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Preliminary Draft - Civil Affairs Handbook
ON Italy, Section Four, ON Govt. Finance

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Preliminary Draft
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Capt. R. H. Arenau

CIVIL AFFAIRS HANDBOOK

on

I T A L Y

Section Four

on

G O V E R N M E N T F I N A N C E

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33
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Preliminary Draft

CIVIL AFFAIRS HANDBOOKS
TOPICAL OUTLINE

1. Geographical and Social Background
2. Government and Administration
3. Legal Affairs
4. Government Finance *
5. Money and Banking
6. Natural Resources
7. Agriculture
8. Industry and Commerce
9. Labor
10. Public Works and Utilities
11. Transportation systems
12. Communications
13. Public Health and Sanitation
14. Public Safety
15. Education
16. Public Welfare

* This study on Italian Government Finance was prepared for the Military Government Division of the Office of the Provost Marshal General by the Division of Monetary Research in the Treasury Department.

INTRODUCTION

Purposes of the Civil Affairs Handbook.

International Law places upon an occupying power the obligation and responsibility for establishing government and maintaining civil order in the areas occupied.

The basic purposes of civil affairs officers are thus (1) to assist the Commanding General of the combat units by quickly establishing those orderly conditions which will contribute most effectively to the conduct of military operations, (2) to reduce to a minimum the human suffering and the material damage resulting from disorder and (3) to create the conditions which will make it possible for civilian agencies to function effectively.

The preparation of Civil Affairs Handbooks is a part of the effort of the War Department to carry out this obligation as efficiently and humanely as is possible. The Handbooks do not deal with planning or policy. They are rather ready reference source books of the basic factual information needed for planning and policy making.

Revision for Final Publication.

Significant area information is immediately needed (a) for civil affairs officers charged with policy making and planning, (b) for the use of civil affairs officers-in-training and (c) to make certain that organized data is in hand, whenever events require it.

Arrangements were therefore made with the cooperating agencies to organize all immediately available material in accordance with a prepared outline. Hence, this section on Public Finance in Italy should be considered a preliminary draft only. It is being revised and amplified preparatory to the final publication of the handbook as a whole. This section is especially lacking in detail in respect to administrative organization and policy. A special effort will be made to amplify this part of the chapter.

41:6

COMMENTS AND CRITICISMS BY OFFICERS USING THIS MATERIAL ARE REQUESTED. THEY SHOULD BE SENT TO LT. COLONEL JAMES H. SHOEMAKER, MILITARY GOVERNMENT DIVISION, P.M.G.O., 2805 MUNITIONS BUILDING, WASHINGTON, D.C. (OR PHONE WAR DEPARTMENT EXTENSION 76370).

CONTENTS

| | <u>Page</u> |
|--|-------------|
| I. Summary..... | 1 |
| a. National Government..... | 1 |
| 1. Revenues..... | 1 |
| 2. Expenditures..... | 11 |
| 3. Public Indebtedness..... | 11 |
| b. Provincial Governments..... | 111 |
| c. Cities and Other Local Governmental Units..... | 111 |
| d. Government Owned Enterprises..... | 111 |
| II. Report..... | 1 |
| a. National Government..... | 1 |
| 1. Revenues..... | 1 |
| (a) Taxes..... | 1 |
| (b) Non-tax revenues..... | 7 |
| (c) Major features of the tax system..... | 9 |
| (d) Tax organization and administration..... | 11 |
| (e) Taxes allocated to specific purposes..... | 12 |
| (f) Grants-in-aid or subsidies from other governmental units..... | 12 |
| (g) Taxes shared between two or more levels of government..... | 12 |
| 2. Expenditures..... | 12 |
| (a) Annual statistics..... | 12 |
| (b) Financial organization & administration..... | 14 |
| (c) Financial control exercised by other units of government..... | 14 |
| 3. Public Indebtedness..... | 15 |
| (a) Amount of outstanding public debt..... | 15 |
| (b) General fiscal position of the government..... | 15 |
| b. Provincial Governments..... | 17 |
| c. Cities and Other Local Governmental Units..... | 18 |
| d. Government Owned Enterprises..... | 19 |
| III. Index..... | 21 |
| IV. Selected References..... | 22 |

GOVERNMENT FINANCE-ITALY

I. SUMMARY

National Government

Revenues

The ordinary revenues of the Italian national government for the fiscal year ending June 30, 1940 were estimated at 32.4 billion lire. For the most recent year for which detailed figures are available (that ending June 30, 1937), out of 31.3 billion lire of total ordinary transactions 4.6 billion, indirect taxes on consumption 5.3 billion, fiscal monopolies and the national lottery 3.5 billion, and miscellaneous duties, fees, and receipts 5.6 billion.

The direct taxes are those on farm lands and on income from buildings, the general income tax, the complementary income tax on bachelors, the additional tax on income at progressive rates, the tax on capital and those on agricultural income, on improved lands and on land reserved for hunting.

Taxes on business transactions include the important three: registration fees, stamp duties, and the turnover or sales tax. All others are unimportant individually though appreciable in total, since they are so numerous.

Taxes are imposed upon the manufacture of sugar, spirits, beer, as well as on gas, electricity, and a number of other commodities. Besides specific customs duties on nearly all imports, a general duty of 15 percent of the value is imposed. Export duties are levied on a small number of commodities, primarily minerals of specified groups, and further Customs Office charges are imposed upon all imports and exports.

Fiscal monopolies in tobacco, salt, and matches and lighting appliances provide revenue classified by the Italian Government as tax receipts. The same classification is used for the receipts from the national lottery.

The main non-tax revenues are derived as profits from the operation of state-owned enterprises and from the fiscal monopolies. 4144

The tax system does not comply with the ability to pay principle; war changes in taxes have been inadequate to meet the rising costs; reforms have been under consideration.

The tax administration is directed and supervised by the Minister of Finance.

Taxes are sometimes allocated to specific purposes. Some taxes are levied upon the same base.

