangements with their clients, namely the agencies and the *Guardia di Finanza*.

47. **All the arrangements in place among actors of the Italian tax administration are heavily focused on the operational level and there is no established processes involving all entities to periodically discuss the overall state of the tax system.** There is no process in place to link tax administration to the overall tax system design, identify immediate challenges and priorities, set overall goals and objectives, and/or resolve issues concerning co-ordination. In other words, there is no top-down strategic oversight involving all key actors and, as a result, no substantive over-arching strategy for improving the effectiveness of tax administration. **As regards individual arrangements and work flows, no particular issues were identified in relation to the information technology system,** which actually is perceived as working efficiently; further, the work of Sogei for other Government bodies may generate important synergies (e.g. use of data on medical expenses for purposes of the pre-compiled tax declaration). The work of Sose on the sector studies and on risk assessment is used by the *Guardia di Finanza* and by the Revenue Agency but it is reported that little feedback is given regarding the results obtained and on how to improve the data analyses over time.

48. On the other hand, **serious procedural issues were identified with respect to Equitalia's operations.** Briefly stated, these issues relate to the integrity of Equitalia's inventory of tax debts. These issues, together with significant shortcomings in the tax debt collection strategies are explored more fully in Chapter VI. **An important co-ordination issue relates to the overlapping of roles between the Revenue Agency and the Guardia di Finanza in relation to the conduct of tax controls and audits.** The extent of this overlap concerns much of the audit and control work undertaken by both agencies and is based on historical reasons. These issues, together with more targeted issues related to tax compliance, are explored in more detail in Chapter V, but here it is useful to note that this setting creates duplication, potential for diverging views and likely an increase in the overall cost of tax administration. If not properly managed, it also has the potential to disrupt much of the working in refocusing towards a more collaborative and trust based relationship with taxpayers.

49. As it appears from Box 1 above, **there are some generally accepted approaches for organising the administration of national taxes** that are considered by international organisations as "good practice" and which in 2015 are applied widely, especially by larger economies. Specifically, **the vast majority of G20 countries have established a single unified revenue body reporting to the Finance Minister** that is responsible for both direct and indirect taxes, including excise administration, and in some cases mandated to collect SSC. Further, all revenue bodies in G20 economies include a dedicated division for tax debt collection and, with only two exceptions, tax fraud investigation work. The notion of a unified revenue body draws together two threads of thinking: (i) there should be a single revenue body responsible for both direct and indirect taxes; and (ii) the revenue body should be comprised of all the functions necessary for efficient and effective tax administration. Historically, governments in many countries administered their tax system with separate direct and indirect tax bodies. Over time, this arrangement came to be seen as inefficient with its inherent duplication of functions and unwieldy to co-ordinate, as well as burdensome on those taxpayers who were required to deal with multiple tax bodies (e.g. businesses). As of 2015, most G20 countries have established a single unified revenue body that is responsible for both direct and indirect taxes (including excise administration). As indicated in Tables 3

and Table 4, 16 of 19 G20 countries currently have a unified tax administration body, leaving only India, Italy and Turkey as exceptions.

Table 3. **Institutional arrangements for tax administration in G20 member 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

Legend: USB: Unified semi-autonomous body.

Sources: OECD Tax Administration Series 2015, and MOF and revenue bodies' websites.

Notes.

1. Tax Reform Commission in 2014 recommended major institutional reform, including the establishment of a single unified tax body to administer direct and indirect taxes.

2. These two bodies are the Presidency of Revenue Administration and the Tax Inspection Board.

50. **Similarly, excise administration is currently the responsibility of the national revenue body in 14 of the G20 countries**, and within the customs administration for the balance of countries (although Indonesia has indicated its intention to shift responsibility for excise administration to the revenue body over the medium term).

Table 4. Major taxes administered by national revenue bodies in G20 member 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 4
United States	✓	✓	✓	No VAT	✓	No

Sources: OECD Tax Administration Series 2015 and Secretariat research.

Notes:

1. No national VAT; there are two consumption taxes imposed by each state and municipality respectively.
2. Government has announced proposal for excise administration to be transferred to revenue body over medium term.
3. Enforced collection of SSC debts is undertaken by Equitalia.
4. HMRC has responsibility for customs policy and systems but not border force operations.

## C. Strategic management and performance measurement

### *Italy's context*

51. As noted above, the objectives of the agencies are included in the three-year Conventions concluded with the Department of Finance. The last Convention with the Revenue Agency focuses chiefly on fighting tax evasion, ensuring tax compliance and providing services to taxpayers. Similarly, the last Convention concluded with the Customs Agency focuses on evasion, compliance and services. It further concentrates on fights against illicit behaviours and activities with respect to imported and exported goods, the gaming sectors and the tobacco-related activities. The agencies and the Ministry of Economy and Finance agree in the Conventions on the relevant outputs to be achieved. For instance:

- In the last Convention concluded between the Ministry of Economy and Finance and the Revenue Agency, it was agreed that the Revenue Agency should collect EUR12 billion in 2015 - for direct payments and collection by "ruolo" – as a result of overall control activity, as well as complete over 1 300 000 investigations and controls. In addition, the Convention indicated that 3 000 large taxpayers should be submitted to “tutoring”, an early form of co-operative compliance provided by the Decree Law n. 185/2008. As for outputs related to services provided to taxpayers, the Convention mainly focuses on the amount of time needed to deliver certain services to taxpayers and on the increased usage of electronic channels to interact with taxpayers.

- *In the last Convention concluded between the Ministry of Economy and Finance and the Customs Agency, it was agreed that the Customs Agency, pursuing its objective of preventing and fighting frauds and illicit behaviours, should carry out 1.2 million customs and excise controls, collecting EUR1.4 billion; 35 000 controls in the gaming industry; and 12 000 controls intended to ensure that no gambling is done by those below the required age. As for outputs related to services, the Convention mainly focuses on the increased usage of electronic channels to interact with taxpayers and maximise administrative processes. As for outputs related to the management of resources and the general organisation, the Convention focuses on the training activities, the quality of business processes, and spending reviews.*

52. **Annual monitoring and performance analysis are conducted with respect to the agencies' results and outputs agreed in the Conventions.** The agencies provide information on their results to the Department of Finance which then proceeds to interim and periodical monitoring analysis. The interim analysis mainly focuses on specific management issues while periodical monitoring assesses whether the outputs established within the conventions were achieved. Following the monitoring process, an incentive is given to the agencies, calculated on the basis of achieved numbered indicators.

53. **The Conventions are expected to increasingly focus on voluntary compliance.** In earlier versions of the Conventions, such focus was not there. The purpose of the Conventions has evolved over time and is currently shifting towards incentivising voluntary compliance. While greater emphasis is starting to be given to voluntary compliance as an outcome, outputs may not be duly aligned yet. In fact, the number of controls and successful investigations conducted by the agencies remain important outputs at the moment. Table 5 encapsulates the objectives of the Revenue Agency for 2015, separating those that are taken into account for the calculation of the incentive (indicating their weight) from those which are not.

Table 5. Revenue Agency - Objectives 2015

<u>Incentivised objectives:</u>		
<u>Results indicators</u>	<u>Quantity</u>	<u>Weight (%)</u>
<b><u>Objectives related to controls</u></b>		
Number of large business taxpayers part of the tutoring programme	3 000	13.77
Total number of controls	1 300 000	13.77
Number of audits on classification of immovable properties	375 000	13.77
Win ratio (Courts decision/all decisions)	63,00%	13.77
<b><u>Objectives related to services</u></b>		
Percentage of requests received via on-line channel CIVIS within 3 days	90,00%	10.14
Corrections of tax returns that contain irregularities and material errors	1 000 000	5.07
Refund of direct taxes	70%	7.25
Percentage of replies of ruling requests within provided deadlines	100,00%	5.07

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Percentage of updates of the cadastral documents	95,00%	8.70
Percentage of updates of acts subject to registration on immovable properties	93,00%	8.70
<b><u>Other objectives:</u></b>		
<b><u>Results indicators</u></b>	<b><u>Quantity</u></b>	
Total tax collected following controls (EUR/billion.)	12	
Percentage of the incidence of the costs of the Revenue Agency on the revenue collected	0,90%	
Number of audits made on immovable properties for lack of update of the plans	39 000	
Number of technical updates	3 800	
Report on activities undertaken with respect to the cadastral registry	Before 31 December	
Percentage of mediation concluded within the deadlines in comparison of number of request presented between March of the previous year and February of the current year	93%	
*Promoting the online channel (% of usage of CIVIS and RLI leases registration)	40%	
Percentage of cadastral checks made via electronic channel	85%	
Percentage of checks regarding mortgages made via electronic system	>88%	
Barometer for the quality of the services related to cadastral and immovable property register	90%	
Result of the customer satisfaction survey regarding internet services:		
Assistance via CIVIS on irregularities	3,0 to 3,5 (on a scale of 1 to 6)	
Assistance via CIVIS on executive titles		
Drafting of a new service Charter	Before 31 December	
Number of interventions made regarding Entratel intermediaries	1 225	
VAT refunds	60% until 2017	
	70% as of 2017	
Number of initiatives with school regarding tax morality	1 400	
Number of files acquirer for the Observatory of the Internal Market	84 500	

Source: Convention concluded between the Revenue Agency and the Ministry of Economy and Finance.

*Key issues identified in light of international trends and practices*

54. **The Conventions between the Ministry of Economy and Finance and the agencies are overly focused on outputs, affecting the agencies operational autonomy.** Historically, the Conventions (included those for 2015) place strong emphasis on outputs related to different volumes and numbered targets. By focusing on detailed outputs rather than outcomes, the Conventions are now more similar to operational than strategic plans. On the one hand, this precludes the agencies from defining their own operational plan, encroaching on their autonomy. On the other hand, it precludes the possibility of having discussions at the strategic level. In a way, this situation is mitigated by the fact that (i) the agencies provide input into the design of the *Atto di Indirizzo* on which the Conventions are based, (ii) the agencies negotiate their objectives with the Department of Finance and (iii) for a number of different reasons, the Conventions are generally concluded late in the year (generally in July/August) and not at the beginning. In practice, while not all the individual objectives have always been met, the possibility of compensating with better results on other objectives has led to the consequence that the overall incentive has always been triggered.

55. **The outputs are largely focused on audits and numbers of completed controls.** All of the Conventions for 2015 place strong emphasis on the attainment of revenue targets and the numbers of completed controls. While attention to the amounts of revenue raised from compliance programmes is a valid concern of all revenue bodies, the absence of other important measures and related targets, especially those that systemically address risks or allow for earlier identification of errors, runs the risk of existing output measures encouraging inappropriate behaviours by the agencies, their staff and the taxpayer. Focus on controls should not be to the detriment of other important considerations such as: (i) overall community perceptions of competence, fairness, and satisfaction with the administration and their trend (as measured by external survey); (ii) specific measures dealing with voluntary taxpayers' compliance (e.g. % of taxpayers filing tax returns on time and % of taxpayers paying tax on time); (iii) employees' engagement and motivation and their trend (as measured by survey); and (iv) objectives and measures related to overall efficiency (covering all of tax administration).

56. **The monetary objectives given to the Revenue Agency for a given year relate to multiple years, cover amounts other than tax, and in some cases depend on the activities carried out by other institutions.** For instance, for 2015 the Revenue Agency needs to collect EUR 12 billion from control activities. This amount includes all additional taxes collected in the year based on assessments released by the Revenue Agency. Specifically, it relates to taxes directly paid by taxpayers following the issuance of assessments, taxes collected from audits and post-audits settlements, as well as amounts collected following enforcement measures carried out by Equitalia. This raises separate and interconnected issues: first, the amounts do not relate only to taxes as they also include interests and sanctions; second, the Revenue Agency is in effect evaluated on the basis of the activities initiated or carried out by other institutions - the *Guardia di Finanza* regarding its field audits, and Equitalia regarding tax collection; third, the amounts collected coercively may well relate to assessments issued in previous years and not in the year in question.

57. **Although not incentivised directly anymore in the Convention for year 2015, monetary objectives remain important for the calculation of other incentives granted to staff.** This also appears to be the case, in substance, under the recent implementing decrees of the tax reform framework law of 2014. Within the Revenue Agency the monetary objectives are broken-down into separate output targets for each office at regional and provincial level, largely based on historical results and internal negotiations. The objectives at local level and then used to calculate one of the incentive parts of the remuneration granted to staff. This is not the case for the officers of the *Guardia di Finanza*, whose incentive, contrary to what seems a common belief among stakeholders, is not calculated based on monetary objectives/revenue targets. An over-emphasis on the use of revenue targets for tax audit officials can lead to a multiplicity of



problems for revenue bodies, and ultimately the whole Government, including the perception that tax auditors are over-zealous in carrying out their functions, resulting in inflated tax assessments as a result of extreme interpretations of tax laws.

58. **Finally, it is worth noting that the calculation of the incentive quote provided in the Conventions appears to be overly complicated.** The complexity in calculating the incentive quote as well as the need for actual validated data that prove the meeting of the objectives make it so that the incentives are granted with large delays. Further, as the incentive quote provided in the Conventions is mostly subsequently granted to the agencies' human resources as a performance-related bonus, additional calculations and assessments need to be internally undertaken by the agencies to grant the bonus at individual level. The overall process is therefore characterised by important delays. As an example, in January 2016, the Revenue Agency's employees have not yet received the incentive in relation to their performance in 2013.

59. **When looking at international trends and practices, performance measures addressing overall efficiency are increasingly given emphasis across the world.** Research concerning the performance measures and indicators used by revenue bodies has found that these are typically both "outcomes" and "output" related, and often displayed as a trend over time in official corporate documents (e.g. annual performance reports) along with any official targets that may have been set. Explicit targets can be set by the revenue body itself, in collaboration with its minister, and/or as part of a formal performance contract. Revenue bodies typically report on the outcomes achieved vis-à-vis their goals and any targets set on an annual basis, along with a trend over multiple years.

60. **Revenue bodies often have a multi-faceted set of strategic goals and objectives to guide their performance.** High level outcome measures and indicators used by revenue bodies generally encompass the following domains: (i) taxpayers' satisfaction with the services provided and overall perceptions of revenue body competence as an efficient, fair and effective administration; (ii) taxpayers' compliance; (iii) taxpayer service delivery, including the use of modern electronic services; (iv) organisational efficiency; and (v) employee engagement and satisfaction. Typically, a range of performance measures and indicators is used for each domain. Examples of measures to gauge performance for each of these five goal domains are set out in the table below. To provide further guidance, relevant documents issued by Australia, France, New Zealand, the United Kingdom and the United States have been analysed in detail for purposes of the review. **Additional details are included in Annex C.**

Table 6. **Examples of high level performance measures used by revenue bodies**

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
<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

## D. The autonomy of the Revenue and Customs agencies

### *Italy's context*

61. **The Revenue Agency and the Customs Agency have been operating since 1 January 2001**, following the issuance of the Legislative Decree no. 300/1999 which established four agencies along the lines of the previous departments of revenue, customs, territory and state property. Previously, the responsibilities for carrying out essential tax administration functions were within the Ministry of Finance. Italy thus adopted, rather innovatively at that time, the agency model in 2001 and granted the responsibilities for carrying out essential tax administration functions to four agencies, namely, the Land Registry Agency, the State Property Agency, the Revenue Agency and the Customs Agency. The Land Registry Agency and the Autonomous Administration of State Monopolies were then merged respectively into the Revenue Agency and the Customs Agency in 2012, as part of spending reviews.

