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A GOOD START FOR THE VT PART

Here are the first outcomes of the data included in the VT part of the 2005 VAT return

Roberto Convevole

New VT part of the 2005 VAT return

In the VAT return for 2005 a new part indicating the regional distribution of sales to the final consumers was introduced. The first statistical results are analyzed. Apart from "Irap", the fiscal federalism will be able now to avail itself of a second important pillar: regionalized VAT. Italy is the first country which took concrete initiatives in order to "revise" this tax in order to fight its evasion successfully. This involves the most effective approach to avoid following the same way as the European Commission which, with the aim of fighting still more important frauds, is likely to misrepresent the logic of this tax definitively.

Un bon demarrage pour le cadre VT

Dans la déclaration TVA pour l'année 2005 un nouveau cadre indiquant la répartition régionale des ventes aux consommateurs finaux a été introduit. Les premiers résultats statistiques ont été analysés. A coté de l'"Irap", le fédéralisme fiscal pourra désormais se prévaloir d'un deuxième pilier important: la TVA régionalisée. L'Italie est le premier pays qui a pris des initiatives concrètes afin de "réviser" cette taxe afin de combattre son évasion avec succès. Il s'agit de l'approche la plus efficace pour éviter de parcourir le même chemin que la Commission de Bruxelles qui, dans le but de combattre les fraudes toujours plus importantes, risque de dénaturer définitivement la logique de cette taxe.

Il nuovo quadro VT della dichiarazione Iva 2005

Nella dichiarazione Iva 2005 è stato inserito un nuovo quadro per indicare la ripartizione regionale delle vendite a consumatori finali. I primi risultati statistici sono analizzati. Accanto all'Irap il federalismo fiscale potrà disporre di un secondo rilevante pilastro: l'Iva regionalizzata. L'Italia è il primo paese UE che si muove concretamente sulla strada della "riprogettazione" del tributo per contrastare fattivamente la sua evasione. E' questa l'impostazione più efficace per evitare di continuare a percorrere la strada della Commissione di Bruxelles, che, con le sue continue "deroghe" accordate agli Stati Membri nell'intento di contrastare le crescenti frodi Iva, rischia di snaturare definitivamente la logica dell'imposta.

Der neue VT-Rahmen der Mehrwertsteuererklärung 2005

In der Mehrwertsteuer-Erklärung für das Jahr 2005 ist ein neuer Rahmen, der die Endverbraucher die regionale Verteilung der Verkäufe darauf hinweist, eingeführt worden. Die ersten statistischen Ergebnisse sind analysiert worden. Von "Irap" abgesehen, der fiskalische Föderalismus kann sich von nun an von einem zweiten wichtigen Pfeiler vorherrschen: die dezentralisierte Mehrwertsteuer. Italien ist das erste Land, das konkrete Initiativen ergriffen hat, um diese Steuer "zu überprüfen", um die Steuerhinterziehung erfolgreich zu bekämpfen. Es handelt sich um das wirksamste Konzept, um zu vermeiden, denselben Weg zu durchqueren als die europäische Kommission, die, mit dem Ziel den immer wichtigeren Betrug zu bekämpfen, definitiv die Logik dieser Steuer denaturieren könnte.

El nuevo marco VT de la declaración IVA 2005

En la declaración IVA para el año 2005 se introdujo un nuevo marco que indicaba la distribución regional de las ventas a los consumidores finales. Se analizaron los primeros resultados estadísticos. Con el "Irap", el federalismo fiscal podrá en adelante prevalerse de un segundo pilar importante: el IVA regionalizado. Italia es el primer país que tomó iniciativas concretas con el fin de "revisar" este impuesto con el fin de combatir su evasión con éxito. Se trata del enfoque más eficaz para evitar recorrer el mismo camino que la Comisión de Bruselas que, con el fin de combatir los fraudes cada vez más importantes, corre el riesgo de desvirtuar definitivamente la lógica de este impuesto.