Expenditures

Italian budgetary deficits have been large since 1930. Large amounts have been spent for programs of development as well as for the Ethiopian war, the Spanish Civil War, and the present war. Expenditures for the fifteen Departments or Ministries totalled 40.9 billion lire in 1937 and are estimated, perhaps unreliably, at 29.3 billion in 1940. War costs from June 30, 1940 to June 30, 1942 are estimated at 130.9 billion lire.

Financial administration is the responsibility of the Ministry of Finance. An office of this Ministry prepares the budget.

The national government is not restricted in fiscal affairs by the powers of provinces and communes.

Public Indebtedness

The total liabilities of the Italian Government have increased from 126 billion lire on June 30, 1935 to 210 billion lire by June 30, 1940 and to an estimated 350 billion lire on June 30, 1942.

The Italian Government has purposely withheld or jumbled the figures for recent increases in short-term debt. At the end of the calendar year 1941, the outstanding direct and guaranteed bonds amounted to 184.6 billion lire.

Interest on the public debt rose from 6.9 billion lire in fiscal year 1939 to 8.8 billion in 1940, and probably 10.1 billion in 1942.

The total debt as estimated for the close of 1943 will be equal to some 2½ years' national income.

Foreign-owned issues are now in default. Interest rates are high on outstanding debt and the government's credit position is definitely inferior.

Provincial Governments

Provinces are governed largely by the Minister of the Interior through Prefects who are checked only by the power of the Prefecture Council to approve or disapprove the budget.

Provincial revenues and expenditures are merged in the national budget and are not published separately. The autonomy of provinces is shown to be negligible by the fact that they have no debts.

Cities and Other Local Governmental Units

Communal councils dominate the municipal fiscal system. The mayor or syndic is leader of the council, but is also subject to the orders of the provincial prefect. Uniform national decrees apply to the communes. Some 22 taxes are imposed by Communal Offices. Local taxes of twenty of the largest communes amounted to 1,320 million lire in 1937.

Government Owned Enterprises

Patrimonial revenues declined from 596 million lire in 1937 to 273 million in 1940. There are numerous state-owned and municipal-owned enterprises in addition to the fiscal monopolies.

GOVERNMENT FINANCE — ITALYII. REPORTa. National Government(1) Revenues(a) Taxes

The ordinary revenues of the Italian National Government, which were 18.8 billion lire in the fiscal year ending June 30, 1935, increased at an average rate of slightly less than 3 billion lire per year to 32.4 billion lire for the fiscal year 1939-40. The budgetary estimates of revenues for the latter year, which were 31.3 billion lire, indicate that it was expected that taxes would bring in 18.4 billion lire, that non-tax revenues would be 6.1 billion lire, and that receipts from capital transactions would amount to 6.7 billion lire. Receipts from direct taxes, estimated at 6,816 million lire for fiscal 1940, were estimated at 10,020 million lire in 1943. The estimated receipts for 1943 from the most important taxes were as follows: income tax (5,250 million lire), supplementary income tax (810 million lire), capital tax (1,400 million lire), security tax (540 million lire) and excess profits tax (350 million lire). While the tax estimates of fiscal 1940 may be accepted as reasonably reliable, the latest available detailed reports for individual taxes are those for fiscal 1937. The following table shows all tax receipts (by major groups) of the Italian national government for the fiscal years ending in 1936 and 1937:

Tax Revenues
(Fiscal years ending June 30)

| | 1937 (Thousands of lire) | 1936 (Thousands of lire) |
|----------------------------|--------------------------------|--------------------------------|
| Direct taxes | | |
| Tax on farm lands | 150,800 | 151,000 |
| Tax on buildings | 338,200 | 335,000 |
| Income tax | 3,392,800 | 3,155,400 |
| Tax on bachelors | 218,400 | 193,500 |
| Additional tax on income | 370,200 | 355,300 |
| Tax on capital | 281,500 | 318,900 |
| Miscellaneous direct taxes | 393,200 | 116,700 |
| Total | 5,145,100 | 4,625,800 |

41.2

- 2 -

| | 1937 (Thousands of lire) | 1936 (Thousands of lire) |
|---|--------------------------------|--------------------------------|
| Taxes on business transactions | | |
| Succession and mortmain fees | 188,800 | 164,000 |
| Registration fees | 779,600 | 822,000 |
| Stamp duties | 762,800 | 720,000 |
| Taxes in lieu of registration and stamp fees | 341,700 | 292,000 |
| Mortgage tax | 133,100 | 137,000 |
| Tax on government concessions | 198,200 | 202,000 |
| Turnover tax | 1,551,800 | 1,311,000 |
| Tax on bicycles, automobiles, etc. | 154,600 | 142,000 |
| Stamp duties on theatre tickets | 66,700 | 55,000 |
| Stamp tax on transportation | 250,400 | 153,000 |
| Tax on playing cards | 8,200 | 8,000 |
| Miscellaneous taxes | 60,800 | 54,000 |
| Tax on radio | <u>88,300</u> | <u>76,000</u> |
| Total | 4,585,000 | 4,136,000 |
| Indirect taxes on consumption | | |
| Sugar tax | 1,121,400 | 1,081,100 |
| Tax on spirits | 191,800 | 165,800 |
| Beer tax | 33,400 | 29,700 |
| Miscellaneous consumption taxes | 1,081,500 | 799,400 |
| Customs duties and harbor dues | 1,635,400 | 1,506,000 |
| Tax on coffee | 411,600 | 391,000 |
| Tax on imported minerals oils | <u>777,500</u> | <u>1,138,000</u> |
| Total | 5,252,600 | 5,111,000 |
| Monopolies and lottery | | |
| Tobacco, etc. | 2,662,100 | 2,521,000 |
| Salt | 324,400 | 319,000 |
| Lighters | 104,500 | 121,000 |
| Lottery | <u>426,000</u> | <u>395,000</u> |
| Total | 3,517,000 | 3,356,000 |
| Miscellaneous | | |
| Estate duties | 889,000 | 522,000 |
| Miscellaneous receipts | 4,473,000 | 1,679,000 |
| Miscellaneous fees | <u>201,000</u> | <u>179,000</u> |
| Total | <u>5,563,000</u> | <u>2,380,000</u> |
| Total national taxes | 24,062,700 | 19,608,800 |

- 3 -

Direct taxes. In 1937, the Italian national government used various direct taxes from which the estimated total receipts were 5,145.1 million lire. The income tax, with receipts of 3,392.8 million lire, was the most important of this group. A brief discussion of each of the direct taxes, in the order in which they appear in the preceding table, follows (as of 1937; later changes have been minor):

(i) Tax on farm lands. This tax is levied upon the assessed rental value of farm land expressed in gold lire. The State imposes a tax of 10% in currency upon the assessed value. In addition taxes are imposed on the same base by the Communes and Provinces. The tax is assessed by the Central Assessment Commission, and by Communal and Provincial Assessment Commissions. The receipts shown in the national budget were 150.8 million in 1937.