62. **The extraction of tax administration functions from the Ministry of Economy and Finance to tax agencies was made to improve the efficiency of the overall tax administration.** Bureaucratic rigidities inside the old ministerial model were seen as affecting the proper functioning of the overall tax administration. The transition underlined the intended passage of the tax administration from an organisation located within a ministry to a number of more results-oriented organisations which were granted increased autonomy. It was provided that the Ministry of Economy and Finance would formulate the strategy and tax policies while the agencies would ensure that operational management of the policy was conducted in an efficient manner.

63. **The creation of the agencies as non-economic public entities of public law was accompanied by the issuance of their respective Statutes which established the details of their statutory autonomy.** More particularly, the agencies' Statutes provide for their autonomy with respect to: (i) the design of their internal acts and their internal organisation structure; (ii) strategic and operational decisions which are assessed in light of subsequent outcomes; (iii) accounting and financial autonomy, within the framework of public accountability and subsequent external controls; (iv) setting the rules for staff recruitment and promotion, within the general rules applicable to the public administration, as well as establishing the overall number of units required, in close co-operation with trade unions.

64. **Their autonomy enables the agencies to organise their internal structure and office network through internal acts.** The agencies office structure, both at the central and local level, is established by internal regulations, according to the needs. The respective Management Committee holds the power to issue regulations, business plans and general acts that regulate the agencies' functioning. **The functioning of the agencies is financed mainly through transfers from the State budget.** The budget of the agencies is divided into expenses and quotas for the incentives. Other sources of funding may come from fees for services rendered to third parties, public and private, as well as other incomes deriving from assets management. Their accounting and financial status allows them to draw up yearly financial statements in accordance with the procedure provided in the Italian civil code, without submitting their statements to external preventive audits as it would be otherwise requested if they had to comply with public accounting procedure and external controls. The Management Committee decides, on a proposal from the Director, on statute, regulations, general acts, business plans, budget, financial statement, costs above a certain amount, constitution or participation in consortia. These resolutions of the Management Committees are to be approved by the Department of Finance. The Board of Auditors, among other things, ensures the maintenance of the Revenue Agency's books and records. It examines and controls its budget, performing inspections to ensure regularity in the activities.

65. **The establishment of the agencies was conceived also as a tool to implement more autonomous human resource policies, particularly for hiring and promoting staff, as well as in terms of their remuneration.** The Law setting up the agencies 15 years ago had delegated the determination of the rules for access to management positions to the agencies. Clearly, and in line with previous IMF advice, the legislator believed that the rules and criteria for the selection of senior officers had to remain within the autonomy of the agencies. In the past, the agencies used innovative competition procedures under which, after a first public competition, the successful applicants would follow a theoretical and practical training designed to test the necessary expertise. Only in case of positive evaluation of the ground work, the candidate would attain managerial qualification.

66. **This type of selection context was however appealed and the agencies forced to follow the principles applicable to the public administration.** To make up for a lack of managers, the Revenue Agency applied a law provision that allowed it to grant temporary managerial positions to staff after assessing their skills and abilities based on internal performance evaluations. Over time, the granting of temporary managerial positions became the main tool to fill vacant position. In early 2015, about two thirds of the managers had been selected following this special procedure. However, the Constitutional

Court recently declared unconstitutional the provision that allowed the granting of temporary managerial positions by the agencies. The judgment resulted in the revocation of 1 000 officials, of which 850 were employed by the Revenue Agency and 150 by the Customs Agency. A number of temporary measures have been introduced to address the immediate consequences of the decision and discussions are still ongoing regarding longer-term solutions.

67. **Currently, public competition procedures are the general means for accessing every kind of public employment within the agencies and obtain grade promotions.** Such competitions must be followed by candidates wishing to obtain managerial positions or non-managerial positions and for current employees seeking promotions and career advancement. Beside this procedure, the agencies can hire their managers from the list of candidates that have successfully completed the Italian National School of Public Administration. In particular circumstances and within certain limits, it may be possible for the agencies, as for any other public administration body, to hire managers by direct recruitment on a fixed-term contract if they are highly qualified and their expertise cannot already be found among the managers of public administration. In such cases, the managers hired are employed on a fixed-term contract. Interestingly, all the above limitations do not apply to Equitalia, Sose and Sogei, which are private law companies (even if they are owned by public bodies). Neither do they apply to the recently revamped State Property Agency, since, different from the other agencies, it has been converted into a public economic entity subject to private law rules.

68. **Regarding remuneration policies, the agencies have been brought back into the general compartment related to public administration employees.** While in the past the agencies had a specific compartment for the collective bargaining process with trade unions, this was eliminated in 2009. As a consequence, the agencies now fall within the general compartment related to public administration employees. This has not yet produced concrete effects due to the postponement of the collective bargaining process and hence the application of those negotiated when the agencies have their own compartment. **Currently the remunerations granted to the agencies' staff is composed of different items of which certain components are strictly fixed and detailed in the applicable collective agreements.** Remunerations granted to managers are composed of fixed and variable items, namely: a basic salary; an individual seniority-based pay, a fixed position-related remuneration; a variable position-related remuneration; and variable performance-related remuneration. The basic salary and the fixed seniority and position-related remunerations are common elements for both agencies. They cannot modify or fix the amounts as they are detailed in the collective agreement. As for the variable position-related remuneration and the performance-related remuneration, the overall amount is fixed following calculations provided in the conventions concluded between the agencies and the Ministry of Economy and Finance, while the agencies decide how these incentives are granted to managerial and non-managerial positions by internal regulations.

#### *Key issues identified in light of international trends and practices*

69. **In relation to certain areas, the agencies seem to enjoy sufficient autonomy in substance.** A number of key decisions, such as those related to the office structure at central and local level, business plans and other internal regulations are taken by the agencies via their Management Committee and they must be approved by the Department of Finance. While this could in theory be a strong limitation, in practice it does not seem to be perceived as affecting the agencies' autonomy. In other words, it may well have become a procedural requirement rather than a substantial one, thus allowing the agencies to autonomously decide about their internal organisation and management.

70. **However, since their creation several reforms and spending cuts have tarnished the agencies' autonomy in the key area of financial autonomy.** As part of the autonomy devoted to revenue bodies, the financial and budgetary component is one of the minimum prerequisite for flexibility and

independence. Several elements are included in the financial autonomy of revenue bodies: funding, the allocation of budgets, and financial policies, such as rules governing accounting, asset ownership and management, and procurement. International practices show that financial autonomy is an essential component of revenue bodies' autonomy, even if such autonomy may be translated differently. In general, however, revenue bodies have the freedom to allocate their financial resources within their structure as deemed appropriate. This is not entirely the case in Italy. 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 details not only the cuts but also how they should be achieved in practice, thus limiting the agencies' financial autonomy. The agencies, and in particular the Revenue Agency, have had to cope with multiple staff reductions imposed by subsequent law since their creation. Several cuts, spending programmes and other reforms have influenced the composition of both the Revenue Agency and the Customs Agency throughout their existence.<sup>14</sup>

71. **As a consequence of a number of court decisions, severe limitations now apply regarding the agencies' autonomy in relation to hiring and, even more worryingly, internal promotion policies.** While autonomy on HRM was formally granted to the agencies in the Law, the same Law made it clear that this autonomy had to be exercised within the framework of the general principles governing the public administration. This conflict between two visions has remained in place over time and has resulted in a hybrid model where on the one hand the agencies were granted autonomy regarding human resources, but on the other they were bound to respect the more stringent rules applicable to the public administration in general. The prevalence of the rules on the public administration in general has now been sanctioned by the Constitutional Court and there is no need to underline the devastating consequences that this may have on revenue collection and tax administration. This is particularly relevant in the medium term, given the lack of about two thirds of the managers' needs in the Revenue Agency, not to mention the impact on staff morale overall.

72. **While there are significant differences in recruitment policies and approaches in revenue bodies, most revenue bodies do have a fair degree of autonomy for managing staff recruitment.** The HRM policies of the vast majority of revenue bodies are heavily influenced by the respective civil service framework, and as civil service frameworks are evolving at quite different rates, there are variations across revenue bodies. Having said that, it is still possible to identify a number of trends and practices, for instance: most revenue bodies (93% of those surveyed in *Tax Administration Series 2015*) are able to recruit staff and make appointments based on clearly defined qualification and experience criteria; most revenue bodies (80% of those surveyed in *Tax Administration Series 2015*) have staff remuneration levels tied directly or broadly to wider public sector pay scales, with the balance having their own unique arrangements; over two thirds reported they have flexibility to reward good performance. Similarly, differences in approach exist among countries in the approach regarding promotion between hierarchical grades. In some cases, a competitive examination must be taken but in the majority of cases the approach appears more flexible and less bureaucratic, with interviews and performance appraisals being sufficient, although for some positions there are minimum educational or occupational certification standards that must be met.

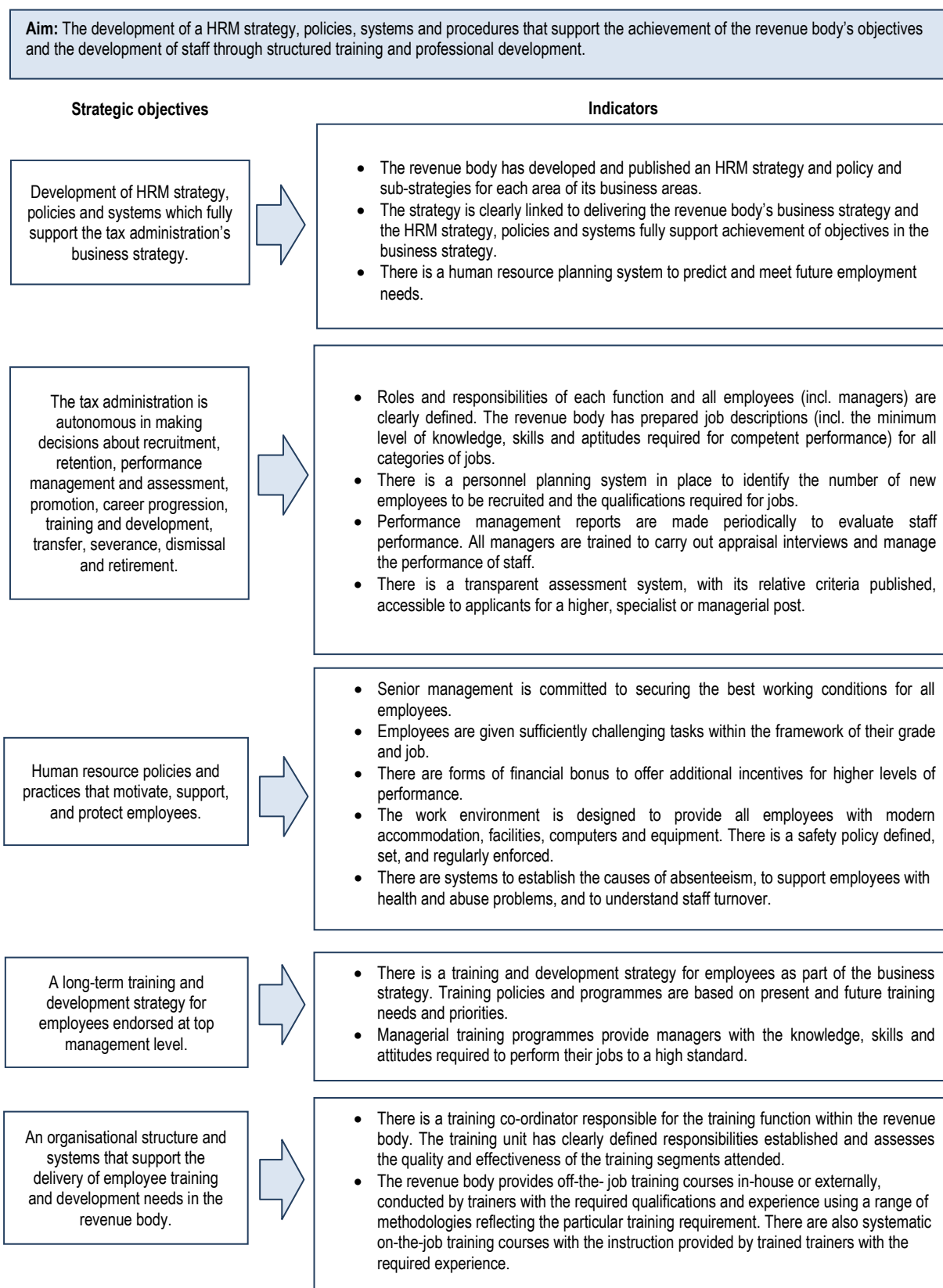
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14. From 2001 to 2014, the Revenue Agency has suffered from reduction of its human resources and the number of employees fell of 18.5%. During the same period, the Customs area of the Customs Agency has suffered from reduction of its human resources and the number of employees fell of 7.5% while the level fell of about 8% in the entire public administration. This overall reduction in the Revenue Agency is not the result of an internal efficiency plan but rather due to limitations on hiring new staff to replace departing ones imposed by the legislator.

73. **The existing leeway in determining agencies' staff remuneration may be severely limited in the future.** The elimination of the collective bargaining process for the agencies results in the inclusion of the agencies staff within the more general compartment related to public administration employees. This is likely to be also the case under the new rules on public administration which are expected to be introduced in the coming months. Unless specific rules are introduced for the agencies within the bargaining process for the public administration compartment, this would constitute a major limitation of the agencies' autonomy, and likely curb the opportunity to attract skilled and talented staff members.

74. **The OECD in its Tax Administration Series relies on a framework for exploring HRM matters that is set out in the EC's set of fiscal blueprints.** The fiscal blueprint for HRM sets out the key components of a modern and efficient HRM function, which are expressed in terms of a set of strategic objectives and accompanying indicators. These are depicted in Figure 5.

Figure 5. Essential elements of a human resource management strategy



Source: OECD, Compiled from EC Fiscal Blueprints. 2007.

## E. Recommendations

75. A number of critical reforms are warranted to address the issues outlined above. Although the details vary, practices observed in revenue bodies of other advanced economies show that tax administration functions in these 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 the key areas, particularly with respect to financial matters and human resources policies. However, autonomy does not mean independence. These bodies report to the Minister of Finance and the Government under the control of Parliament. This creates the conditions for a more strategic approach to the management of the overall tax system, and also fosters a close link between the tax administration and the tax policy function.

76. Moving towards the establishment of a more unified form of tax administration in Italy is possible but it would likely raise a number of 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. For example, Equitalia also collects debts for municipalities and other semi-governmental bodies, Sogei also provides IT services to other government institutions. Sose also identifies the “standard needs” of Italian municipalities. Further, the institutions involved in tax administration have different legal status and hence are subject to different rules in terms of budgets, staff remuneration and other important aspects. The extent of the changes to be implemented may therefore require considerable time and resources, and an evaluation of whether such a reform would be feasible is outside the scope of this review.