A GOOD START FOR THE VT PART

Here are the first outcomes of the data included in the VT part of the 2005 VAT return

Roberto Convevole, head of Research department, Agenzia delle Entrate

Introduction¹

Extremely important news is in the 2005 VAT return: the VT part with "*Territorial allocation of the VAT on final consumption*". The importance of this news is that, for the first time since the introduction of this tax in 1954 in France, in the tax return the taxable transactions carried out by the operators with *other VAT subjects* (sales to VAT number holders) and/or with *end users* (sales to non VAT number holders), the latter being the actual taxpayers of this tax, are quoted separately. In this way the flows of taxable transactions on which no recovery is possible are visible right away: the final taxable basis of this tax is so identified and therefore it can be at the same time allocated in the territory overcoming the macroeconomic indeterminacy that has been typical of this tax until now.

The 2005 tax return completes process started in 1994, when by the Ministry of Finance was introduced the concept of "*splitting of the VAT collected on sales*", in the White Paper. This concept was explained better later on in a remarkable text written by Mr Maré and Mr Vitaletti in the spring of 1996². In 1996 Mr Keen and Mr Smith suggested a conceptually similar distinction with the aim to change over to a permanent system³. In January 1997 a box for the indication of the VAT sales carried out in 1996 towards end users (*percentage of all sales to subjects without a VAT number*) was included in the VAT return by way of experiment. Despite the filling in of this part was on a voluntary basis, a million tax payers filled in the box. The lack of interest in VAT on the part of Tax Authority of that time did not allow this provision of information to become mandatory in the tax return for 1998. Thus it was eliminated.

¹ Italian text translated by Rosanna Acierno and revised by Susan Grace.

² Mauro Maré and Giuseppe Vitaletti: "The taxation of the consumption in the European Union. Economic effects and hypotheses of reform" in *il Fisco* No.15, April 1996. The reading of this essay after years helps us to understand the path covered in the meantime on the topic of the splitting. Indeed, the choice of the Internal Revenue Agency to shape VT part as it appears at present, seems simpler today that it did at the time.

³ Michael Keen and Stephen Smith "VIVAT an alternative VAT for the EU. The future of value added tax in the European Union ", in *Economic Policy*, n. 23 October 1966. This important essay was aimed at suggesting a realistic path in order to change over to a permanent VAT system overcoming the transitory one, which entered into force on 1 January 1993, and was to last a few years but then become permanent and is still in force. The two British authors did not have in mind what the Internal Revenue Agency has introduced with the VT part, but they meant to refer to a similar concept when they suggested fixing a standard rate, identical for all the EU Member States (MS), to be applied to the taxable transactions with VAT subjects only. This is equivalent to differentiating the taxable sales towards VAT subjects from those ones towards end users (or comparable ones). The latter would have been taxed with rates fixed by each MS. The separation of sales, depending on the purchaser, corresponds exactly to the reasoning of Mr Maré and Mr Vitaletti in 1996.

Taxpayers' behaviour

The electronic filing in of the 2005 VAT return for the fiscal year 2004 involved 5,093,606 taxpayers with a turnover greater than zero⁴. A full 97.39% indicated how they split the taxable transactions towards *end users* and towards *VAT subjects*. The information is therefore based on a huge number of data.