(ii) Tax on income from buildings. A tax of 10% in addition to Communal and Provincial levies is imposed upon the net income from buildings after deducting ordinary expenses, as for water, gas and lights, and an arbitrary allowance of 1/3 of the gross income for upkeep and partial depreciation. The tax is assessed by the District Office of Direct Taxation. In 1937 the receipts were 338.2 million lire.

(iii) A general income tax. For the purposes of this tax, incomes are divided into six classes:

Class A: Interest on loans, except agricultural loans, is taxed as gross income at the rate of 20%.

Class BI: Net incomes of enterprises are taxed at the flat rate of 14 % on all incomes above 2,500 lire. Incomes between 2,000 and 2,100 lire are allowed an exemption of 1,000 lire. The allowed exemption declines by steps until it reaches zero for incomes of 2,500 lire or more.

Class BII: Incomes from agricultural loans, less the same exemptions as for Class B, are taxed at the rate of 7%.

Class CI: Incomes from the practice of the professions, less the same exemptions as for Class BI, are taxed at the rate of 12%. 41.1

Class CII: Stipends and salaries of persons holding positions of trust in private employment, less the same exemptions as for Class B, are taxed at the rate of 9%.

- 4 -

Class D (a): Stipends, pensions, and wages paid by the State to its employees are taxed in their entirety at the source at the rate of 8%.

(b): Wages of employees of Provinces, Communes, organizations having functions parallel to the State, societies, railroads, etc., less the same exemptions as for Class B are taxed at the rate of 8%.

Wages of temporary or permanent laborers in the employ of the State are taxed in their entirety at the source at the rate of 4%.

Wages of laborers in the employ of Provinces, Communes, societies, railroads, etc., (as in Class D (b) above) are taxed at the rate of 4% on the basis of total wages for the period, provided on a yearly basis the wages would exceed 2,000 lire. This tax is not collected at source.

Aggregate receipts from the general income tax on all four classes were 3,392.8 million lire in 1937.

(iv) Tax on bachelors. A fixed rate of tax on an age basis for unmarried men between the ages of 25 and 65 years plus 50% of the complementary tax is levied. The 1937 receipts were 218.4 million lire.

(v) Additional tax on income. Also called complementary tax on income. A progressive rate of tax rising from 1 percent to 10% is imposed on total family income after an exemption of 6,000 lire. The 1937 receipts were 370.2 million lire.

(vi) Tax on capital. This tax is described as a surtax on the patrimony of citizens and wealth of foreigners held in the country on January 1, 1920. This was a tax imposed once for all as of the basic date, but the payments on real estate were spread over a 20 years period and those on personal property over 10 years. After exemptions of 50,000 lire, progressive rates were applied to the remainder of the patrimony, ranging from 4.50% for the smallest to 50% for those above 100 million lire. This tax yielded 281.5 million lire in 1937. It presumably expired on January 1, 1940.

- 5 -

(vii) Miscellaneous direct taxes.

Tax on agricultural income. A tax of 2.5% is imposed upon the net income of colonial landlords and 5% upon that of other landlords, after allowing certain deductions and exemptions.

Aggregate receipts from this and other minor direct taxes were 393.2 million lire in 1937.

Taxes on business transactions. The total receipts from taxes on business transactions amounted to 4,585 million lire in 1937 and were derived from a wide variety of individual levies. Only the more important of these merit discussion.

(i) Registration fees. Registration fees are imposed upon deeds and contracts, transfers, leases, settlements, etc. The fees vary with the type of instrument and are graduated in some instances according to values and other criteria. Receipts from this source were 779.6 million lire in 1937.

(ii) Stamp duties. These are taxes upon documents of civil, commercial, judicial and other types. The yield in 1937 was 762.8 million lire.

(iii) Turnover tax or sales tax. A tax was imposed at the rate of 2.5% of the price of all goods sold either at wholesale or retail except for certain exempt transactions and goods, of which the most important are food products of primary necessity. Receipts from this tax were more than double those from any other tax in this group and amounted to 1,551.8 million lire in 1937. (This tax was replaced by the Turnover Tax or Tax on Business Transactions enacted January 9, 1940, taking effect on February 8, 1940. See below, p. 9a.) 41.0

- 6 -

All taxes on business transactions other than the three discussed above provided only 1,490.8 million lire of receipts in 1937.

Indirect taxes on consumption. Specific taxes are imposed upon the manufacture of several important commodities. These taxes are assessed by the Technical division of the Fiscal Offices and collected directly by the Fiscal Offices.

(i) Sugar tax. The tax on the manufacture of beet-sugar is at the rate of 400 lire per quintal for sugar more than 94% pure and 384 lire per quintal for sugar less than 94% pure. The yield was 1,121.4 million lire in 1937.

(ii) Tax on spirits. The rate of this tax on the manufacture of beverage alcohol is 1,950 lire per barrel and the yield was 191.8 million lire in 1937.

(iii) Beer tax. The rate of this tax on the manufacture of beer is 6.20 lire per hectolitre for beer of 10 to 16 percent alcoholic content. The tax yielded 33.4 million lire in 1937.

(iv) Miscellaneous consumption taxes. Taxes are imposed upon the manufacture of gas, electricity, coffee substitutes, electric lamps, glucose, maltose, seed oils, explosives, and acetic acid, all on the basis of physical units of output. The yield of these taxes was 1,081.5 million lire in 1937.