77. Yet, it appears that certain critical matters need to be addressed urgently. On the basis of these considerations, recommendations are outlined below regarding the institutional and governance aspects of tax administration:

- **Provide more strategic political oversight of the tax administration and shift the focus of the Conventions concluded with the agencies to outcomes and high-level indicators rather than operational outputs, building on international trends and practices, and in line with recent reforms. To this end, in addition to institutional changes to ensure strategic political oversight, consideration could be given to:**
  - modifying the objectives of the agencies to reflect increased emphasis on voluntary tax compliance, including via the use of operational indicators and measurements derived from tax gap estimates;
  - introducing performance indicators related to building trust and confidence in the agencies;
  - ensuring that the incentives provided to staff are not linked to the amount of revenue collected following controls and audits but rather to outcomes and high-level indicators linked to voluntary compliance.
- **Restore the autonomy of the agencies urgently, taking advantage of the major public administration reform. In this context,**
  - ensure that the agencies have the freedom to decide how to achieve required budgetary cuts;
  - evaluate granting full autonomy in hiring and promoting staff as originally envisaged when the agencies were set up.



- **Reduce the existing fragmentation and overlapping of roles and responsibilities among the institutions involved in tax administration by giving proper consideration to:**
  - progressively ensuring that tax audits and control responsibilities fall within the exclusive competence of the Revenue Agency, while strengthening the *Guardia di Finanza*'s mission in relation to tax fraud and other economic crimes, leveraging on its unique features in these respects;
  - establishing a separate tax debt collection function within the Equitalia, responsible for all aspects of enforced tax debt collection, and possibly also including social security contribution (SSC) debts given their "national" and "taxation" character.

## Chapter 5

### Managing tax compliance: Targeted issues identified

*Some targeted issues in relation to the management of tax compliance in Italy emerged in the context of the review of the institutional and governance aspects of the Italian tax administration. These issues and related recommendations based on international trends and practices are outlined below.*

#### A. Italy's context and approach to managing tax compliance

78. **Like other countries, Italy has a number of significant tax compliance challenges:** a substantial tax gap and burdensome tax compliance obligations that impact taxpayers' willingness to voluntarily comply with their obligations and potentially result in increased non-compliance with tax laws. These challenges heighten the importance of having a coherent and efficient tax compliance management framework and strategies that are sustained over time while evolving to address changing circumstances.

79. **Efforts to increase taxpayers' compliance and make it easier to comply have followed a path of constant improvement since the creation of the agencies.** Information gathered for this review from a variety of sources suggests that the perception of most is that the situation has indeed improved radically. Service provision has become more efficient and responsive to endogenous issues. For example, during the financial crisis, the Revenue Agency provided liquidity into the system by accelerating tax refunds to families and businesses (in 2014, a total of nearly EUR 3.3 million was paid out in tax refunds). Considerably greater attention has been given to facilitating taxpayers' compliance with the laws. Central to most of these new services is more effective use of IT, principally through the provision of new online services. Multichannel Assistance Centres (CAM) provide assistance, by both phone and other means, on the status of documents and requests, giving clarifications on tax obligations and assistance on the communication of irregularities. Similarly, the online channel SISTER grants access to cadastral and mortgage databases. Documents with respect to construction, registration, transcriptions, and property transfers can also be easily transmitted through online platforms, which are managed together with the relevant municipalities. In addition, increased investments have been made to improve taxpayers' understanding of their tax obligations through a range of educational campaigns. Some of the initiatives aimed at facilitating and spreading compliance are outlined in Box 2.

Box 2. **Recent initiatives to improve taxpayers' compliance**

- In 2015, the Revenue Agency introduced the **first pre-filled tax declaration form for individual taxpayers**. As part of this initiative, over 20 million citizens were provided with a pre-filled tax return which they could either confirm as fully completed or amend it by including additional information. In 2016, pre-filled declaration forms will have further information added, increasing the numbers of taxpayers who can simply accept the declaration without the need to make any adjustments. Along similar lines, taxpayers can currently submit tax returns, send communications, register deeds and contracts, pay taxes, and ask for refunds all online, easing the actions required and simplifying compliance for them.
- To help assist educate and serve taxpayers, the Revenue Agency has established two new programmes: **Tax and School and Revenue on Wheels**. The former explains to Italian students the purposes of the tax system and how it functions, aiming to raise awareness of the importance of taxation and promote tax morality and a culture of legality. The second programme consists of a mobile office that travels around the country and provides information and services to taxpayers.
- The agencies have developed further innovations relying on new technologies and media, including **Tax Guides and the magazine FiscoOggi**. Tax Guides are a series of monographs that illustrate and explain tax obligations while the online magazine FiscoOggi offers updates and comments on the agencies' activities, tax legislation and cases.
- **Entrate in video** is a YouTube channel which offers direct information to citizens through video tutorials. These videos are produced in-house and involve agencies' officials explaining tax obligations in simple terms and providing insights on tax news, issues and procedures. Twitter is also used as a direct online channel through which the agencies interact with taxpayers and provide news, information and tax updates.

Sources: Documents submitted by the Italian authorities.

80. **Overall, the IT system appears to work well and is a core asset not only for control activities but also to facilitate compliance.** The agencies have seen ongoing updates to their IT system as being an essential component of their strategy. In Italy, they are often considered at the front-line of IT services and are perceived as rather innovative by stakeholders and ordinary taxpayers. For example, taxpayers may currently submit tax returns, send communications, register deeds and contracts, pay taxes, request refunds, obtain plans and other real estate documents, all online. **The customs clearance process is fully digitized.** All customs declarations are submitted electronically with digital signature and examined in real time. Thanks to a series of formal and substantial automatic controls, declarations which contain mistakes are rejected and replies containing the details necessary for their removal are sent to the user to promote compliance. The same process applies in the excise area with the digitalisation of the process concerning good under suspension of excise duty (e-AD). The Customs Agency received several awards from the European Institute of Public Administration for best practices and projects in the e-Government field.

81. **Segmentation and modern risk-assessment practices have been introduced over time by the Revenue Agency to work more efficiently.** The Revenue Agency has introduced a segmentation of its activities based on the type of taxpayer (large, medium, small and self-employed, non-commercial entities, individuals). Risk-assessment techniques have been introduced and applied centrally, all building on the IT infrastructure and in particular on the *Anagrafe Tributaria*. Audit and investigation cases are drawn by the relevant local offices, using a variety of tools such as the work done at central level for risk assessment purposes, the industry benchmarks (i.e, the sector studies) prepared by Sose, data matching, and the use of the other databases connected to the *Anagrafe Tributaria*. The impact of these tools is monitored internally

on the basis of indicators such as the compliance indicator (equal to 1-tax gap %, which verifies the variation over time of spontaneous compliance), the index of success (ratio between the disputes won and those considered final), and the index of success for value (ratio between the number of victories and those still in dispute). The results are tangible, with the aggregate tax gap for the taxes administered by the Revenue Agency estimated to have fallen from a peak of around 23% in 2004 to 18%-19% in 2013. In terms of additional revenue from audits and controls, while in 2001 the overall tax recovered following control activities was EUR 3.8 billion, it raised to EUR 6.9 billion in 2008 and up to EUR 14.2 billion in 2014, a roughly 100% increase in 6 years.

82. **Recent legislated reforms head in the right direction; they need to be accompanied by effective implementation and application, and complemented as necessary.** A number of legislative changes have been introduced recently following the tax reform framework law of 2014. These include the introduction of a co-operative compliance regime (starting with taxpayers with a total turnover or operating revenue of not less than EUR 10 billion as well as those who had participated in the Pilot Project launched in 2013 and are equipped with a tax control framework and a total turnover or operating revenues of not less than EUR 1 billion), reform of the ruling system, changes to criminal sanctions due to tax offences, clarification of the abuse of law concept, increased focus on the tax gap calculations, and several others. All these changes have been introduced to move the Italian tax administration from an *ex post* to an *ex ante* approach, provide additional certainty and predictability to investors and ultimately increase compliance.

83. **There are still large margins for improvement and certain key issues need to be addressed with determination.** While improvements are tangible and measurable, it is also clear that there is still a lot to be done. While certain issues may derive directly from cultural norms and sub-optimal law design, the institutional and governance aspects of tax administration in Italy, together with certain more targeted ones, affect the overall level of tax compliance and the efficiency of the tax administration function.

## **B. Targeted issues identified in light of international trends and practices**

84. **Each institution in charge manages tax compliance independently and there is no strategic process in place for jointly identifying key compliance risks and priorities, how these risks will be addressed, and how resources will be allocated across the board.** In short, there is no holistic, coherent, and co-ordinated strategy or plan for increasing compliance, while the fragmentation of work effort results in every single body setting its own priorities and trying to avoid overlaps. Individual institutions largely devise their own compliance programmes and implement them separately. Ultimately, what emerges is that the different institutions are focused largely on output measures rather than on implementing a country-wide strategy focused on improved outcomes.

### ***Entrenched areas of non-compliance***

85. **There is no comprehensive strategy to tackle the informal economy and other critical areas of non-compliance highlighted by the tax gap research (e.g. VAT non-compliance).** Concerning the informal sector, the case of Sose is rather emblematic: it produces benchmark analyses for different business sectors (sector studies) which are discussed and agreed with representatives of business associations and the agencies, as well as risk analyses based on them. While there is a working group comprised of officials from the Revenue Agency, the *Guardia di Finanza* and Sose, this is at the operational level and is not replicated at management level. This results in shortcomings such as the lack of access to certain data needed to carry out data analyses and the lack of feedback on the use of them for planning and executing audits and controls, which could also be used to improve them. As a consequence, focus on certain sectors may well be decided ad hoc at the operational level rather than as part of an overall compliance strategy aimed at increasing tax compliance in areas where evasion may be widespread.

86. **Many revenue bodies have a co-ordinated and multi-faceted strategy to deal with entrenched areas of non-compliance, giving the many complexities involved in changing taxpayers' behaviour.** There is a rich array of risk treatments to address informal activities, including legislative reforms, better taxpayer education, engagement of key stakeholders, wide use of the media, better targeted and/or new forms of compliance interventions, tougher penalties, and targeted prosecutions. The box below outlines the approaches and experiences of several revenue bodies in addressing non-compliance associated with participation in the underground economy, including the use of electronic payment systems and invoices to both conceal and detect unreported income.

**Box 3. The use of multi-faceted strategies to address non-compliance in the underground economy**

A number of revenue bodies report the existence of a comprehensive "overarching" set of strategies to address the many tax compliance issues presented by those who participate in underground economic activities. There are a number of 'core' elements common to all of the overarching strategies used by revenue bodies. These include:

- Management arrangements are in place across the revenue body for effective 'whole of revenue body' leadership, co-ordination and evaluation of the strategy, recognising the cross-programme nature of the activities being carried out to improve overall compliance;
- Comprehensive research efforts are undertaken, for example to assist risk detection and assessment, to test treatments, and to monitor external perceptions and attitudes;
- Enhanced risk detection processes are being used, including the use of third party information sources and sophisticated risk profiling techniques;
- A broad set of treatment strategies is deployed, typically including education, outreach and communication-based initiatives, specially legislated tools to assist in deterring and detecting non-compliance, traditional enforcement programmes and specialist programmes for serious tax evasion, including that from illegal activities;
- An important element of some treatments is the effort made to leverage improved compliance via intermediaries such as tax professionals, industry representatives, and primary business contractors;
- Effective relationships and mechanisms for exchange of information exist with relevant Government agencies, in particular for information gathering and programme co-ordination;
- Wide use is made of the media to communicate aspects of the strategy and the positive results being achieved.

A large range of risk detection and risk treatment approaches are used by revenue bodies in their responses. These include: 1) Comprehensive industry benchmarking, coupled with leveraging via tax professionals, media engagement and automated targeting of large numbers of taxpayers (Australia); 2) Industry-based withholding/third party reporting regimes (Ireland and Canada); 3) Increased controls over cash transactions (Netherlands, Spain, and Sweden); 4) Increased record-keeping controls for employees in high-risk industry sectors (e.g. restaurants and hairdressing) (Sweden's staff ledgers); 5) Initiatives aimed at reducing the use of cash transactions (Norway and Turkey); 6) The use of monetary incentives to encourage proper record-keeping and deter unrecorded cash payments (Canada's and Norway's home renovation tax credit, Korea's lottery and incentive for obtaining receipts); 7) Increased revenue body use of suspicious transactions reports collected by a separate government agency (Australia and France); and 8) Educating new/potential taxpayers (Austria's schools initiative, Canada's trade school initiative).

Source: Reducing opportunities for tax non-compliance in the underground economy, OECD Forum on Tax Administration (January 2012).

87. **In the Italian context, the tax gap research programme of the revenue administration could also be a useful tool to inform an overall strategy on the informal economy but at the moment it leaves out some important sources of government revenue.** The Revenue Agency has established a division of dedicated and experienced officials to carry out a broad programme of research, including an ongoing tax gap research programme. Research is made to estimate the tax gap, but only for the taxes administered by the Revenue Agency, once again pointing to the lack of co-ordination which characterises the current Italian setting. The tax gap research can be traced back to around year 2000 and each year an estimate is made of the tax gap for each tax, using a top-down methodology developed in-house for direct taxes, and a more conventional form of top-down methodology for VAT.<sup>15</sup> As a result of this work, the Revenue Agency has an extended time series of tax gap estimates for the PIT, CIT, the regional tax on productive activities, and the VAT. While the methodologies used by the Revenue Agency to provide tax gap estimates were not examined in detail, they could certainly be used to inform, together with the sector studies, an overall strategy on the informal economy, including the identification of appropriate tax policy changes, processes redesign and resourcing trade-offs. Further, there are a number of actions that could be taken, such as extending the scope of the tax gap research to both SSC and excises, which together account for around 40% of Italy's tax base.<sup>16</sup> Finally, the methodology used by the Italian Revenue Agency could be benchmarked against those used by other revenue bodies to identify opportunities for collective enhancement. There is a growing body of tax gap research being undertaken by revenue bodies and additional details are outlined in Annex B.

88. **Given the estimated size of the gap, the VAT is clearly another area of entrenched non-compliance.** There may be many reasons for the estimated VAT gap in Italy, and it is not the purpose of this review to analyse those in detail. But it is worth underlying here that Italy is the only country in the entire European Union in which taxpayers are not required to submit the monthly, nor the quarterly VAT declaration, while at the same time its annual return is often pointed at as an example of complexity and time consuming exercise. In other words, while VAT payments are made monthly, taxable activity is disclosed to tax authorities only annually: taxpayers first submit an Annual VAT communication, which details goods or services supplied, by the end of February in the year following relevant transactions. An Annual VAT return must then be submitted by the end of September in the year following relevant transactions. Overall, to require taxpayers to submit information on VAT annually, several months after the end of a taxable year, generates substantial time lags which may favour VAT fraud and non-compliance and affects the effectiveness of any compliance activity in this space.

89. **Electronic tools may also offer opportunities to leverage increased VAT compliance.** Italy requires mandatory electronic invoicing (e-invoicing) for supplies rendered to Public Administrations entities, with an Electronic Exchange System to centrally manage the e-invoicing process, The e-invoicing mechanism prevents Public Administration entities from accepting and paying paper invoices thus seeking

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15. Italy's top down tax gap methodology for direct taxes relies largely on data produced by its national statistical agency ISTAT that is derived from its regional tax on productive activities. Revenue bodies in other advanced economies such as Australia, Denmark, United Kingdom, and the United States rely on "bottom up" methodologies involving a mix of random audits, operational results, and other data to derive their direct tax gap estimates, as in these countries GDP and household income statistical estimates are not entirely independent of tax return data and are therefore regarded as unsuitable for tax gap estimation purposes concerning direct taxes.