Figure 1

VT PART		1		2	
SEPARATE INDICATION OF OPERATIONS CARRIED OUT REGARDING END CONSUMERS AND HOLDERS OF VAT NUMBERS	VT1	Total taxable operations	.00	Total tax	.00
		Taxable operations with end consumers	.00	Tax	.00
		Taxable operations with holders of VAT numbers	.00	Tax	.00
		Taxable operations with end consumers		Tax	
VT2	Abruzzo	.00		.00	
VT3	Basilicata	.00		.00	
VT4	Bolzano	.00		.00	
VT5	Calabria	.00		.00	
VT6	Campania	.00		.00	
VT7	Emilia Romagna	.00		.00	
VT8	Friuli Venezia Giulia	.00		.00	
VT9	Lazio	.00		.00	
VT10	Liguria	.00		.00	
VT11	Lombardia	.00		.00	
VT12	Marche	.00		.00	
VT13	Molise	.00		.00	
VT14	Piemonte	.00		.00	
VT15	Puglia	.00		.00	
VT16	Sardegna	.00		.00	
VT17	Sicilia	.00		.00	
VT18	Toscana	.00		.00	
VT19	Trento	.00		.00	
VT20	Umbria	.00		.00	
VT21	Valle d'Aosta	.00		.00	
VT22	Veneto	.00		.00	

The VT part is basically made of two parts (see Figure 1). In the first part, the section VT1, the taxpayer must indicate the total value of his taxable transactions and then break it down between end users and other VAT subjects. The same procedure is used for the tax to be applied. In the second part of the VT part (i.e. lines from 2 to 22) the taxpayer allocates for region of destination only the taxable transactions with end users.

For every 100 the taxpayers who have filled in totally or in part the VT part we can see that:

- 57.66% has not filled in the line concerning the region where the final consumption sales have been made (see table 1), and it represents 42.83% of the final sales;
- 41.88% has marked only one single region of business (table 2), with 47.22% of the final sales;

⁴ Only 132,688 of those did not fill in the VT part.

c) 0.45% has marked two or more regions of business (table 3), with 9.94% of final sales.

On the whole, at present 57.16% (i.e. the sum of the totals in tables 2 and 3) of the sales to final consumption is allocated per region.

These data are meaningful for two reasons.

Firstly, by crossing the various boxes it is possible to isolate VAT holders that carry out taxable transactions with other VAT holders (only 46.4% of the total) and that, therefore, did not have to fill in the regional lines. On the contrary, 53.6% of transactors have carried out sales to final consumption or have carried out mixed sales. As a consequence, in the data shown in table 1, just under 2,200,000 taxpayers cannot be taken into account in our analysis whilst approximately 528,000 taxpayers will have to be allocated in the regions using their personal data. Basically, at present 79% of the transactors, with sales to final consumption, is already placed per territory according to their sales.

Secondly, it is possible to see that declarers interested in sales to final consumption in more than only one region total 21,177. Such a number can appear too small and therefore incorrect but, actually, it reflects the characteristics of our economy, based on small productive units with an internal demand at a sub-regional level. This also concerns IRAP⁵ and therefore production plants. In fact, IRAP subjects with productive units at least in two regions are a little more than 15,000 (number referred to the fiscal year 2002, the latest available).

Basically only 1 taxpayer in 120, among those interested in final consumption sales, carries out sales in more than one region and this small number has had to take on an additional burden compared with the past. But these taxpayers are also the ones with a better accounting organisation and therefore it is easy for them to find data. Let us consider two extreme cases: a chain of food stores and a wine cellar. It is obvious that the chain would be able to precisely indicate its sales to the final consumption in the single areas of the cities where it carries out its activity. The wine cellar, located for instance in Tuscany or Sicily, that sells by mail nationwide (we refer to sales to subjects without VAT number) knows very well where its customers are located and since its accounts are recorded on a personal computer it is able to pinpoint the information regarding the single regions.

It might be said that approximately 21% of declarers involved have not filled in the line regarding the region. But, for the reasons explained above, it is obvious that they are taxpayers involved in only one region.

⁵ Irap is Italy's regional tax on productive activities

The results of the survey

As shown in table 4, the VAT invoiced on the total taxable transactions in 2004 was over 413,000 million euros. 67,669 million euros of that amount concern the taxable operations towards *end users* and 345,517 million euros are relative to the taxable transactions towards *VAT subjects*. 67,669 million euros are the VAT paid by the “end users” on their purchases whilst 345,517 million euros represent two different qualitative items: a) the VAT “*deductable*” on the purchases made by VAT holders; b) the VAT “*non-deductable*” on the purchases (*subjective* non-deductable and *objective* non-deductable). The items b) will take part along with 67,669 million euros to make the final net revenue that is calculated on an economic accrual basis.