(v) Customs duties and harbor dues. The tax on imports is imposed on practically all imports at specific rates, according to weight in most cases but in other cases according to volume, measure, surface, or units. A penalty duty of 50% of the usual duty may be imposed on goods imported from countries placing special barriers to the import of Italian goods. Duties are reduced for imports from countries having special trade agreements with Italy. Besides the specific duties, a general ad valorem tax of 15% is imposed.

Export duties are collected on exports of minerals, metal pyrites of iron, pyrites of zinc, crude bones, calcium tartrate, rags, crude tartar, dregs of wine, and beet root.

There are also other Customs Office charges on all imports and exports per unit of merchandise, on goods temporarily stored in customs storehouses and on goods shipped from one customs house to another.

-7-

The aggregate return from all of these taxes and charges collected through the Customs Offices in 1937 was 1,635.4 million lire.

(vi) Tax on coffee. The tax imposed upon the consumption of coffee yielded 411.6 million lire in 1937.

(vii) Tax on imported mineral oils. This tax yielded 777.5 million lire in 1937.

Monopolies. The State maintains fiscal monopolies in tobacco, salt, and matches and lighting appliances. These monopolies burden the poorer classes, and use of public lotteries as a device for obtaining public revenue is also burdensome.

The following table indicates that part of the receipts which is regarded as tax revenues by the Italian government, from the fiscal monopolies and the profit from the State lottery for the year 1937:

Monopoly Receipts Regarded as Revenues, 1937
(Millions of lire)

Monopolies:

| | |
|------------------------------------|---------|
| Tobacco | 2,662.1 |
| Salt | 324.4 |
| Matches and lighting appliances | 104.5 |
| Lottery | 426.0 |
| Total | 3,517.0 |

Estate duties, miscellaneous receipts, and miscellaneous fees yielded the sizable return of 5,563 million lire in 1937. At least 19 or 20 different kinds of receipts, ranging from deductions for pensions of State employees to the annual profits of the postal savings bank, are included. The data available does not permit adequate discussion of each of these sources. 41.9

(b) Non-tax revenues

While taxes provide the Italian national government with 75% to 80% of its ordinary revenues, the receipts from other sources are appreciable. The source from which the detailed figures for

- 8 -

taxes in 1936 and 1937 were obtained does not give the figures for non-tax revenues. The following table places non-tax revenues together in the lower half of the table. It presents, on a comparative basis, the revenue receipts for the five year period from June 30, 1936 to June 30, 1940. The unreliability and incompleteness of the data have increased greatly in the later years, though the estimates of revenues may be assumed to be much more reliable than the published estimates of expenditures for the same years.

Revenues of Italian Government
(Millions of lire)

| Fiscal years ending June 30: | 1940 (Estimate) | 1939 (Estimate) | 1938 (Actual) | 1937 (Actual) | 1936 (Actual) |
|------------------------------|--------------------|--------------------|------------------|------------------|------------------|
| Ordinary | | | | | |
| Taxes: | | | | | |
| Direct----- | 6,816 | 7,611 | 5,954 | 5,136 | 4,626 |
| On business transactions | 6,112 | 6,162 | 5,494 | 4,539 | 4,101 |
| Indirect on consumption- | 5,487 | 5,395 | 5,822 | 5,252 | 5,111 |
| State monopolies----- | 3,550 | 3,294 | 3,380 | 3,091 | 2,961 |
| Lotteries----- | 505 | 455 | 487 | 426 | 395 |
| On revenues of the public | | | | | |
| transports conceded to | | | | | |
| private enterprises---- | - | 9 | 15 | 14 | 13 |
| Administered by the | | | | | |
| foreign offices----- | - | 25 | 31 | 25 | 19 |
| State Property | 232 | 192 | 276 | 293 | 140 |
| Net Revenues from railways, | | | | | |
| post office, telegraph and | | | | | |
| telephone, and monopoly--- | 273 | 255 | 355 | 596 | 381 |
| Receipts from minor public | | | | | |
| services----- | 197 | 185 | 221 | 200 | 179 |
| Refunds & Participations---- | 644 | 622 | 650 | 594 | 719 |
| Miscellaneous revenues----- | 475 | 535 | 1,848 | 1,096 | 781 |
| Extraordinary revenues----- | <u>268</u> | <u>330</u> | <u>2,932</u> | <u>3,436</u> | <u>945</u> |
| Total----- | 24,561 | 25,072 | 27,468 | 24,702 | 20,371 |
| Movement of capital----- | <u>6,736</u> | <u>1,940</u> | <u>3,630</u> | <u>12,710</u> | <u>40,431</u> |
| Grand Total | 31,297 | 27,012 | 31,098 | 37,412 | 60,802 |

- 9 -

State-owned enterprises in mining, waterworks, lands, factories, public beaches, canals, forests, etc., and interest and dividends on state contributions to the capital of various businesses, yielded a return of 293 million lire in 1937. For fiscal 1940 the estimated returns were 232 million lire. The net profits of the fiscal monopolies or state monopolies in tobacco, salt, etc., along with the net revenue from the railways, the post office and the telephone and telegraph system, amounted to 596 million lire in 1937. By 1940 the estimated revenue from this source had declined to 273 million lire.

Receipts from minor public services include such varying elements as prison fees, public education taxes, fees for admission to museums and galleries, passport charges, etc. These receipts amounted to 200 million lire in 1937.

Refunds and participations include as their most important element (about 60% of the total) the reimbursement by the railroads of the State for interest paid by the State on mutual obligations. Other State enterprises and institutions make somewhat similar reimbursements and contributions. These receipts (sometimes called Reimbursements, etc.) amounted to 594 million lire in 1937.

The headings "extraordinary revenues" and "movement of capital" are not adequately explained in available sources. It is known, however, that under the latter heading in both revenue and expenditure accounts, capital transactions for development and enterprises of the State, as well as transactions in the issuance and retirement of the public debt, are included. The tremendous size of the latter item, 40,431 million lire in 1936, was obviously largely, if not entirely, a reflection of the borrowing necessitated by the Ethiopian war (ending May 5, 1936).

(c) Major features of the tax system.