16. SSC are levied on taxpayers' incomes and are analogous to the PIT which is already the subject of such research. Gap research findings concerning the SSC would serve a multiplicity of benefits, including helping to establish the effectiveness of existing SSC compliance improvement strategies as well as the overall institutional setup for collecting and enforcing their payment. Excises are levied on the production of specific goods (e.g. alcohol and tobacco) and there are established methodologies for deriving an excise tax gap for each specific good.

to ensure the integrity of the dealings with Public Administration. Recent legislation extended the use of e-invoices to B2B transactions, but only on a voluntary basis for the time being.<sup>17</sup>

### *Overlaps in audits and controls*

90. **The Revenue Agency's verification work entails a large programme of desk audits and automated assessments, while field audits are mostly carried out by the *Guardia di Finanza*.** Desk audits and automated assessments are routinely carried out by the revenue agency based on the information and data available on the *Anagrafe Tributaria*, as elaborated via a number of different applications. On the other hand, field audits done by the Revenue Agency represent about 20% of total field audits, with the large majority being carried by the *Guardia di Finanza* (about 80%) and a small part by the Customs Agency. It is worth underlining here that the *Guardia di Finanza* does not issue assessments to taxpayers. Once an investigation has been conducted by the *Guardia di Finanza*, it issues an audit report which is then transmitted to the relevant agency. It is then the agencies which prepare and notify assessments to taxpayers. In the process of issuing assessments, the agencies may review the *Guardia di Finanza's* findings and adjust them as they consider necessary. Data pointing to the audit and investigation workloads of the different agencies is set out in Table 7.

Table 7. **Verification activities of Revenue Agencies 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.

91. **A number of arrangements are reported as in place to coordinate the activities of the different bodies involved, and in particular, of the agencies with the *Guardia di Finanza*.** Audit co-ordination is done through the electronic procedure of the *Modello Unificato di Verifica* (MUV), according to which the *Guardia di Finanza* and the Revenue Agency immediately notify the starting, suspension, resumption and conclusion of controls, thus avoiding possible overlaps or reiterations of actions. The system is the basis for recording all audits performed both in the income tax and VAT area by the *Guardia di Finanza* and the Revenue Agency. In addition to exchanging information and using common databases, co-ordination generally takes place at three different levels:

17. As of July 2016, the Revenue Agency will provide a free service for the generation, transmission and storage of electronic invoices. Similarly, as of January 2017, an Interchange System will be established to enable taxpayers to transmit and receive electronically all invoices of transactions between taxpayers residing in Italy. It will then be possible for taxable persons to simply opt for the automatic transmission of the information contained on the Interchange System to the Revenue Agency. Further rules and forms related to this option are soon expected and will be provided by the Revenue Agency.

- At the national level: for the most serious cases of fraud or evasion a specific co-operation framework among the Revenue Agency, the Customs Agency and the *Guardia di Finanza* (known as the "control room") is provided by Law to prevent and fight against national and intra-community VAT fraud. For cases of particular complexity, difficult interpretation or concerning potential avoidance cases that involve foreign companies or more entities based in different Italian regions and, in any case, if there are exceptional amounts of audit results identified by the *Guardia di Finanza*, co-ordination takes place at the level of the Revenue Agency Central Assessment Directorate and the General Command of the *Guardia di Finanza*;
- At the regional level: The co-ordination activity at the regional level refers to taxpayers with turnover or revenues of at least EUR 100 million;
- At the provincial level: Co-ordination activity for small and medium sized entities is carried out by the Provincial Directors of the Revenue Agency and Provincial Commanders of the *Guardia di Finanza*, which share information about relevant taxpayers.

92. **What emerges rather clearly is that overlaps in compliance management are widespread as a consequence of the existing setting.** There is duplication in terms of risk-assessment, which is only in a small part mitigated by the sharing of information among different institutions. The overlaps in functions, particularly between the agencies and the *Guardia di Finanza*, also generate potential for diverging opinions and differences in approaches regarding the best way to tackle certain situations. These issues have been underlined by almost all of the stakeholders interviewed, with some also noting that even if in theory it is the Revenue Agency which ultimately issues the assessment, in fact the way the current system operates means that audit reports drafted by the *Guardia di Finanza* are very rarely adjusted or revised by the Revenue Agency. In this context, the positive track record of increased revenue by assessment is perceived by many stakeholders as a one-way street in which taxpayers have no choice other than entering into settlements, chiefly due to the lack of certainty and slowness of civil tax courts, the potential application of criminal sanctions and the related reputational damage. While this is anecdotal, data and analysis about the number and value of settlements, as well as the number of criminal cases which end with sanctions could provide useful indications.

93. **This may also be one of the reasons why Italy faces important delays in terms of dispute resolution under bilateral tax treaties.**<sup>18</sup> According to the OECD annual statistics on the Mutual Agreement Procedure (MAP), Italy's MAP caseload is substantial.<sup>19</sup> When compared to other OECD countries, Italy's number of pending MAP cases is high. More importantly, Italy's number of completed MAP cases per year is dramatically low. For instance, while Italy has completed approximately 3% of its MAP cases over 2008-2014, Spain and France have respectively completed approximately 23% and 21% of their MAPs over the same period. As also underlined in the context of Action 14 of the BEPS Project, proper dispute resolution mechanism on cross-border disputes is a key element for building trust. Left unresolved, these disputes can result in unintended double taxation, uncertainties, and a corresponding impediment to foreign investments in Italy.

### *Co-operative compliance programme for large taxpayers*

94. **The strategy underlying the Revenue Agency's compliance work for large taxpayers is gradually shifting towards co-operative compliance.** The new approach seeks to shift the Revenue

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18. See [www.oecd.org/ctp/dispute/MAP%20PROGRAM%20STATISTICS%20FOR%202014%20ITALY.pdf](http://www.oecd.org/ctp/dispute/MAP%20PROGRAM%20STATISTICS%20FOR%202014%20ITALY.pdf) for the latest statistics regarding MAPs in Italy.

19. The table can be found online at: [www.oecd.org/ctp/dispute/MAP%20PROGRAM%20STATISTICS%20FOR%202014%20ITALY.pdf](http://www.oecd.org/ctp/dispute/MAP%20PROGRAM%20STATISTICS%20FOR%202014%20ITALY.pdf).



Agency's compliance work for its largest taxpayers from traditional methods based on controls, audits and investigations to an approach based on building trust, transparency and understanding with taxpayers. A co-operative compliance regime has been recently legislated and is in the process of being implemented. At inception, it will be applicable to taxpayers with a total turnover or operating revenue of not less than EUR 10 billion as well as those who had participated in a Pilot Project launched in 2013 and are equipped with a tax control framework and a total turnover or operating revenues of not less than one billion euros. The introduction of the co-operative compliance programme has been accompanied, as already noted, by a reform of the rulings system, modifications to the criminal sanctions for tax offences, as well as a clarification of the abuse of law concept deriving from case law.

95. **The programme of co-operative compliance needs to be accompanied by proper steer and clarity regarding competences.** Co-operative compliance programmes are an effective way to generate behavioural changes at the level of both taxpayers and tax authorities, and hence establish a renewed relationship based on mutual trust and transparency. The launch of such a programme in Italy signals the intent to shift from case-by-case enforcement to a new approach that seeks to achieve improved voluntary compliance. To achieve that, the co-operative compliance programme will need effective leadership, a manageable scope, and close nurturing for some years. There also needs to be a systematic assessment of the resources that can be devoted to this initiative over the short and medium term, taking account of the skills and experience required (an issue which is particularly relevant given the critical situation in relation to HRM in the Revenue Agency). Most importantly, the responsibilities within the Revenue Agency, and any role of the *Guardia di Finanza* in this programme, need to be clearly elaborated in order to minimise the risks of disruption and inconsistent approaches.

96. The implementation of co-operative compliance programmes comes with numerous challenges for both revenue bodies and businesses. Important findings from revenue body experiences are outlined in Box 4.

**Box 4. Successfully establishing a co-operative compliance programme**

1. *Staff skills:* A co-operative compliance model is a relationship-driven approach which places high demands on staff working with large businesses. They need to have high levels of customer understanding and technical expertise. Transitioning from an adversarial environment into a co-operative environment can present challenges that require cultural change by both parties. Communication skills that support open dialogue and the ability to have difficult conversations are vital in this respect.
2. *Adopt a phased approach:* Revenue bodies with extensive experience on co-operative compliance recommend a step by step approach, starting with less complex businesses and industries so as to work out any procedural questions first. Ideally any pilot programme commences with entities that have a relatively simple risk profile, so that the pilot can successfully work through and resolve the procedural issues that arise. Such an approach makes it easier to tackle cases that are substantively more complex as the programme unfolds.
3. *Take the first step in building trust:* The benefits of the programme can only be reaped if both the taxpayers and the revenue body trust each other. However, revenue bodies should consider taking the first step, because 'trust breeds trust'. It requires a level of trust on both sides, including a willingness to properly deal with legacy matters to make this approach work.

*Manage perceptions:* Managing perceptions is one of the more significant challenges that have to be addressed. The current economic and social climate has also given rise to much greater public and media scrutiny and mistrust of large businesses and that has extended to the way they manage their tax obligations. In dealing with this, countries should provide clarity around their approach and the objectives, both internally and externally.

4. *Manage expectations:* Managing expectations can also be difficult and good communication is vital here as well. It is important to be very clear about the terms of engagement, time requirements, the

roles and responsibilities when entering into such an approach.

5. *Involve tax intermediaries:* Tax intermediaries play an important role in businesses tax affairs and they are consequently another group that it is important to involve at an early stage. If they have been accustomed to an adversarial relationship, it may take some time to reverse that.

Source: *Co-operative Compliance: A Framework*, OECD (2013).

97. **The dividing line between criminal and administrative sanctions is now clearer but uncertainties remain.** This is an issue which is relevant across the board and particularly so in the context of the recently launched co-operative compliance programme. It affects the certainty and predictability that investors need and at the same time compounds cases of serious fraud with cases of avoidance. A revision of the criminal and administrative penalties has been made recently and thus will increase certainty in this sphere. There still appears to be some uncertainty, however, regarding the consequences of certain behaviours. While it is now clear that neither transfer pricing violations nor abusive behaviour should trigger a criminal liability, this is still not so for cases of assessments claiming the existence of a permanent establishment or tax residence in Italy (though it is now possible to request advanced rulings on these issues).

### *Strategies to fully benefit from changes agreed at the international level*

98. **There have been two global initiatives over the past few years that have a direct impact on the way tax administrations work: the BEPS Project and the CRS for automatic exchanges of information.** The results of these international initiatives impact all national revenue bodies and will need to be carefully integrated into their respective risk management approaches and compliance programmes.

#### Box 5. The Base Erosion and Profit Shifting Project

**The implementation of the BEPS Project raises challenges and opportunities for revenue bodies.** There are a number of BEPS outputs which have a direct impact on the way tax administrations work, how their risk-management strategies are set up and how ultimately they ensure compliance with tax laws. Revenue bodies have therefore an interest in ensuring that these outputs fit well with their overall compliance risk strategy in order to fully benefit from them. **The BEPS outputs that at this stage appear to have a more direct impact on tax administrations are:**

- **Country-by-country reporting and transfer pricing documentation:** Revenue bodies will be able to obtain information on MNEs' global business operations and transfer pricing policies, more detailed information regarding relevant related party transactions and the amounts involved, and a clear overview of where profits, sales, employees and assets are located, and where taxes are paid and accrued, on a country-by-country basis.
- **Harmful tax practices:** All OECD and G20 countries have endorsed an approach which provides for a link between the location of the activities generating IP income eligible to a preferential tax treatment and the jurisdiction offering this preferential regime. Revenue bodies will be under pressure for determining the amount of income entitled to benefit from these preferential regimes and this will likely require additional and skilled resources. Further, a framework for compulsory and spontaneous exchange of information on tax rulings related to preferential regimes has been put in place. This means that revenue bodies will also obtain information about rulings provided in other countries that may have an impact on their taxable base, thus providing additional information for their risk-management strategies.
- **Dispute resolution:** Measures have been identified to ensure that disputes among governments on the interpretation of treaties are prevented and solved, minimising the risks of uncertainty and unintended double taxation. Countries have agreed to a minimum standard with respect to the resolution of treaty-related disputes and agreed to ensure its effective implementation through the

establishment of a robust peer-based monitoring mechanism. Further, a growing number of countries which includes Italy are willing to use arbitration to ensure that disputes and any resulting double taxation are resolved within a 2-year timeframe. The renewed focus on dispute resolution and the introduction of arbitration will clearly have an impact on tax administrations, both in terms of ensuring that disputes are solved and, more importantly, that disputes are avoided from the beginning to ensuring that assessment acts are well founded and in line with treaty obligations.

#### Box 6. The Common Reporting Standard

The CRS developed by the OECD in response to a G20 request **requires jurisdictions to obtain information from their financial institutions and automatically exchange that information** with other jurisdictions on an annual basis. In broad terms, financial institutions report information to the tax administration in the jurisdiction in which they are located. The information consists of details of financial assets they hold on behalf of taxpayers from jurisdictions with which their tax administration exchanges information. The tax administrations then exchange that information.

**In compliance with their commitments, governments and tax administrations will need to take several steps to ensure they duly implement the standard.** This process requires: implementing rules on the collection and reporting of information by financial institutions; establishing IT and administrative capabilities in order to receive and exchange the information; introducing a legal instrument providing for information exchange between the jurisdictions; and measures to ensure the highest standards of confidentiality and data safeguards. **The Standard requires technical and administrative capacity to properly manage the information and it is important that adequate resources are put in place by the time of exchange.**

99. **There is therefore a need to develop a joint strategy and new working methods to fully benefit from changes agreed at the international level.** Major reforms at the international level stemming from the CRS and from the BEPS Project will trigger changes to the way revenue bodies work and interact with their counterparts. Additional information will be automatically available regarding for example bank accounts held by Italian residents abroad, thus providing additional tools to tackle offshore non-compliance. Indicia of economic activity of large MNEs on a country-by-country basis and rulings on preferential regimes will also be exchanged automatically. All these changes will likely be accompanied by a reorganisation of the relevant functions and working methods of revenue agencies, particularly as regards the management of cross-border tax issues.

100. **Plans to set up a dedicated office for HNWI have been recently announced and should be implemented quickly.** HNWI pose a number of challenges for revenue bodies due to the complexity of their tax and financial affairs and the large numbers of entities they are likely to control, the opportunity to undertake aggressive tax planning, and the amounts of tax revenue at stake, with its impact on the overall integrity of the tax system. To improve compliance with respect to this segment of taxpayers, experience suggests that it is useful to more effectively focus resources through the creation of a dedicated HNWI unit. Such a unit typically takes responsibility for those taxes that have a direct impact on the HNWI's personal tax liabilities and allows for the concentration of skills, targeted training, the retention of knowledge and thus an improvement over time of the understanding of the HNWI population. In some countries the coverage extends further to dealing with their associated investment and business entities such as trusts, controlled investment companies and other operating entities, and the unit may also take responsibility for family members to enable the administration to take a wider view of the HNWI.