From ISTAT, i.e. the Italian Institute of Statistics that processes not only data on payments but also data on refunds and credit/debit offsetting, we know that the year 2004 ended with an *VAT calculated on an accruals bases* equal to 81,457 million euros.

If we compare the final consumption VAT (67,669 millions) with the total accruals VAT (81,457 millions) we obtain a weight equal to approximately 83%. We note that the remaining VAT to be allocated to Regions is equal to approximately 17% of the total amount and it comes out, as mentioned, by the non-deductable *subjective* and *objective* of taxpayers.

Basically the final consumption VAT included in the VT part comprises:

- a) families’ taxable final consumption;
- b) investments of the families (houses and restoration of building);
- c) intermediate purchases of Public Administration;
- d) investments in public works.

Table 1: VT part filled in without marking the region of sales – million €

		Number of fields filled in	2,704,993		
		Total taxable transactions	1,441,137	Total tax	260,854
VT1	Breakdown of the taxable transactions carried out towards end users and Vat subjects	Taxable transactions towards end users	221,643	Tax	25,146
		Taxable transactions towards Vat subjects	1,219,461	Tax	235,705

Table 2: VT part filled in marking only one single region of sales - million €

		Number of fields filled in	1,964,748		
		Total taxable transactions	652,390	Total tax	120,040
VT1	Breakdown of the taxable transactions carried out towards end users and Vat subjects	Taxable transactions towards end users	244,380	Tax	34,787
		Taxable transactions towards Vat subjects	408,011	Tax	85,254

Table 3: VT part filled in marking more than one region of sales - million €

		Number of fields filled in	21,177		
		Total taxable transactions	194,280	Total tax	32,294
VT1	Breakdown of the taxable transactions carried out towards end users and Vat subjects	Taxable transactions towards end users	51,429	Tax	7,736
		Taxable transactions towards Vat subjects	142,850	Tax	24,558

Table 4 - Line 1- Taxable transactions and total tax - Total - million €

		Number of fields filled in	4,690,918		
		Total taxable transactions	2,287,807	Total tax	413,188
VT1	Breakdown of the taxable transactions carried out towards end users and Vat subjects	Taxable transactions towards end users	517,451	Tax	67,669
		Taxable transactions towards Vat subjects	1,770,321	Tax	345,517

Figure 2. Number of businesses, expressed in percentage

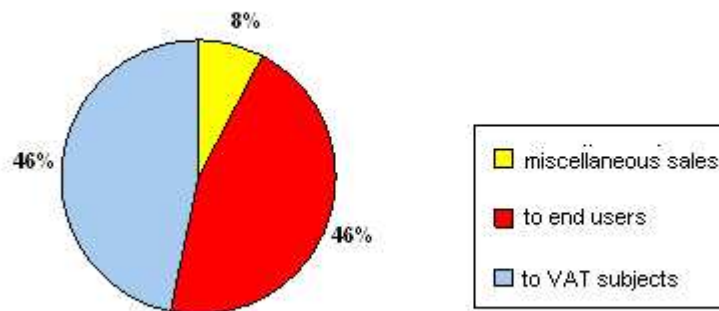
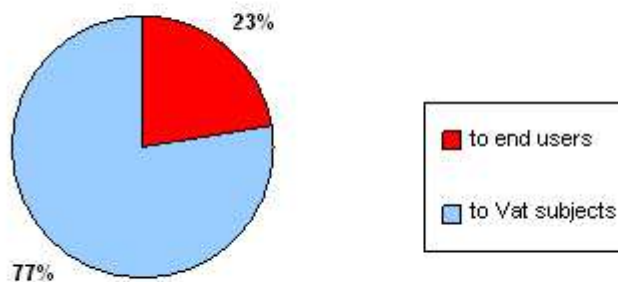


Figure 3. Volumes of sales expressed in percentage



Why these data are important

The following example sufficiently explains the importance of the information that the VT part gives. Based on the most recent data published by the tax authorities we know that in 2001 the accrual(s?) VAT was paid as follows:

North 66%; Centre 26%; South 8%.