The discussion of individual taxes as they existed in 1937 was presented in (1) (a) above. As to the principles followed, the Italian tax system represents the present stage of a slowly evolving arrangement for financing the government rather than the application of modern clear-cut principles of taxation. The collection of only slightly more than a fifth of its revenues in direct taxes indicates, on the face of it, a rather complete neglect of the principle of ability to pay. As far as any rules can be said to have been followed, the system appears to be based upon the rule that an old tax is a good tax, the related rule that the best taxes are those that cause the least complaint, and the basic necessity of getting revenue by any means possible.

-9a-

The most important change in Italian taxation after 1937 and before Italian entrance into the war in June, 1940 was the substitution of the Business Transactions or Turn-over Tax of January 9, 1940 for the Sales Tax. The Sales Tax had applied to wholesale and retail sales of goods, while the new tax applied to transactions involving the transfer of services as well as goods. The New Tax of 2% instead of the former 2½% applied to the income in monetary or other forms received by any person as a compensation for the transfer of goods or services within the Kingdom of Italy with the following exceptions: movement of capital funds; sale of goods subject to monopolies; contributions to syndical organizations, to the Fascist Party, and for religious, charitable, educational, cultural, sanitary, and similar purposes; certain types of interest payments, including those from public and private securities, bank deposits, etc.; salaries, wages, subsidies, indemnities and other receipts already subject to the tax on "ricchezza mobile"; export activities; receipts from the sale of bread and milk to consumers; and loans and debts.

While the rate of the tax was set at 2 lire per hundred, it was further provided that the rate might be increased to 6 lire in certain cases in order to make its application uniform as between enterprises, some of which are more integrated than others.

The tax base includes public utility services and imports, so that it might be expected that the revenue from the new tax would be increased by more than enough to offset the decline in rate from 2.5% to 2.0%. It has been reported that the turnover tax was producing revenue at the rate of 4 to 5 billion lire in 1942. In that year the turnover tax on meat, and various transport taxes affecting foodstuffs, were reduced in order to lower food prices.

Special taxes introduced since Italy's entrance into the war (1940) include the following:

A special tax on war profits, which, as modified in June, 1942 levies a graduated rate on the amounts of income which exceed the 1938 assessment after exemption of income below

- 10 -

15,000 lire and excess profits of 8,000 lire. The rates rise from 20% on amounts of excess profits not exceeding one fifth of the ordinary income by stages of 30% and 40% to 60% on amounts exceeding 100% of the ordinary income.

An income tax graduated on a sliding scale. This tax is superimposed upon the scheduled income tax, with its flat rates on various classes of income as follows:

| | <u>Percent</u> |
|---|----------------|
| Income from capital only | 20 |
| Profits from industry and commerce | 14 |
| Income from professional work | 12 |
| Salaries, including State salaries and pensions | 8 |
| Wages | 4 |

The surtax on a sliding scale is calculated at 25% on the above taxes for incomes between 10,000 and 30,000 lire, 50% for incomes between 30,000 and 175,000 lire, 75% for incomes between 175,000 and 485,000 lire, and 100% on incomes above 485,000 lire.

On September 27, 1941, the registration tax on real estate sales was increased from 4% to 8% and the exemption basis for the 60% tax on profits from real estate sales was reduced from 300,000 lire to 50,000 lire; at the same time a flat rate tax of 30%, instead of the previous graduated rate, was imposed on profits from stock sales.

In 1942, a special graduated tax of 1% to 10% of the aggregate amount of bequests in excess of 50,000 lire was imposed.

These changes brought about in order to prevent profiteering and to demonstrate the necessity for universality of sacrifice were made in the first years of the war. Additional taxation, however, accounts for a conspicuously small portion of the funds necessary for prosecution of the war. 4137

Revision of land appraisals was instituted in April, 1939 and should be approaching completion. The arbitrary allowable deduction

- 11 -

from the income of houses of one third of the gross income for expenses is regarded as inequitable and a change has been under consideration. A Unified Tax Payers' Register has been established to assist the Inland Revenue Department in assessment and control of certain taxes. There is appearing a tendency to base the assessment of income taxes, not upon a return of actual income, but upon presumptive income received under ordinary normal conditions as determined periodically by the Inland Revenue Department. While something may be said from the viewpoint of equity in favor of taxing annual income on a basis which distinguishes between recurring annual receipts and those which are unusual and unlikely to recur year by year, it appears that a distrust of the accuracy of returns of annual income is the motive for the suggested change in Italian taxing procedure.

(d) Tax organization and administration.

The Minister of Finance directs and supervises all the revenue offices of the State. Besides the various Directions of the Finance Ministry itself, the principal offices are the District Offices of Direct Taxation, Registration Offices, the Administrations of the State Monopolies, and the Customs Bureau.

The Minister of Finance is a political official appointed by the King on recommendation of the Head of the Government. The personnel of the various fiscal offices is appointed on the basis of scholastic or university attainments and special examinations; they enjoy permanent tenure.

Import and export duties and navigation taxes are assessed by the Customs Bureau; real estate taxes, by the appropriate central and local commissions; succession and stamp taxes, by officials of the Registration Offices; income taxes and surtaxes and taxes on real estate, by the District Offices of Direct Taxation.

Disputes affecting income taxes may be appealed to provincial commissions on questions of fact; on questions of law the dispute may be appealed to a central commission. Contested valuations arising out of the administration of customs duties are submitted to special Economic Councils operating under the Ministry of Finance. If the Registration Office refuses to accept the taxpayer's declaration in the case of succession taxes, a judicial assessment may be secured.

4106

Customs duties and navigation taxes are collected through the Customs Bureau; taxes and surtaxes on real estate and income taxes

- 12 -

are collected through the District Offices of Direct Taxation; succession taxes, stamp taxes of various sorts and sales taxes are collected through the Registration Offices.

(e) Taxes allocated to specific purposes.

Though there is a law prohibiting the assignment of revenues for specific purposes, frequent exceptions are made. A part of the profit from the tobacco monopoly is assigned to the Debt Sinking Fund. 180 million lire per year of the revenue collected from automobile taxes have been assigned to the Autonomous Road Fund. Revenues obtained from taxes on amusements and entertainments are assigned to the Italian Society of Authors. The major portion of the Bachelor's Tax is assigned for the National Maternity and Infant Welfare Work.