### C. Recommendations

101. In addition to the recommendations outlined in Chapter II regarding the institutional and governance aspects of tax administration, and in order to improve the overall management of tax compliance:

- **Devise a multi-faceted country-wide strategy for improving compliance with tax laws, drawing on international practices and on tools and resources already available. In this context, priority could be given to:**
  - addressing key aspects of VAT non-compliance, coordinating the agencies, the *Guardia di Finanza*, and Equitalia. Particular and urgent attention should be given to revamping VAT return filing obligations (e.g. by requiring the monthly and quarterly submission of VAT return) with thresholds to avoid imposing unnecessary compliance burdens on small traders, and simplify the annual VAT return, as well as the use of e-invoices;
  - exploiting the full potential of sector studies and of the tax gap research. More specifically, the focus should be on the full and quick implementation of the recent law changes related to the use and scope of the tax gap research programme which could be expanded to also include SSC and excises. Further, steps could be taken to benchmark the tax gap estimation methodologies with those being deployed by other revenue bodies and the tax gap research could be utilised to measure progress over time and devise adjustments to the overall strategy;
  - quickly implementing a centralised high net worth individual (HNWI) unit and fully benefit *inter alia* of information stemming from the global commitment on the CRS;
  - ensuring access to, and interoperability among, different IT systems, and developing strategies and tools to use and provide relevant data and information on cross-border activities and transactions in line with the reforms derived from the BEPS Project.
- **Continue the recent reform efforts by providing additional certainty and predictability to investors and by nurturing the new co-operative compliance programme. In this context, priority could be given to:**
  - clearly elaborating the responsibilities within the Revenue Agency and any role of the *Guardia di Finanza* in this programme in order to minimise the risks of disruption and inconsistent approaches;
  - taking steps to ensure that the programme's scope is manageable for the short and medium term, based on a systematic assessment of the skills and experience required and available resources;
  - further clarifying the dividing line between civil and criminal tax issues, in particular in ensuring that, in relation to issues such as permanent establishment and tax residence, criminal consequences arise only in case of tax fraud;
  - improving Italy's ability to solve mutual agreement procedures in a timely manner and measuring progress over time.



## Chapter 6

### Enforced tax collection: Targeted issues identified

*Some targeted issues in relation to the enforced tax collection in Italy emerged in the context of the review of the institutional and governance aspects of the Italian tax administration. These issues, and related recommendations based on international trends and practices, are outlined below.*

#### A. Italy's context and approach to tax debt collection

102. **The collection of tax debts is an important element in the tax administration setups of all countries.** While most countries make substantial use of withholding regimes to facilitate the payment of taxes for many taxpayers and minimise the incidence of debts that might otherwise arise, the reality for most is that over the course of any fiscal year, fairly large numbers of taxpayers will face payment difficulties and/or refuse to meet their tax payment obligations. These acts of non-compliance delay the collection of tax and, as a result, require the revenue body to undertake follow-up actions. As a consequence, revenue bodies require effective processes for ensuring that tax debts are collected as soon as practicable and at the least possible cost.

103. As noted earlier, **a separate entity (Equitalia) has been established to carry out enforced debt collection work for most of Italy's territory.** Equitalia is owned by the Revenue Agency (51%) and the Social Security Institute (49%).<sup>20</sup> Its mandate extends beyond collecting debts on behalf of these agencies and includes debts of other creditors, including Customs Agency debts, and debts of the regions, provinces and municipalities, as well as local water consortia and professional orders. Equitalia's activities are regulated by ordinary and special laws which provide for the mandatory execution on all subjects (businesses and individuals) for the collection of tax arrears.

104. **For operational purposes, Equitalia conducts its activities through three "regional" subsidiary companies:** Equitalia North, Equitalia Central and Equitalia South, but does not include Sicily where a separate body (*Riscossione Sicilia Spa*) is responsible for enforced debt collection. Currently, each regional subsidiary company has the same organisational structure and recruits its own staff, although a number of reforms have recently been foreshadowed. Across mainland Italy, Equitalia employs just under 8 000 staff who are located in a variety of office types (e.g. regional and local offices, call centres, and payment counters).

105. **Equitalia and the Revenue Agency conclude three-year Conventions which outline the objectives regarding the collection of tax debts.** According to the latest Convention, the strategic objectives for the period 2013-2015 were focused on four areas: (i) ensuring effective tax collection by adopting an approach focused on the specific features of taxpayers; (ii) improving relationships with taxpayers by increasing and simplifying access to services and increasing transparency and mutual trust; (iii) increasing efficiency and reducing costs; and (iv) improving relationships with creditors. The

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20. Until 2006, tax debt collection was outsourced to private debt collectors (usually banks). The budget law for 2006 reformed the system and created "Riscossione SpA" to perform the function of tax debt collection. In 2007, Riscossione SpA was rebranded Equitalia SpA and branches of activities of private debt collection were incorporated into this private law company.

Convention also indicates the amount of compensation for the collection activities undertaken by Equitalia and the refund of its fixed operating costs as regulated by the Law. Equitalia is required to provide the Revenue Agency with comprehensive data and information related to its overall collection activity on a yearly basis. In addition, it is required to provide a summary report each month to the Revenue Agency related to its collection performance.

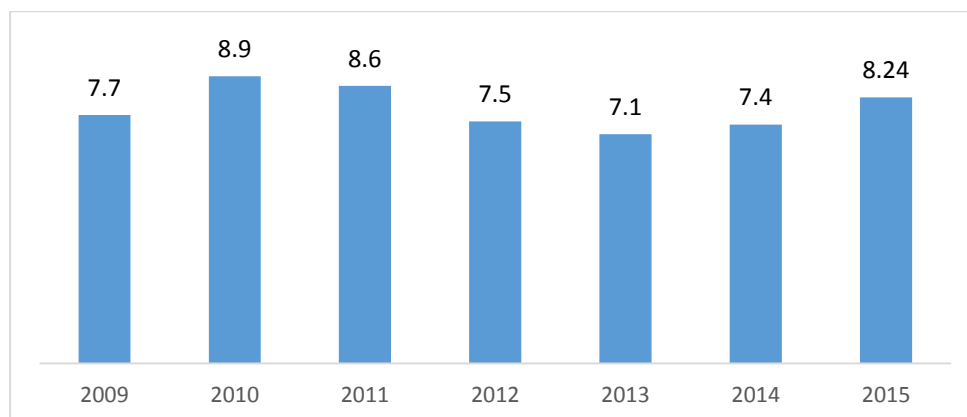
106. **The agencies and Equitalia also exchange information on tax debts and taxpayers' assets in order to ensure the completion of their respective activities.** Equitalia's list of execution is made available to the agencies enabling them to add debtors, verify their claims, and to cancel or reduce amounts reported as due for payment. Information with respect to assets held by taxpayers is made available to Equitalia through the *Anagrafe Tributaria*. Access to this register provides Equitalia with information on debtors' real estate, employment relationships, leases, trade relations, vehicles, watercrafts and aircrafts. Information on the existence of debtors' bank accounts is also made available to Equitalia. However, this information is limited only to knowledge of the existence of accounts and does not include information concerning account balances or individual transactions.

107. **Equitalia performs a range of actions including the provision of assistance to taxpayers, accepting payments, analysis, and coercive enforcement of tax debts.** The process commences when it receives lists of debtors ("ruoli") from creditor agencies. Concerning tax debts, the amounts Equitalia is required to collect typically have three components: the tax debt itself, any amounts related to sanctions, and the amount related to interest on overdue payments. Furthermore, Equitalia collects an additional amount for its expenses. When Equitalia is not able to collect a debt on its list of execution, it must prove to its creditor that it has done everything it could to duly collect the debt. If that is not the case, Equitalia has to (partially) pay the debt to the creditor itself. On the other hand, if it is the case, Equitalia obtains a refund of the expenses incurred to try to collect the debt.

108. **Once a debt is deemed "uncollectable", Equitalia is obligated to inform the relevant creditor agency; however, such reporting has not been conducted in Italy in the last 15 years.** As a consequence, the data shows a total value of reported tax debt exceeding EUR 756 billion in September 2015, while reality is much different. It is reported that these tax debts have been written-off and do not appear in the Italian State budget for accounting purposes but have not been written-off for legal purposes. This is expected to change shortly as new legislation has been introduced that establishes a timeline according to which communications on "uncollectable" debts must be sent to the relevant creditors regarding tax debts lists within three years from the transfer of the list of execution to Equitalia. In addition, for tax debts related to the 2000-2014 period, this will be done on a yearly basis, starting with the most recent relevant fiscal year (i.e. 2014).

109. As shown in Figure 6, **Equitalia's annual collections of tax debts in recent years have fallen well below peak collections experienced in 2010 and 2011, while the value of overall debt has grown considerably.**

Figure 6. Debts collected each year (EUR billion)



Source: Equitalia.

110. As a consequence of law changes, Equitalia has had to substantially increase the use of instalment plans in recent years. In 2010, around 36% of Equitalia's collections were received as a result of instalment plans and this proportion has grown in subsequent years, reaching around 49.3% in September 2015.

Table 8. Use of instalment plans to collect tax debts (2010-15)

Measures	2010	2011	2012	2013	2014	2015 (until September)
<b>Amounts collected</b>						
All tax debt collected (EUR million)	8 876	8 622	7 530	7 133	7 411	6 023.9
Tax debt collected via instalment plans	3 212	3 409	3 066	3 334	3 405	2 972.5
% collected via instalment plans	36.2	39.5	40.7	46.7	45.9	49.3
<b>Number of plans</b>						
Instalment plans requested (number)	571 694	553 933	621 484	732 326	979 082	n./a.
Instalment plan requests denied	27 094	23 307	17 003	14 806	15 456	n./a.
% of total requested that are denied	4.7	4.2	2.7	2.0	1.6	n./a.

Source: Equitalia.

## B. Targeted issues identified in light of international trends and practices

111. **The amount of outstanding tax debt is exceptionally high in Italy.** While the setting up of Equitalia has, particularly in the past, increased the effectiveness of tax debt collection, there are large margins for improving the existing situation. Total debts collected annually from Equitalia's activities represent a minute fraction of the total debt inventory and the reported inventory is growing much more quickly than Equitalia's debt collection. **This is possibly due to several reasons but chiefly the fact that uncollectable debts are not written-off systematically.** Total reported agencies' tax debt as of September 2015 exceeded EUR 756 billion (total value of tax debts given to Equitalia minus the amounts collected). At the same time, around 50% of the total debt managed by Equitalia (i.e. the debts of all creditors) is attributable to just under 300 000 debtors, while around 30% is attributable to bankrupt debtors and debtors that are deceased or out of business. Faced with over 20 million debtors in total, Equitalia has an enormous case load to manage with obvious challenges for the efficient use of resources.



Table 9. Debt inventory metrics (at September 2015)

Status of debtor	Number of debtors	Recorded value of debt (EUR billion)	Average recorded debt (EUR)
Bankrupts	166 000	135	813 253
Debtors deceased or out of business	2 780 000	76	27 338
Debtors with high tax arrears	250 000	349	1 396 000
Other debtors	17 220 000	154	89 43
<b>Totals</b>	<b>20 191 000</b>	<b>714</b>	<b>35 362</b>

Source: Equitalia

112. **Tax payment compliance varies across common groupings of countries but Italy's numbers make it an outlier.** Factors that affect payment compliance include differences in: (i) cultural norms and attitudes to Government; (ii) general economic conditions; (iii) the design of the legislative framework for tax collection; and (iv) the overall management of the tax system, including the tax debt collection function. Drawing on data collected over a period exceeding ten years from revenue bodies in all OECD, European Union, and G20 economies, it can generally be shown that the best performing economies in relation to minimising the incidence of unpaid taxes (excluding debts that are disputed) operate with a debt inventory whose value falls around 5% of annual net revenue collected (for all taxes). For instance, in 2013, the total year-end tax debt stock, excluding disputed debt, on the net revenue collections equals to 5,7% in Australia, 7,7% in France, 2,6% in the United Kingdom, 8,7% in the United States and 8,2% in New-Zealand. On the other hand, total year-end tax debt stock, excluding disputed debt, on the net revenue collections in Italy equals to 190.8%, again, likely due in great part to the fact that tax debts are not systematically written-off.

113. **In fact, procedural issues may be impacting the integrity of tax debt inventory.** Based on information provided by Equitalia, it appears that about EUR 180 million of the inventory of the agencies' tax debts existing as of September 2015 are for tax debts not due for payment. This is equivalent to about 22% of the total stock of tax debts given to Equitalia by the Agencies, and goes down to about 10% when looking at the period 2010-2014. Undue tax debts arise for example in cases where a court decides in favour of the taxpayer, the tax debt was subsequently paid by the taxpayer, or errors were found in the assessment process that brought to the issuance of the *ruolo*. Needless to say, requesting the payment of undue debts dramatically affects the trust of citizens in the fairness and reliability of the entire tax system. Those sorts of issues may always arise but the observed level in Italy is high and points at procedural issues and system flaws.

114. **Equitalia's powers to enforce the collection of tax debts have progressively been limited by the legislature.** Several law provisions have been introduced to place heavy limits on Equitalia's powers. These have been political choices, taken at a time of liquidity crisis in the economy. At the moment these limitations greatly hamper the ability to enforce the collection of the taxes due. Thus, while on the one hand they may have been introduced to support debtors in financial difficulties, on the other hand they have favoured a culture of "evasion from collection" which also helps explain the high stock of outstanding debts. In other words, some taxpayer may well report and declare appropriately but then decide not to pay and put in place strategies to hide wealth. Some of the key limitations recently imposed on Equitalia include:

- Debts may be paid by instalments, up to a maximum of 120 instalments (concerning unpaid instalments, the limit on the maximum number of instalments that can be missed before withdrawal of the benefits of the instalment programme, has been initially raised from two to eight and now to five);

- The period within which third parties subject to payment order have to pay the sums directly to the State debt collection agency have been extended from 15 to 60 days;
- Equitalia is obliged to give prior notice to taxpayer before any action can be taken on vehicles registered for circulation;
- Procedures for seizing and auctioning immovable property of tax debtors can be initiated only for tax debts above EUR 120 000 and on each asset whose value is above EUR 120 000 (previously EUR 20 000) and never in the case of immovable property where the debtor resides;
- The share of any debtors' salaries and pensions that can be subject to garnishee action has been reduced to up to one/tenth of salary and pension income below EUR 2 500, one/seventh between EUR 2 500 and 5 000, and one/fifth for sums exceeding EUR 5 000.

115. **Tax debt collection strategies and priority setting are neither sufficiently risk-based nor targeted.** Possible strategies to be adopted for effectively and efficiently collecting tax debts appear to be limited by the Law. In fact, the Law currently prevents Equitalia from prioritising the collection of individual tax debts and it is instead obliged to process all of them, regardless of the chances of success and the amounts involved. This makes the current approach for collecting tax debts process-oriented rather than result-oriented, with clear consequences on its overall performance and also the way it is perceived by ordinary citizens.

116. **There is a considerable amount of practical guidance from international bodies on best practices in tax debt collection and on the tax collection framework at large.** Generally speaking, these references display a number of common themes, drawing on the observations of the approaches and experiences of well-performing revenue bodies that are summarised in Box 7.<sup>21</sup>

**Box 7. Important features of tax system design and administration for effective tax debt collection**

- **A well designed legislative framework for tax collection:** The legislative regime for the collection of income taxes should provide for extensive use of tax withholding at source for PITs and appropriately designed advance payment regimes, the latter for the collection of CIT and the PIT of self-employed taxpayers.
- **Wide powers of enforcement:** Revenue bodies require a broad set of powers to enforce the payment of tax debts. The more commonly observed powers include: 1) to enter into payment arrangements; 2) to garnishee debtors' assets held by third parties (e.g. wages and bank deposits); 3) to place a lien on assets; 4) to require a tax clearance for the granting of government contracts; 5) to seize taxpayers' assets; and 6) impose liability for certain tax debts on company directors.
- **Appropriate sanctions:** The legislative regime for the collection of all taxes should provide for the imposition of interest on overdue debts, set at a rate that is sufficient to discourage payment non-compliance.
- **Adequate resources to handle workloads:** Reflecting the mix of taxes to be collected, the numbers of taxpayers to be administered, and the many factors that can influence tax payment compliance, considerable resources are devoted to tax debt collection, on average in the region of 10-12% of total resources in OECD countries.