(f) Grants-in-aid or subsidies from other governmental units and

(g) Taxes shared between two or more levels of government.

In general, revenues from taxation go to the central treasury. Within limits fixed by law and the central administrative authorities, local units of government may add to the general rates levied upon real property; they may also levy a family tax and a tax on the occupation of public lands.

(2) Expenditures

(a) Annual statistics

Since 1930, Italian budgets have consistently shown deficits and in recent years the actual deficits have been greatly in excess of those indicated by the budgets, since the war costs which are known to have been very great, even prior to Italy's entry into the world conflict in June 1940, are not fully included in the budgetary estimates.

Prior to the outbreak of the war, the Italian Government undertook extensive programs of development involving outlays estimated at 33,634 million lire during the period since 1922, exclusive of expenditures for land reclamation. While much of these outlays represented expenses of these programs, no small part constituted capital investment which might be expected to yield income to the State. The State promoted the mining of coal, metals and minerals, oil hydrogenation, civil aviation, the silk industry, the fashion industry, sulphur production and sale, the cinema industry, industrial reconstruction in general, the hotel and tourist trade, land reclamation, prospecting in Albania, and various enterprises in Africa and Ethiopia.

- 13 -

Heavy expenditures on military, naval, and air forces were made in the conquest of Ethiopia, in the Spanish Civil War, and in preparing for further military activities. While the greater part of the expense incurred in Spain is said to have been funded later by the Spanish Government by means of long-term bonds, Italian expenditures and debts were necessarily increased.

Italian National
Expenditures by Departments
(Millions of lire)

| Fiscal year ending June 30: | 1943 (Estimate) | 1938 (Actual) | 1937 (Actual) | 1936 (Actual) |
|-------------------------------------|----------------------|------------------|------------------|------------------|
| Departments | | | | |
| Finance | 20,365 | 11,923 | 10,454 | 10,191 |
| Justice | 691 | 541 | 500 | 470 |
| Foreign affairs | 444 | 369 | 338 | 247 |
| Italian Africa | 439 | 5,775 | 7,182 | 4,137 |
| National education | 3,016 | 1,960 | 1,763 | 1,666 |
| Interior | 1,433 | 1,469 | 1,356 | 1,134 |
| Public works | 1,074 | 1,336 | 1,153 | 1,127 |
| Communications | 731 | 849 | 710 | 717 |
| War | 5,425 | 6,229 | 9,439 | 7,452 |
| Navy | 4,539 | 2,975 | 3,425 | 2,852 |
| Aeronautics | 4,189 | 4,066 | 3,708 | 2,310 |
| Agriculture and forests | 963 | 759 | 664 | 605 |
| Corporations | 345 | 280 | 168 | 139 |
| Special internal education | 134 | 107 | 66 | - |
| Trade and international payments | 38 | - | - | - |
| Total | 43,826 ^{1/} | 38,642 | 40,932 | 33,057 |
| Movement of capital | 11,373 | 1,990 | 7,133 | 33,866 |
| Grand Total | 55,199 | 40,632 | 48,065 | 66,923 |

^{1/} This total does not include an estimated 65 billion lire for war expenditures which is included in the 108.8 billion lire figure shown in the table on the following page. 4100

Outlays for interest on the public debt are included in the expenditures of the Finance Department and account for the disproportionate size of that item. Interest payments for the fiscal year ending June 30, 1943 were estimated at 13.9 billion lire.

- 14 -

The following table gives a general picture of revenues and expenditures in the period 1934 to 1943 which is of interest in regard to war costs and to the increase in public debt through continual growth of deficits:

Italian Budget Accounts and Estimates
1934-35 to 1942-43
(Billions of lire)

| Year Ending June 30 | Expenditure | | | Ordinary | |
|------------------------|-------------|-------|-------|----------|---------|
| | Military | Other | Total | Revenue | Deficit |
| 1934-35 | 5.2 | 15.6 | 20.8 | 18.8 | 2.0 |
| 1935-36 | 12.6 | 20.4 | 33.1 | 20.4 | 12.7 |
| 1936-37 | 16.6 | 24.4 | 40.9 | 24.7 | 16.2 |
| 1937-38 | 13.3 | 25.4 | 38.6 | 27.5 | 11.2 |
| 1938-39 | 15.0 | 24.8 | 39.9 | 27.6 | 12.3 |
| 1939-40 | 27.7 | 32.7 | 60.4 | 32.4 | 28.0 |
| 1940-41 (estimate) | - | - | 94.9 | 29.0 | 65.9 |
| 1941-42 (estimate) | - | - | 96.0 | 31.1 | 64.9 |
| 1942-43 (estimate) | - | - | 108.8 | 35.4 | 73.4 |

(b) Financial organization and administration.

The responsibility for financial administration rests almost entirely with the Ministry of Finance. An office known as the "Ragioneria Generale dello Stato", attached to the Ministry of Finance, prepares the budget and exercises other budgetary functions. A representative of this office attached to each department compiles estimates based on departmental requirements and revises these in accordance with the general fiscal program. Each Minister then approves the revised budget for his department. These departmental budgets are collected and reviewed by the Finance Minister. Ministerial disputes are settled in conference and the final estimates are prepared by the Finance Minister.

(c) Financial control exercised by other units of government.

The national government is not restricted in its control of national fiscal affairs by any powers of the Provinces and Communes, which have only limited fiscal autonomy. Control over the local

- 15 -

finances, on the other hand, is exercised by the Commissione Centrale per la finanza Locale, the Central Commission for Local Finance.

(3) Public Indebtedness(a) Amount of outstanding public debt.

The Italian public debt has increased very rapidly in recent years. The figures for the war years are disclosed, if at all, only in approximate figures, and no reliable and detailed figures are available since 1940 at the latest. Disregarding the nature of the indebtedness, the following table indicates the growth of total liabilities since 1934.

Total Liabilities of the Italian Government

| Fiscal years ending June 30 | Billions of Lire |
|--------------------------------|------------------|
| 1935 | 126 |
| 1936 | 133 |
| 1937 | 154 |
| 1938 | 163 |
| 1939 | 175 |
| 1940 | 210 |
| 1941 | 277 (Estimated) |
| 1942 | 350 " |
| 1943 | 450 (Possible) |

Presumably seeking to conceal the publicly recognized signs of weakness of government credit and inflationary types of borrowing, the government has concealed or jumbled the figures for the expansion of bank note issues and the short-term debt of the government, but more definite figures on bond issues are available. At or near the end of the calendar year, 1941, Italian national government bonds bearing the indicated rates of interest were outstanding:

Internal Issues Italian National Government Bonds
1941

| Interest Rates (percent) | Outstanding (Millions of lire) |
|-----------------------------|-----------------------------------|
| Direct Obligations | |
| 3 | 922.4 |
| 3½ | 69,080.5 (Including some con- |
| 4 | 8,892.7 verted into 5 s of |
| 4½ | 714.9 1935) |
| 5 | 98,498.9 |
| Various | 2,500.0 (Estimated) |
| Total direct | 180,629.4 |

4134

- 16 -

Internal Issues (table cont'd.)

| | |
|-------------|-----------------------|
| Guaranteed | 4,000.0 (Approximate) |
| Grand Total | 187,629.4 |

The Italian government announcement of November 2, 1941 of war-costs of 76 billion lire from July 1, 1940 to October 8, 1941 stated that these expenditures were financed largely from the following sources:

(Billions of lire)

| | |
|--|------|
| Nine-year Treasury bonds | 34.0 |
| Ordinary Treasury bills | 21.0 |
| Current accounts of Treasury with various "bodies and institutes" | 10.3 |
| Special Treasury bonds as collateral for advances by Bank of Italy | 7.4 |
| Total | 72.7 |

It is reported that the service of the Italian public debt is more costly than that of other belligerents. The increasing percentage of total ordinary revenue absorbed by the debt service is shown in the following table. The true size of the Italian national income is unclear.

(in millions of lire)

| <u>Fiscal year</u> | <u>Revenue</u> | <u>Interest Payments</u> | <u>Percentage of Revenue for Loan Service</u> |
|--------------------|----------------|--------------------------|---|
| 1934-35 | 18,817 | 4,469 | 23 |
| 1940-41 | 34,234 | 8,796 | 25 |
| 1941-42 (est.) | 31,082 | 10,076 | 32 |
| 1942-43 " | 35,425 | 13,930 | 39 |

In October, 1942, it was reported that the succession States of Yugoslavia had agreed upon a distribution of Yugoslav assets and liabilities, in accordance with which Italy took over 8% of the Yugoslav State debt.

Though it has been in default on its war-debt payments to the United States government since June 15, 1933, the present Kingdom of

- 17 -

Italy had not defaulted on any of its publicly held obligations, either external or internal, prior to July 1, 1940, when interest and sinking fund payments were suspended on an issue of Sterling 5% bonds due in 1959 of which £ 1,119,340 are outstanding and on the External Sinking Fund 7 s, payable in U. S. (gold) dollars, of which \$66,174,400 are outstanding. Payments in U.S. legal tender were accepted after April 1933 until June 1, 1940, when all payments were suspended. These two issues are the only external issues of direct obligations. Payments have not been made on some £ 1,292,000 of guaranteed obligations since July 1, 1940.

War Debts on July 1, 1931. The aggregate amount of debts due to Italy over a period of years, from Germany, Austria, and others was \$4,057 millions. On June 30, 1942 the total war debt of Italy to the United States Government amounted to \$2,037 million.

The Italian 3½% Consols sold at prices which gave yields ranging between 4.08% and 4.44% during the first 7 months of 1942. The 5% Bonds sold on a 5.20% to 5.41% basis during the same period. In July 1942 the yields were 4.08% and 5.25%, respectively, for the two issues.

The nine-year Treasury bonds bear interest at 5% and were offered for subscription at 97.5. The bonds also carry privileges of semi-annual prize drawing amounting to 4.8 million lire for each billion lire of issue. Including the amortization of the 2.5% discount over the nine-year period, prizes, and interest, the total annual cost of the borrowing is roughly 5.9%.

The Italian government's credit position is very definitely inferior to that of other European governments. The high rates of interest which it is obligated to pay and its inability to raise a larger part of its war-costs by taxation are related phenomena and reflect a much weaker control of the public by the government than would be expected from the loud claims of fascism as to the supremacy of the State. When the Council of Ministers announced on May 2, 1942 that excess profits arising from the war were to be "unavailable" and that they must be invested in a special type of bond of the State, the measure had to be regarded more as a procedure for financing the war than one in quest of equity or to prevent inflation.

b. Provincial governments

The Prefecture Council or giunta is elected by the citizens of the province. To this council the prefect submits each year a budget of proposed expenditures and the budget is passed with such changes as the council may decide to make. The appropriations, after they are made,

- 18 -

are controlled entirely by the prefect rather than the council. On various matters the council may pass resolutions, but it does not have the power to enact legislation or to levy taxes. The prefect and his assistants are not directly amenable to control by the provincial council, which cannot eject them from office. They are responsible to their superiors in the national government at Rome. Nevertheless, the prefect is unable to ignore the wishes of the council, since it controls the appropriation of funds which are necessary to carry on the provincial government.

The provinces receive revenue from taxes on the annual rental value of farm lands and on the income from buildings, using the same assessments for these taxes as those used by the national government and the communes. In regard to the first of these taxes, the national tax of 10 percent on the rental value of farm lands, the tax is increased by additional percentages (centimes additionnels) levied in favor of the provinces. The normal rate of these additional centimes is 50 centimes per lira of the basic tax, but the rate may be increased to 100 centimes per lira, that is, the provincial tax varies between 50% and 100% of the national tax, or between 5% and 10% of the assessed rental value. In the case of the national 10% tax on the income from buildings, the additional centimes for the provinces are normally 50 per lira, but may be increased to 75. The decision of the Prefecture Council as to the size of annual appropriations determines the actual rate between the upper and lower limits of these taxes, though the taxes are levied by the national government rather than by the provincial authorities.

c. Cities and other local governmental units.