21. These include EC's Fiscal Blueprints, the IMF's Tax Administration Diagnostic Assessment Tool (TADAT) and a number of OECD reports prepared by the Forum on Tax Administration, the most recent being the findings of a study of debt collection practices conducted among advanced economies and published in late 2014.

- **The organisation of the debt collection function:** Debt collection is a specialist function and is usually organised as such. For example, while it makes sense to group some specific types of taxpayers together, for example large businesses, for the very large number of debtors in the SMEs segment, it is more important to use analytics to choose the correct intervention. The debt collection function can then be organised around key disciplines, such as call centre management, liquidation, and face-to-face interventions.
- **Effective performance measurement:** Choosing the correct key performance indicators is essential if the day-to-day operations of the collection function are to remain correctly aligned with the desired outcomes. Debtor behaviour is dynamic and so a commitment to continuous improvement will ensure that the organisation is responsive to those changes.
- **Tailored interventions based on a risk based approach supported by use of advanced analytics.** Historically, many revenue bodies focused on managing debts, rather than debtors. Debts would all be treated in the same manner, which meant, for example, that reminders were sent to every late payer, even when experience shows that many debtors just ignore these letters. The increasing use of advanced analytics makes it possible to use all the information revenue bodies have about taxpayers to accurately target debtors “with the right intervention at the right time”. This eliminates the cost of ineffective interventions and improves revenue flow. Advanced analytic techniques also make it possible to experiment with different interventions and to quickly assess their effectiveness.
- **Extensive use of payment prompts and electronic payment methods:** Modern technology provides revenue bodies with many new tools to communicate with taxpayers (e.g. online personal taxpayer accounts, SMS text messaging, and email) and to facilitate the payment of taxes (e.g. use of electronic payment methods such as direct crediting and direct debiting). Revenue bodies should have effective strategies in place to optimise the use of such tools to remind taxpayers of prospective and overdue tax payments and to enable their payment.
- **The extensive use of call centres.** Outbound call centres are widely used in private sector debt collection operations because they make it possible to pursue a large number of debts very efficiently. Revenue bodies are also making greater use of outbound call centres for enforcement-related work including follow up of tax debts.
- **Debtors who have gone abroad.** As people and businesses move around the world more frequently the number of tax debtors who have left the country in which the debt was incurred is growing. One of the keys to addressing these challenges is international assistance and co-operation, particularly in the form of Assistance in Collection Articles in agreements between countries. The report describes the challenges facing revenue bodies and the tools and techniques that are available to tackle these challenges.

Source: OECD Compilation.

## C. Recommendations

117. In addition to the recommendations outlined in Chapter II regarding the institutional and governance aspects of tax administration, and in order to improve tax debt collection performance:

- **Increase the accuracy and integrity of the tax debt inventory, with consequences for effective case actioning and operational efficiency. In this context, priority could be given to:**
  - ensuring there is an effective tax debt write-off policy in place and that it is being applied as required;
  - taking 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. With a

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total of more than 20% of the stock of tax debts not due for payment, this should become a priority of all the institutions involved;

- providing the tax debt collection function with appropriate powers and reconsider in particular the rules regarding instalment plans;
- granting the debt collection function the freedom to prioritise in its collection strategy.



## *Annex A*

### **List of officials and stakeholders met**

#### *Representatives of institutions involved in tax administration*

##### *Ministry of Economy and Finance*

- Paolo Ciocca, former Director General, Department of Finance.
- Antonio De Ioanna, Head, Independent Evaluation Office.
- Giuseppe Farina, Former senior official, Minister of Economy and Finance.
- Franco Gallo, Former Minister, Ministry of Economy and Finance (May 1993 - May 1994).
- Marco Iuvinale, Head International Relations Office, Department of Finance.
- Fabrizia Lapecorella, Director General, Department of Finance
- Gabriella Palocci, Director, Office for the relationship with the Tax Agencies.
- Giulio Tremonti, Former Minister, Ministry of Economy and Finance (May 1994 - January 1995; June 2001 - July 2004; September 2005 - May 2006; May 2008 - November 2011).
- Vincenzo Visco, Former Minister, Ministry of Economy and Finance (April 1993 - May 1993); (May 1996- October 1998); (October 1998 - December 1999); (December 1999 - April 2000).
- Italo Volpe, Former senior official, Minister of Economy and Finance.

##### *Agenzia delle Entrate*

- Margherita Maira Calabró, Head, Directorate for Human Resources.
- Antonio Campanello, Head, Training Development Office.
- Cinzia Castelli, Head, Exchange of Experiences & Benchmarking in Human Resources.
- Annibale Doderò, Head, Directorate for Tax Regulations.
- Rossella Orlandi, Head.
- Girolamo Pastorello, Former Head, Directorate for Human Resources.
- Stefano Pisani, Responsible Economic and Statistic Analysis.
- Aldo Polito, Head, Directorate for Tax Assessment.
- Giuseppe Telesca, Chief Executive Officer.

##### *Agenzia delle Dogane e dei Monopoli*

- Teresa Alvaro, Chief Executive Officer.
- Alessandro Aronica, Head, Directorate of Monopolies.
- Rocco Burdo, Head of Intelligence.
- Pasquale Di Maio, Head, Directorate of Customs.
- Maria Grazia Artibami, Head, Directorate Planning and Strategy.
- Paolo Lo Surdo, Head, Directorate for Administration and Finance.

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- Giuseppe Peleggi, Head.

*Guardia di Finanza*

- Gianluca Campana, Head, Protection Office Revenue, Operations Division, General Command.
- Saverio Capolupo, General Commander.
- Stefano Screpanti, Head, Operations Division, General Command.

*Equitalia Spa*

- Vincenzo Busa, President.
- Ernesto Maria Ruffini, Chief Executive Officer.
- Giacomo Sensi, Responsible Planning and Management.

*Sogei Spa*

- Luca Bargellini, Responsible Technologies and Innovations.
- Massimo Burchiotti, Responsible Operations and Management.
- Cristiano Cannarsa, Chief Executive Officer.
- Cesare Pietrozzini, Responsible Communications.
- Daniela Pompei, Responsible Department of Finance, Revenue Agency, Equitalia and State Property Agency.
- Anna Scafuri, Responsible Institutional Relations and Communications.
- Maurizio Verginelli, Responsible Revenue Agency and Guardia di Finanza.

*Sose Spa*

- Gianpietro Brunello, Chief Executive Officer.

*President of the Council of Ministers Office*

- Tommaso Nannicini, Counsellor.

*Ministry of Public Administration*

- Maria Barilà, Director General.
- Bernardo Mattarella, Chief of Legislative Office.
- Bernardo Polverari, Chief of Staff.

*Court of Accounts*

- Massimo Romano, Counsellor.
- Vincenzo Tutino, Counsellor

***Business Associations***

- Claudio Carpentieri, Responsible Tax Policy and Business, Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa.
- Vincenzo De Luca, Responsible Tax and Business, Confcommercio.
- Marino Gabellini, Responsible Tax, Confesercenti.
- Francesca Mariotti, Director Tax Policy, Confindustria.
- Beniamino Pisano, Responsible Tax, Casartigiani.
- Gianfilippo Scifoni, Responsible Tax Services, Ania.
- Andrea Trevisani, Director Tax Policy, Confartigianato Imprese.
- Ivan Vacca, Condirettore generale, Imposizione diretta e indiretta, Assonime.
- Laura Zaccaria, Responsible Regulations and Tax, Associazione Bancaria Italiana.

***Representatives of Labour Unions***

- Stefania Silveri, National Responsible - Tax Agencies, Confederazione Italiana Sindacati Lavoratori Funzione Pubblica.
- Antonio Fanfani, National Secretary - Tax Agencies, Confederazione Italiana Sindacati Lavoratori Funzione Pubblica.
- Paolo Bonomo, National Secretary – Public Administration, Confederazione Italiana Sindacati Lavoratori Funzione Pubblica.
- Luciano Boldorini, National Coordinator – Tax Agencies, Funzione Pubblica Confederazione Generale Italiana del Lavoro.
- Salvatore Chiaromonte, National Secretary – Public Administration, Funzione Pubblica Confederazione Generale Italiana del Lavoro.
- Renato Cavallaro, National Coordinator – Tax Agencies Unione Italiana lavoratori Pubblica Amministrazione.
- Sebastiano Callipo, General Secretary, Confederazione dei Sindacati Autonomi dei Lavoratori - Sindacato Autonomo Lavoratori Finanziari.
- Valentino Sempredoni, Member of the Secretariat, Confederazione dei Sindacati Autonomi dei Lavoratori - Sindacato Autonomo Lavoratori Finanziari.
- Vincenzo Patricelli, General Coordinator – Tax Agencies and Ministry of Economy and Finance, Federazione Lavoratori Pubblici.
- Roberto Cefalo, General Coordinator – Tax Agencies and Ministry of Economy and Finance, Federazione Lavoratori Pubblici.
- Ermanno Santoro, National Coordinator, Unione Sindacale di Base Pubblico Impiego.
- Stefano Vendetti, National Coordinator, Unione Sindacale di Base Pubblico Impiego.
- Barbara Casagrande, General Secretary, Unione Nazionale dei Dirigenti di Stato.
- Claudio Mastrantonio, Treasurer, Unione Nazionale dei Dirigenti di Stato.

***Tax Advisors***

- Fabrizio Acerbis, Managing Partner, and Alessandro Caridi, Partner, PWC Italy.
- Emidio Cacciapuoti, Partner, Studio Legale e Tributario King & Wood Mallesons.
- Paolo Ludovici, Founding Partner, Ludovici and Partners.
- Guglielmo Maisto, Founder, and Aurelio Massiminiano, Partner, Maisto & Associati.
- Gaetano Nunziato, Independent tax consultant for individuals and SMEs.
- Enzo Pepe, Independent tax consultant for SMEs.
- Mariela Pennesi, Partner, Baker & McKenzie.



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- Stefano Simontacchi, Managing Partner, BonelliErede.
- Emiliano Zanotti, Partner, EY.

***Business Representatives***

- Giovanni Carpenzano, Tax Director, Intesa Sanpaolo Bank.
- Marco di Capua, Chief Risk Officer, Finmeccanica Group.
- Stefano Ceccacci, Executive Vice President - Head of Group Tax Affairs, UniCredit.
- Stefano Giuliano, Tax Director, General Electric Oil and Gas.
- Michele Lenotti, Country Tax Leader - Italy, General Electric.
- Roberto Moro, Chair, Global Tax Director, Telecom Italia.
- Carlo Sauve, Tax Director, Poste Italiane.
- Giuseppe Zingaro, Tax Director, Vodafone Italy.

## *Annex B*

### **The use of tax gap estimation in national tax administration**

**The tax gap can be generally defined as an estimate of the difference between the amount of revenue actually collected for a tax for a fiscal year and the amount that would have been collected with perfect compliance (i.e. potential collections).** The tax gap arises from acts of non-compliance with the Law that are either deliberate, or which simply result from taxpayers' ignorance of the Law's requirements. In practice, acts of non-compliance can generally be attributed to the following risk domains: (i) failure to register for tax purposes as required; (ii) failure to file tax returns and other documents that establish a tax liability; (iii) failure to properly and accurately declare tax liabilities; and (iv) failure to pay assessed tax debts. The tax gap is typically measured on a "tax-by-tax" basis, exclusive of penalties and interest, and the results are sometimes aggregated to give a "total-tax-gap" amount. By its very nature, tax gap estimation is an imprecise science and the various models and methodologies used in practice are often subject to qualifications and assumptions.

**Tax gap estimation methodologies and their use have evolved over many years and generally fall into two broad categories: 1) top-down (macro) approaches; and 2) bottom-up approaches.** Within each category, there is a variety of estimating models and methodologies that can be applied. In practice, use of the various models and methodologies needs to be tailored to each individual tax and the approaches taken often vary.

**Top-down approaches typically rely on the existence of aggregate data that is compiled externally and independently of the revenue body, and which can be applied directly or indirectly to establish an estimate of the taxable base.** Examples include official statistical aggregates of consumption expenditure, adjusted as needed for factors that reduce the tax base, and lifestyle surveys that provide usage benchmarks for estimating consumption expenditure (e.g. on alcohol and cigarettes). Top-down approaches are used widely for indirect taxes where there are generally external sources of data that are compiled independently of the information gathered in tax returns. In the main, top-down approaches produce aggregate tax gap estimates that, while helpful for overall estimation purposes, have less value in a direct operational sense as they do not pinpoint specific areas of tax risk that can be targeted by revenue bodies.<sup>22</sup>

**Bottom-up approaches instead generally rely on revenue agencies data.** These data chiefly derive from the use of random audit-based approaches. Random audit programmes are used by revenue bodies in many countries, both for tax gap research purposes as well as to refine audit risk profiling approaches and systems. Concerning tax gap estimation, random audits are used primarily for direct taxes as it is here where national statistical agencies often do not have access to independently compiled data on some categories on income (e.g. income from self-employment and business activities) that are critically important in a tax compliance context. An additional consideration is that for direct tax purposes, taxpayers' liabilities are based on assessable income which is generally computed by deducting total allowable deductions from total assessable income to arrive at net assessable income. Taxpayers' tax

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<sup>22</sup> A recent development in this areas is the IMF's Revenue Administration Gap Analysis Program (RA-GAP).For VAT estimation purposes, that Programme refers to supply-use tables from National Accounts data to estimate potential VAT revenue on a sectorial basis, thus providing a sectorial breakdown of the gap that can be used to guide compliance interventions. See Current Challenges in Revenue Mobilization: Improving Tax Compliance (IMF, 2015).

liabilities may also be reduced by rebates and credits provided for in the tax laws. Based on considerable revenue body experience, a random audit programme is a very useful way of accurately identifying the incidence of unreported income, and over-claimed deductions, tax rebates and credits, both at the individual and aggregate taxpayer level. At the same time, random audits do not offer the complete picture given the difficulty for tax auditors to identify every conceivable error in all of the cases examined. Additional data that is used by revenue bodies include the use of operational data (e.g. risk registers), often for specific segments of taxpayers and adjusted as needed to take account of selection bias, and estimates drawing on observations and experience of operational experts.

**Box 8. Design criteria for an effective tax gap estimation framework**

- **Captures the appropriate tax base:** The various models and methodologies should cover all potentially taxable activity as defined for the particular tax type concerned.
- **Covers all potential taxpayers:** The various models and methodologies should cover all potential taxpayers as defined for the particular tax type.
- **Accounts for all potential forms of non-compliance:** All manners of potential non-compliance that can impact the potential revenue have to be accounted for.
- **No overlap between any two components of the framework:** In order to avoid potential over-estimation of the gap, either overlapping coverage of the base, taxpayers, or types of non-compliance must be avoided, or the overlap itself needs to be estimated and subtracted from the composite result.

Source: United Kingdom: Technical Assistance Report—Assessment of HMRC's Tax Gap Analysis, October 2013, International Monetary Fund.