There is only one type of strictly local governmental unit: the commune. Communes include the largest cities as well as the smallest villages, without legal distinction. All are governed under the same municipal code and in the same way, though larger communes have larger councils or boards.

The Podestà (appointed by royal decree) governs the commune by administrative ordinances. He is responsible for the public services and all administrative and legislative measures in the commune, including the budget, taxes, administration of public property and salaries of the local employees. His work, however, is subject to the supervision of the Prefect of the province within which his commune is situated, and the Prefect has the right to remove him from office for delinquencies. The Communal Council, appointed by the Prefect, assists the Podestà in a purely advisory capacity. The opinion of the Council must be sought by the Podestà in certain matters defined by law. Otherwise, the Podestà may or may not consult it. The matters on which consultation is obligatory are mostly financial. The Podestà is not obliged to follow the advice of the Council, even in matters where consultation is obligatory. But when he does not do so, it must be stated expressly in his records and reports. The Council may be dissolved at any time by the Prefect. Actually, little scope is given for the exercise of local initiative, since nearly all important decisions are made by the national authorities and extended to the local units by uniform decrees and regulations. General control over local finances is exercised by the Central Committee for Local Finance.

- 19 -

Some 22 different taxes are imposed by the Communal Offices, including taxes on the rental value of houses, taxes on consumable, taxes on domestic animals, and numerous other taxes and license fees.

Total local taxes of 20 cities having populations in excess of 100,000 inhabitants amounted to 1,320 million lire in 1937 and 1,309 million lire in fiscal 1936:

| Local taxes of 20 Cities (Millions of lire) | | |
|--|--------------|--------------|
| | 1937 | 1936 |
| Consumption taxes | 817.8 | 847.9 |
| Supplements to the house and land tax | 193.1 | 206.6 |
| Tax on business, industry, arts and professions | 122.8 | 125.0 |
| Miscellaneous taxes | <u>186.3</u> | <u>129.5</u> |
| Total local taxes | 1,320.0 | 1,309.0 |

The total ordinary revenues and expenditures of certain cities for the calendar year 1937 were as follows:

| | (Thousand Lire) ⁴¹⁰⁰ | |
|--------------|---------------------------------|--------------|
| | Revenues | Expenditures |
| Bologna | 77,325 | 75,345 |
| Florence | 99,313 | 94,950 |
| Genoa | 199,201 | 208,689 |
| Leghorn | 29,943 | 30,487 |
| Milan | 469,370 | 475,707 |
| Naples | 161,866 | 175,080 |
| Rome (1936). | 422,725 | 321,786 |
| Trieste | 66,727 | 75,183 |
| Turin | 189,275 | 180,086 |
| Venice | 62,880 | 62,781 |

d. Government owned enterprises

The revenues of the national government derived from the ownership and operation of the fiscal monopolies and other enterprises were listed above under the heading of non-tax revenues. Besides these nationally-owned enterprises, there are many enterprises owned by communes or municipalities. The city of Bologna, for example, held publicly-owned property valued at 118.5 million lire on December 31, 1938, including electric plants valued at 20 million lire, street railways at 22 million, waterworks at 73.5 million

- 20 -

and gas works at 2 million; the receipts from these were 5.9 million lire. In many, if not all, of the larger cities of Italy, the electric plants, street railways, gas works and waterworks are municipally owned and operated. The City of Rome received 77.8 million lire from publicly-owned property and enterprises in 1936, the City of Leghorn 24.7 million in 1938, the City of Genoa 35.8 million in 1937, the City of Milan 139.3 million in 1937, and the City of Trieste 10.1 million in 1936. In most cases the reported annual expenditures for these enterprises are slightly less than the receipts, but Turin had expenditures of only 19.5 million and receipts of 37.6 million lire in 1938. It is not to be concluded, however, that Italian municipal enterprises are generally operated at a profit, since it is not probable that the costs of operation are adequately indicated by the annual expenditures. It is a notorious defect in governmental bookkeeping in most countries, that little or no attention is given to the cost which results from the depreciation in the value of capital investments in government enterprises and to the cost of the services rendered to these enterprises by other branches or departments of the Government. The published figures of property-and-enterprise revenue of these Italian cities include, moreover, the income from other property of the cities besides that used by the enterprises which the cities operate.

INDEX

| | | | |
|----------------------------------|----------|-----------------|----|
| Administration, financial | | Tax system | |
| local..... | 14-15,18 | local..... | 19 |
| national..... | 14 | provincial..... | 18 |
| provincial..... | 17-18 | national..... | 9 |
| Administration, tax system | | Telegraph..... | 8 |
| local..... | 18-19 | Telephone..... | 8 |
| national..... | 11-12 | | |
| provincial..... | 18 | | |
| Debt | | | |
| foreign..... | 17 | | |
| national..... | 15-17 | | |
| Expenditures | | | |
| government-owned enterprises.. | 20 | | |
| local..... | 19 | | |
| national..... | 12-14 | | |
| Government-owned enterprises... | 19-20 | | |
| (See also Monopolies, Railways, | | | |
| Telegraph, Telephone) | | | |
| Grants-in-aid..... | 12 | | |
| Income, national..... | 16 | | |
| Monopolies..... | 2,7,9 | | |
| Organization, financial | | | |
| (See Administration, financial) | | | |
| Organization, tax system | | | |
| (See Administration, tax system) | | | |
| Railways..... | 8,9 | | |
| Receipts | | | |
| government-owned enterprises.. | 20 | | |
| non-tax, national..... | 7-9 | | |
| taxes, national..... | 1-7 | | |
| Revenues | | | |
| local..... | 19 | | |
| national..... | 1-9,14 | | |
| non-tax, national..... | 7-9 | | |
| provincial..... | 18 | | |
| taxes, local..... | 19 | | |
| taxes, national..... | 1-7,8 | | |
| amounts, all types..... | 1-2,8 | | |
| business transactions.. | 5-6,10 | | |
| direct..... | 3-5,10 | | |
| indirect on consump- | | | |
| tion..... | 6-7,10 | | |
| miscellaneous..... | 7,10 | | |
| Taxes | | | |
| national..... | 1-7 | | |
| provincial..... | 18 | | |
| shared..... | 12 | | |

41

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0949

1