**Tax gap estimations can have a number of potential uses, although its value at the individual tax level depends on the methodology used, the reliability of the information gathered, and its timeliness.** Some recognised uses and value include obtaining an overall picture of the “health” of the tax system, possibly broken down at individual tax level and related trends. Such information is of particular interest to revenue bodies, given that improving the overall level of voluntary compliance is a core objective of revenue bodies, and typically reflected in their strategic statements of goals and objectives. In addition, by identifying broad trends in compliance across the different taxes administered, tax gap research findings may assist revenue bodies in making decisions around resource allocation priorities. Finally, where disaggregated data is available from tax gap-related research (e.g. from random audits), they can point to the common types of errors that arise and/or common non-compliance techniques, thus enabling the formulation of responses (either policy or administrative) and the refinement of operational risk models for operational audit case selection.

**Box 9. Denmark: Using data from random audits to change compliance behaviour**

The Danish revenue body has been conducting random audits on a cyclical basis for a number of years. In executing its random audits it pays considerable attention to capturing line item data from tax returns in order to identify the most common “errors” detected. The systematic capturing and analysis of such data enables it to then deploy a strategy to “design out errors” from the tax administration process. To design out errors, it takes steps as appropriate to: 1) change legislation (e.g. new third party reporting requirements); 2) change tax administration systems or processes (e.g. changes to return form design); and 3) work with and through others to change other aspects of compliance environment. Its research, both pre and post intervention, reveals the impacts of such changes in quantified terms.

Source: SKAT officials.

**With certain caveats, there is potential value in the use of tax gap estimations in an overall strategic sense, to promote better understanding of the workings of a country's tax system and the effectiveness of its administration.** The use of tax gap estimations is at the moment a highly discussed issue among tax administrators internationally. Some question their accuracy, reliability and overall value to management of the tax system, while others argue that, properly designed and conducted, they can provide useful information on overall trends in tax compliance and, depending on the methodologies used, the nature and incidence of non-compliance that assists both internal and external stakeholders, notwithstanding their limitations. In any instance, it is important to note that taxpayers' willingness to comply with tax laws can be also influenced over time by factors other than a revenue body's actions and performance, such as changing economic conditions, modifications in the applicable tax rules, the expectation of future amnesties, etc. In other words, while the long term trend of the tax gap is influenced by the revenue body's actions, any performance narrative will need to reference the impact of other factors.

**Interest in the use of tax gap measures, particularly in respect of VAT, has grown considerably in recent years.** This is because Governments, tax administrators and others have sought to quantify the extent of revenue leakage from countries' tax systems, obtain a sense of the general health of the tax system, and/or better understand the likely impacts of compliance improvement activities. A brief summary of countries using tax gap estimation methodologies and related information is set out in Table 10.

Table 10. Tax gap estimation activities of national revenue bodies

Countries	Approach	Methodologies	Publication
Australia	At Government request, undertaking programme for all taxes administered.	Combination of top-down and bottom up approaches.	Results for some indirect taxes published in October 2015.
Chile	Undertakes annual research of tax gap for VAT, the main tax.	Uses top-down methodology drawing on national consumption expenditure.	Results published annually in Agency's performance report.
Denmark	Undertakes regular research; part of agency's performance objective.	Programme of random audits every 2 years for direct taxes & VAT. Just started on 2014.	2012 results programme being prepared & to be published in 2016.
Estonia	Undertakes annual Strategic Base Analysis which includes tax gap estimation research.	Unknown	Not sighted
Finland	National gap estimation study underway, at request of Government. Initial focus is VAT.	Expect initial work will apply top down approach.	Not yet sighted
Korea	National programme reported to have commenced in 2014, initially focusing on direct taxes.	Unknown	Not yet sighted
Latvia	Revenue body has reported that studies underway for VAT, labour taxes, and excises.	Unknown	Not yet sighted
Lithuania	Conducts research of shadow economy and VAT gap.	Top down	Not yet sighted
Mexico	Required by law to produce two studies each year of evasion.	Combination of top down and bottom up approaches.	Published (Spanish only). Last report in 2013.
Slovak Rep.	Working with IMF to explore VAT tax gap.	Top down approach	Not sighted
Slovenia	Undertakes annual research of VAT tax gap.	Top down approach	Officials report that results are published.
South Africa	IMF requested to examine and VAT tax gap.	Top down methodology from IMF Revenue Administration Gap Analysis Program.	Official report published in June 2015.
Sweden	Assigned by government to produce tax gap estimates.	Qualitative assessment.	Last report published in 2014.
United Kingdom	Carries out comprehensive programme each year for all taxes.	Combination of top down and bottom up approaches.	Results and methods published October 2015.
United States	IRS administers National Research Program to produce tax gap estimates.	Largely bottom up approaches and employing random audits.	Last published in 2012. Current status unclear.
European Union	Arranges regular research of VAT gap in all 28 member states.	Uses top down methodology drawing on national consumption expenditure.	Findings last published in September 2015 for years up to 2013. <sup>23</sup>
Latin America	CIAT team reviewed use of tax gap across all Latin American countries. Report reveals many countries (e.g. Argentina, Chile, Colombia, and Peru) undertake such research using various methodologies and publish results.		Report published (English) of overall approaches and findings in 2012.

23. Study to quantify and analyse the VAT Gap in the EU member states, 2015 Report<sup>23</sup>, prepared by the Centre for Social and Economic Research for the European Commission.

## *Annex C*

### **Entities involved in tax administration and their functions**

The current administration of taxes (including SSC) in Italy is characterised by the presence of multiple actors, namely: 1) the Department of Finance in the Ministry of Economy and Finance; 2) the Revenue Agency; 3) the Customs Agency; 4) the *Guardia di Finanza*; 5) Equitalia; 6) Sogei; 7) Sose, and 8) the Social Security Institute.

#### *Department of Finance*

**The Ministry of Economy and Finance was created following the issuance of the Legislative Decree no. 300/1999, as a result of a merger of the former Ministries of Treasury, Budget and Economic Planning, and Finance.** It is currently organised into four departments: the Treasury Department, the General Accounting Office, the Administration, Personnel and Service Department; and the Department of Finance. The Department of Finance is responsible of Italy's tax policy and must ensure that such policy is duly reflected in the tax system and its administration. In that respect, it conducts analyses, surveys and studies on tax policies, assesses Italy's policy steadiness, tax burden and forms of fiscal federalism, and prepares the legislation for adoption by Parliament, thus ensuring strategies within the tax system are well-oriented. As part of its role, it drafts a three-year Convention with each of the agencies that sets out the objectives and targets to be achieved, the parameters to measure agency performance, resources and incentives. The terms of these draft Conventions are "negotiated" with each agency head, and reviewed annually. The Department of Finance is also in charge of all form of exchange of information, as well as administrative co-operation with other countries.

#### *Revenue Agency*

**The Revenue Agency is a non-economic public entity that has been operating since 1 January 2001.** It has a General Director, a Management Committee, and a Board of Auditors to manage its structure. The Director of the Revenue Agency is nominated by Presidential Decree following orders of the Council of Ministers which take into consideration propositions made by the Minister of Economy and Finance. As official representative of the Revenue Agency, the head is responsible for all tasks not otherwise assigned. It is appointed for a period three years that may be renewed.

**The Revenue Agency performs services related to the administration, collection and litigation of the main taxes and duties, including: direct taxes, VAT, registration taxes, mortgage and land taxes, inheritance tax and donations, stamp duty and other charges levied.** It collects around EUR 400 billion per year. According to its Statute, the Revenue Agency provides assistance and information to taxpayers and tries to reduce compliance costs and burden; undertakes tax collection activities, manages the assessment archives and provides refunds to taxpayers when relevant; ensures the prevention of tax evasion by conducting controls and investigations; and manages tax disputes by favouring settlements when possible. Since 2012, it is also responsible for cadastre, property registers, property valuations and management of the real estate market. Finally, it also performs tasks that are not related to tax administration (e.g. it facilitates payments of any types of duties and is in charge of the issuance of social

security cards). In 2014, the total administrative costs of the Revenue Agency amounted to EUR 3 197 million, including the costs of around 40 700 employees (FTEs). The Revenue Agency operates with an office network for tax administration consisting of Central Office, Regional and Provincial Directorates (108), Multichannel Assistance Centres (7), and Operative Centres (3).

### *Customs Agency*

**The Customs Agency is a non-economic public entity that has been operating since 1 January 2001.** It has a General Director, a Management Committee, and a Board of Auditors to manage its structure. The Director is nominated by Presidential Decree following orders of the Council of Ministers which take into consideration propositions made by the Minister of Economy and Finance. The head is the official representative of the agency and is responsible for all tasks not otherwise assigned. It is appointed for a period three years that may be renewed.

**The Customs Agency is responsible for administering excises, VAT on imports and customs duties.** In the course of its activities, it ensures the prevention of evasion by conducting controls and investigations, and manages disputes, favouring settlements when possible. The Customs Agency also verifies and controls exchange, production and consumption of products and natural resources subject to excises. It also carries out activities to prevent and combat illicit activities related to trade or counterfeit products, more particularly with respect to goods which do not comply with health and safety regulations, weapons, drugs, cultural heritage assets, illegal waste trafficking, animals and plants specimens threatened with extinction. In that respect, the Customs Agency's employees have the status of judiciary police and as such they may forward reports to judicial authorities and take part in particular delegated investigation.

Since its merger with the Autonomous Administration of State Monopolies in 2012, **the Customs Agency also deals with public gaming, production, distribution and sale of manufactured tobacco.** In the gaming sector, the Customs Agency verifies compliance with respect to licensees, traders and ensures efficient rules are in place to fight illegal gaming. It also draws guidelines for gaming activities and monitors the legality of the gaming environment. In that respect, it cooperates with the *Guardia di Finanza* to effectively combat illegal gambling. In fiscal year 2014, the total administrative costs of the Customs Agency amounted to EUR 987 million, including the costs of 13 800 employees (FTEs). The Customs Agency operates with an office network for tax administration consisting of Central Directorates (11) and Regional and Interregional Directorates (9), Customs Offices (83), Chemical Laboratories (15), and Territorial Units (166). For the monopoly area, the network encompasses Central Directorates (5) and Local Offices (16) with respect to gaming and tobacco.

### *Guardia di Finanza*

**The *Guardia di Finanza* is an autonomous law enforcement body, part of the Italian armed forces.** Its origin can be traced to the end of the 18<sup>th</sup> century where a special force with respect to financial activities at the border was established. It is following the issuance of Law of 23 April 1959 and the Presidential Decree of 29 January 1999 that the *Guardia di Finanza* became organised under its current structure. **The *Guardia di Finanza* reports directly to the Minister of Economy and Finance.** It is headed by a General Commander chosen among the Generals of Italy's armed forces. As the head of the *Guardia di Finanza*, the General Commander defines its strategy, ensures overall management and planning, controls its activities and coordinates its relations with third parties and the Ministry of Economy and Finance. The General Commander is appointed by the President of the Republic, after deliberations of the Council of Ministers which considers proposals of the Minister of Economy and Finance.

**The *Guardia di Finanza*'s mandate requires it to protect the State revenue, counter infiltration of crime organisations into the economy, fight corruption, money laundering, tax and customs**

**evasion and fraud, the underground economy, social security fraud and all other scams related to public revenue.** To pursue its mission, the *Guardia di Finanza* enjoys important investigation powers and carries out both civil and criminal tax investigations. In fiscal year 2014, the total administrative costs of the *Guardia di Finanza* amounted to roughly EUR 2 455 million in relation to their activities on tax matters. The *Guardia di Finanza* operates with an office network consisting of General Command, Interregional Commands, Regional Commands, Provincial Commands, Special Force Commands, Naval Air Commands, Centres of Recruitment and Training; and Commands of Technical Support, Logistics and Administration.

### *Equitalia*

**Tax collection is entrusted with the Revenue Agency which outsources coercive collection activities to Equitalia SPA, a private law entity jointly-owned by the Revenue Agency (51%) and the Social Security Institute (49%).** Prior to the creation of Equitalia, tax collection services were provided by private entities, mostly banks. In 2006, these banks together with other private entities which managed tax collection services were merged and transferred to Equitalia's group. Today, Equitalia operates throughout all of Italy with the exception of the region Sicily.<sup>24</sup> Equitalia is subject to standard controls provided for Italian public limited entities and Public Administrative Law.<sup>25</sup> The activities of Equitalia are regulated by ordinary and special laws which provide for coercive collection of tax debts and arrears on all subjects. It principally carries out activities related to the enforced collection of tax and social contribution debts. At the same time, Equitalia collects tax and other debts for a range of other creditors such as regions, provinces and municipalities, but also local water consortia or professional orders. The holders of the loan are always the creditor entities, which are the only one that can take steps to verify the claim and possibly cancel or reduce the amount due. In fiscal year 2014, the total administrative costs of Equitalia amounted to EUR 825 million, including the costs of just under 8 000 employees (FTEs). Equitalia operates with an office network structure consisting of four divisions, namely the Collection Division, the Central Services for Corporations Division, the ICT Services Division and the Taxpayers and Local Tax Division. Equitalia Nord, Equitalia Centro and Equitalia Sud each operates with an office network structure consisting of 6 Regional Directorates.

### *Sogei*

**Sogei is an in-house IT company fully owned by the Ministry of Economy and Finance and established primarily to manage the national tax information system.** Originally established under private law, Sogei entered the public domain in 2002 when its entire share capital was acquired by the Ministry of Economy and Finance. Sogei is currently funded for more than 80% by equity. Sogei ensures IT support to all institutions involved in tax administration. For example, Sogei established and manages the *Anagrafe Tributaria* system which contains all available data and information relevant for the management of the tax system. The administrative costs of Sogei, which has around 2 200 employees, are funded by the agencies for which it provides services. As of recently, Sogei also provides IT services to other governments institutions, such as the Ministry of Interior and the Ministry of Health.

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24 In Sicily, the tax arrears collection is carried out independently by Riscossione Sicilia SpA.

25 Further, a recent proposal issued on 11 April 2014, purportedly sought to transfer the debt collection function from Equitalia to the Revenue Agency on account of its performance in recent years. See Proposal, Law 2299 of 11 April 2014; An Assessment of the Performance of the Italian Tax Debt Collection System, EC Taxation Working Papers N53-2015, page 7. According to observations submitted by members of Parliament presenting the proposal, "tax collection procedures used by Equitalia are burdensome for Italian taxpayers and [...] increases fiscal pressure". The aim of the proposal was to reform the overall tax collection system. However, the end of Equitalia's activities did not seem to be the solution as the proposal was withdrawn.



*Sose*

**Sose is an in house-company owned by the Ministry of Economy and Finance (88%) and the Bank of Italy (12%) which provides statistical services and studies.** The company carries out all activities related to developing and updating the "Sector Studies" for small and medium taxpayers. These studies rely on available information to divide taxpayers into fairly homogeneous clusters and to determine the income they should declare based on existing information and indicators of economic activity. It is also in charge of strategic data analysis and methodological support to the tax authorities (e.g. risk assessment in relation to SMEs, analysis with regard to BEPS, tax incentives and VAT compensations areas) and on business administration matters (e.g. on start-up companies, on rating and on export and imports). Recently it has also developed methodologies and collected data on the standard needs of municipalities. The administrative costs of Sose, which include the costs of 146 employees, are funded by the agencies for which it provides services.

*Social Security Institute*

**The Social Security Institute is a non-economic public entity which provides social security services.** In 2011, two welfare institutes (the National Welfare Institute for Employees of Public Authorities (INPDAP) and the National Welfare and Assistance Institute for Artists (ENPALS)) were merged into the Social Security Institute, thus providing citizens with a single entity dealing with social security services. The Social Security Institute is under the supervision of the Ministry of Labour and Social Policy and the Ministry of Economy and Finance. The main activity of the Social Security Institute entails the settlement and payment of pensions and social security allowances. It also carries out supervisory tasks through electronic tools which allow querying internal and external databases with the aim at ensuring social security and insurance rights and fair competition between companies on the market. The supervisory activity is intended to check the correctness of contribution payments with regard to Law provisions and mandatory rules for the protection of employment. In fiscal year 2014, the administrative costs of the Social Security Institute amounted to EUR 4 737 million, including the costs of 26 706 employees (FTEs).

## *Annex D*

### **Overview of performance agreements in selected countries**

The use of performance targets has grown significantly, and in a variety of ways in conjunction with the shift to more outcomes-focussed performance measures and greater accountability, (i) as part of formal performance contracts (or "Conventions" in the case of Italy) established between agencies and their line reporting department; (ii) as a result of formal directions and mandates given by Government Ministers for specified levels of improved performance by their respective agencies; and (iii) public sector agencies themselves, including many revenue bodies, have set their own performance expectations as part of their strategic planning processes, specifying targets in their strategic and business plans, and in many cases periodically reporting on their actual levels of performance against the targets set.

The following paragraphs describe performance measures of national revenue bodies in Australia, France, New Zealand, the United Kingdom and the United States.

#### *Australian Taxation Office*

The Australian Taxation Office (ATO) uses a range of different types of metrics to measure performance including service commitments, international comparisons, and information from its core systems and survey results from the community.<sup>26</sup> Measures are constantly reviewed to ensure it has the right measures of performance to reflect the services it provides, its changing environment and its goals. The ATO reports on its performance using a broad range of performance measures, supplemented with qualitative performance information. In its corporate plan it provides baseline data based on prior year performance results. These performance results are updated annually and published in the *Commissioner of Taxation Annual report*. The ATO uses an outcome framework to bring a greater focus to measuring the impact of activities and demonstrate the achievement of outcomes: confidence in the administration of Australia's tax and superannuation systems. Measuring the ATO's impact is important as everything it does is ultimately about improving outcomes for Government and the community. The ATO has four interconnected impacts that it is setting out to achieve which are *integrity, willing participation, revenue and productivity*.

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26. The information hereunder on Australia's Performance Measurement Framework has been extracted and summarised from the Australian Taxation Office (ATO) Corporate Plan for 2015-2019.

Table 11. Australian Taxation Office's impact

**Integrity:** The integrity impact reflects perceptions of fairness of the ATO's administration of the tax and superannuation systems and the level of confidence the community has in its administration.

Goals	Performance measure	Measured by
Increase in trust and confidence – by providing clients with certainty, engaging early and being professional, respectful and fair.	Satisfaction – Community satisfaction with ATO performance	Externally conducted surveys of taxpayers
	Fairness – Perceptions of fairness in disputes	
	Professionalism – People surveyed agreed that ATO listens to and responds to feedback	
Create a client focused and future oriented workforce – by focusing on desired cultural traits and encouraging engagement to deliver improved services.	Culture – Level of employee engagement	Independently conducted surveys of staff

**Willing participation:** The willing participation impact relates to clients behaviour in complying willingly with tax and superannuation obligations.

Goals	Performance measure	Measured by
Improve the client experience – by providing interactions which are easy to access, minimising red tape and reducing compliance costs	Ease – People surveyed agree the ATO makes it easy to access services and information	External surveys
	Digital – Proportion of inbound transactions completed digitally	Internal monitoring
	Compliance cost – Adjusted average cost of managing tax affairs	
Increase in clients meeting their obligations- by ensuring correct and timely registration, returns and payments.	Registration – Proportion of companies and individuals registered in the system	Internal monitoring
	Return filing – Proportion of activity statements and income tax returns lodged on time	
	Payment – Proportion of liabilities paid on time by value	
	Superannuation – Adjusted employer superannuation contributions as a proportion of adjusted salary and wages	
	Correct reporting –Tax gap as a proportion of revenue	Research programme

**Revenue:** The revenue impact relates to collecting the right tax at the right time. The focus of these indicators is less on the client's behaviour and more on getting the right tax result.

Goals	Performance measure	Measured by
Increase in clients paying the right amount of tax at the right time – by undertaking activities to ensure appropriate collection of revenue for Government to support and fund services for the community.	Tax assured – New <i>under development</i>	Internal monitoring
	Audit yield – Cash collected from direct compliance activities	
	Total revenue effects – New <i>under development</i>	
	Debt – Ratio of collectable debt to net tax collections	
	Expected revenue – Proportion of revenue collected compared with forecast	

**Productivity:** The productivity impact relates to the efficiency of the administration of the tax and superannuation systems.

Goals	Performance measure	Measured by
Decrease administrative costs	Budget – Operating within budget	Internal monitoring
	Cost of collection – Cost to collect \$100	
	Expenditure – Tax administration expenditure as % of gross domestic product	

*France's Direction générale des finances publiques (General Directorate of Public Finances)*

Specific objectives and impact indicators by the General Directorate of Public Finance are outlined in the Table 12.<sup>27</sup>

Table 12. **France's General Directorate of Public Finance objectives and impact**

Objectives	Performance indicators	2014 result
Percentage of spontaneous filing and payment (taxpayer compliance)	% of private individuals complying with their filing obligations	98.4%
	% of businesses complying with their filing obligations	95.57%
	% of individual taxes paid (excluding wealth taxes)	98.32%
	% of business taxes paid spontaneously	98.17%
	% of fines paid	79.35%
	Gross rate of collection of local revenues (excluding taxes and transfers) for year N-1 as at 31 December of year N (excluding Public Housing Agencies)	98.04%
Effectiveness of anti-tax evasion efforts	Net rate of collection of taxes and penalties on external tax audit claims for year N-2	53.40%
	% of audits to combat serious tax evasion	31.28%
	% of international tax transactions	10.2%
	% of non-pursuance of claims following external tax audit	12.95%
Paperless procedures offered to use	Number of PIT returns filed online	15.0m
	% of personal income tax payments made online	53.35%
	% of paperless accounting documents and supporting documentation (in the local public sector)	41.91%
Speed and quality of information transmitted to users	Marianne service quality <sup>28</sup>	86.73%
	% of requests for regulatory assessments sent that received responses within one month (excluding negotiated response times)	93.83%
	% of transmissions of tax information to local authorities within the legislated timeframe	99.86%
	% of pensions calculated based on Individual Pension Accounts	36.63%
Management cost rates and changes in productivity	Management cost rates for tax matters	0.86%
	Management cost rates for central government expenditures	0.09%
	Management cost rates for local public-sector expenditures	0.10%
	Annual change in overall productivity	(Provisional) 2.1%

Source: 2014 Key Performance Indicators, Public Finances Directorate General.

*New Zealand Inland Revenue Department*

In delivering and improving its core business, the Inland Revenue Department (IRD) seeks to:<sup>29</sup> foster customer interactions and ensure they are as convenient and easy as possible. It also seeks to optimise voluntary compliance by assisting customers who are willing to meet their compliance obligations but are unaware or uncertain how to do so, by influencing voluntary compliance and targeting inadvertent non-compliance, by providing information, assistance and tools, and by detecting and deterring deliberate non-compliance are part of our core activities. Finally, it aims to increase value for money through improving

27. The information hereunder has been extracted and summarised from the 2014 Risk Prevention Programme (PAP) Indicators– Programme 156, "Tax and financial management tasks performed on behalf of central government and the local public sector", in its performance chapter.

28. The DGFIP uses the « Marianne » quality indicator programme that is used across the public sector: This programme covers quality indicators such as the proportion of mail being handled within 15 working days, e-mails being handled within 5 working days, phone calls being answered after 5 rings or less, requests regarding quality of service being handled within 15 working. The target for 2014 was 75% (86.8% achieved in 2013).

29. The information hereunder has been extracted and summarised from IR's 2014-2018 Statement of Intent and 2014-2015 Annual Report.

processes, strengthening capital asset management, maintaining ICT environment and reducing property overheads.

Table 13. **New Zealand Inland Revenue Department’s objectives and impact indicators**

	IMPACT INDICATORS	TARGET	RESULTS
<b>MEASURING OUR PERFORMANCE</b>  <i>(2008 targets vs 2013 performance results)</i>	More customers self-manage:		
	• % of customers aware of their obligations and entitlements increases	85%	83%
	• % of customers who find it easy to comply increases	80%	82%
	More customers register and report accurate information when required:		
	• % of returns filed without errors increases	88%	88%
	• % of applications submitted without errors increases	90%	89%
	• % of correct student loan deductions for New Zealand-based borrowers is maintained	98%	99%
	• Employer registrations follow an appropriate trend	n/a	95.6%
	• GST assessed/consumer spending follows appropriate trend	n/a	98.0%
	More customers claim their correct entitlements:		
	• % of accurate Working for Families Tax Credits increases	70%	67%
	• % of child support assessments collected increases	75%	77%
	• Working for Families Tax Credits registrations follow appropriate trend	n/a	35%
	• Donation rebates claimed follow an appropriate trend	n/a	58%
	More customers pay and file information on time:		
• % returns filed on time is maintained	83%	83%	
• % payments made by customers on time is maintained	86%	86%	
• % child support assessments paid on time increases	68%	64%	
The behaviour of non-compliant customers improves:			
• The compliance behaviour of customers who received an audit intervention improves	77%	85%	
• % of collectable debt to total debt increases	57%	65%	
• % of collectable debt recovered increases	15%	13%	
• % of collectable debt to revenue assessed decreases	5.8%	6.0%	

Source: IRD’s 2014-2018 Statement of Intent and 2014-2015 Annual Report.

**United Kingdom Her Majesty’s Revenue and Customs**

Table 14. **The United Kingdom Her Majesty’s Revenue and Customs’ objectives and impact indicators** <sup>30</sup>

<b>PLANS - GOALS AND STRATEGIES</b>	<i>Maximise Revenues:</i> Includes specific initiatives to 1) Make better use of data and automation; 2) Add capacity to tackle debt, error and fraud; 3) Crack down on tax evasion; 4) Close down tax avoidance; 5) Catch organised criminals; and 6) Enforce rules.
	<i>Improve the service given to customers:</i> Deliver new digital services focusing on 1) PAYE Online; 2) Digital self-service; 3) Your tax account; 4) Agents Online Self-Service, 5) All customer segments and 7) All customers needing additional support.
	<i>Make sustainable cost savings:</i> Includes specific initiatives and actions to 1) reduce costs for customers; and 2) reduce internal costs.
<b>MEASURING SUCCESS</b>	<i>Maximise revenues:</i> A key measure of success is the additional tax revenue brought in through compliance and enforcement activity. Deliver additional compliance revenues of £24.5 billion in 2014-2015 and £26.3 billion in 2015-2016; aim to reduce losses through error and fraud in the tax credits system towards 5.5% of finalised tax credit entitlement by 2014-2015, down from 7.3% in 2011-2012.
	<i>Improve the service given to customers:</i> In 2014-2015, work towards aspiration of handling 90% of calls across all of helplines, achieving a consistent level of at least 80% in 2014-15; handle 80% of correspondence within 15 working days

30 The information hereunder has been extracted and summarised from the HMRC Business Plan for 2014 2016.

and 95 % within 40 working days, with at least 90 % passing quality standards. By March 2015, 75.8 % of customers will find it straightforward to deal with the revenue body.
<i>Make sustainable cost savings:</i> Make sustainable cost savings of £198 million in 2014-2015 and a further £205 million in 2015-2016; also deliver business cost reductions totalling £250 million by March 2015, as part of a wider improvement in business customer experience.
<i>This means:</i> <ul style="list-style-type: none"> <li>• Improve employee engagement over the next two years by continuing to work towards an ambition of achieving the Civil Service benchmark of 58%; improve engagement among the Senior Civil Service by achieving an engagement score of 72% in 2014-2015 and 75% in 2015-2016.</li> <li>• Close the capability gap for the change leadership priority with an increase of 21% in 2014-2015, and 15% in 2015-2016; increase the percentage of staff who feels they have the skills required to do their job to 85% in 2014-2015 and 91% in 2015-2016.</li> <li>• Reduce average working days lost/ employee to 7 in 2014-2015 and 6.5 in 2015-2016.</li> </ul>

### *United States Internal Revenue Service*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA98) mandated a reorganisation of the structure and management of the Internal Revenue Service and also established three balanced performance measures:<sup>31</sup> 1) customer satisfaction; 2) employee satisfaction, and business results. Significantly, it also prohibits use of records of tax enforcement results (ROTERRs) to either evaluate employees or impose production quotas and it requires use of fair and equitable treatment of taxpayers as one standard for evaluating employee performance. The IRS has developed specific performance measures for its three measures of success. These are elaborated in its current strategic plan, along with related targets that are being used to gauge IRS progress towards its goals, mainly to (i) deliver high quality and timely service to reduce taxpayer burden and encourage voluntary compliance; and (ii) effectively enforce the law to ensure compliance with tax responsibilities and combat fraud.

Table 15. **The United States Internal Revenue Service's objectives and impact**

MEASURES	TARGET	LATEST
<b>Voluntary Compliance Rate:</b> Measures amount of tax paid voluntarily and in a timely manner.	86%	83% (2011)
<b>American Customer Satisfaction Index:</b> Monitors overall individual taxpayer satisfaction with tax filing processes. <sup>32</sup>	75%	72% (2013)
<b>Enforcement Satisfaction Score:</b> % of taxpayers contacted by IRS compliance efforts who feel the process was satisfactory.	75%	72% (2013)
<b>Employee Engagement:</b> Measures employee engagement based on annual survey and index developed by IRS to compare itself with other large agencies.	Top quartile	Ranked 8/15 (2013)
<b>Service Satisfaction Score:</b> Measures satisfaction of those taxpayers who contacted IRS seeking assistance.	94%	91% (2013)
<b>E-file Rate- Individuals:</b> % of individuals returns filed electronically.	90%	83% (2013)
<b>End to end:</b> Tracks availability of software and system components of critical IRS systems.	99%	99% (2014)
<b>E-file Rate- Business Returns:</b> % of business returns filed electronically.	50%	40% (2013)
<b>Service Interactions Available Electronically:</b> % of e-services available to the taxpayer on IRS.gov relative to the most frequent services provided to the taxpayer across all channels.	75%	50% (2014)
<b>Service Interactions Processed Electronically:</b> % of electronic interactions conducted by taxpayers	50%	23% (2014)

31. The information hereunder has been extracted and summarised from the IRS Strategic Plan.

32. IRS uses the American Customer Satisfaction Index (ACSI), a national indicator of customer satisfaction with the quality of products and services available to consumers in the USA. ACSI scores range between a low of 0 and a high of 100. Over 55 Federal government agencies use the ACSI to measure citizen satisfaction of more than 110 services and programmes. The IRS long term ACSI goal is 75 for income tax returns filed by FY 2017.

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relative to total number of service interactions conducted across all channels.		
<b>Software Currency:</b> Monitors % of Commercial off-the-shelf (COTS) software products in use in IRS that are within one version of current release.	85%	75% (2014)
<b>Portal Availability:</b> Measures availability and response time of IRS.gov	100%	100%

Source: Data extracted from IRS Strategic Plan FY2014-2017 and presented in Tax Administration 2015.

## *Annex E*

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