This distribution reflects the location of companies' offices registered and it is comparable with the payment of the Ires (corporate income tax). Just consider that three regions (Piemonte, Lombardia, Lazio) represent almost 2/3 of the VAT payments.

If on the other hand we consider the territorial localization of the final consumption VAT (with the items treated as such), the resulting situation for 2004 is the following:

North 56%; Centre 22%; South 22%.

They are obviously preliminary data but their importance is clear: the allocation of the final consumption (and the ones treated as such) per region that is subject to VAT does not have any relation to regional allocation of the VAT payments⁶. And this is true even though later on it might be found out that in region "X" the burden of the territorial VAT is the same as the burden of the VAT paid: it would just be by chance, the two concepts are logically different from each other.

A deeper look

Although apparently the results obtained are very promising, it is necessary to tackle some specific issues, useful to complete the regionalization and to there by arrive to 100% of the net VAT revenue calculated on an accrual basis, such as those regarding:

1) *public administrations*: it is known that Lazio centralizes a part of the purchases that, although referring to the Public Administration, will be utilised in other regions. It will be necessary to compare it with the regional allocation of the Irap taxable basis (Italian regional tax);

2) *banks and insurance companies*: for these entities that have mainly tax-exempt transactions, the territorial allocations of the taxable basis relating the *subjective non-deductable* will have to be evaluated comparing it with the territorial location of the net production for Irap purposes in the financial sector;

3) *objective non-deductable* (fuels, cars, etc. but also *non-deductable* investments): for the 21,000 taxpayers who have declared sales to final consumption in more than one region it will be necessary to think about the distribution at regional level of the objective *non-deductable* based on their sales to final consumption (i.e. households) and to Public Administration (a sort of pro-rata);

4) *investments in houses and home improvements made by families*: it will be necessary to see if there is consistency with the regional allocation of the investments for each building manufacturing sector according to ISTAT source.

All this will have to be analyzed further on using the input-output table of VAT that is being completed. In fact, an important aspect in the work of balancing is the analysis of the data per sector of economic activity of the taxpayers.

⁶ We will have to wait for not only for the data processing relating to 528,000 taxpayers who did not fill in the lines concerning regions but also for the cleaning and the balancing of the data, i.e. the consistency of the data submitted usually made by the tax authorities before disclosing the tax returns to the public. Therefore, the final result might differ from the one based on the information available at present.

Conclusions

1. The creation of the VT part represents an important administrative change that lays the foundations for a breakthrough in keeping the evasion down. Taxpayers and intermediaries have welcomed the new information requirement and we can say without doubt that their feedback is positive. The Tax Authority has a tool, easy but powerful, that is able to disclose the ultimate content of VAT. The paradox that hid the real nature of Value Added Tax, final tax on the consumptions in the territory is now resolved. If we think about it, a more appropriate name for VAT would be Final Consumption Tax (FCT): in French the new acronym could be TCF (*Taxe sur la consommation finale*). In this case the name would clearly mean the real nature of the tax: to be a general tax on the final consumption.
2. What has been accomplished by the Internal Revenue Agency has a number of points in common with the proposal put forward by Mr Keen and Mr Smith in 1996. The gentlemen were unable to find a simple solution for the clearing system (i.e. the offsetting among Member States for the final allocation of the VAT revenue in the EU) simply because they did not think about something similar to the VAT part. Therefore their proposal went unnoticed, as it was seen just as a nice intellectual exercise.
3. Should in the near future the VT part be adopted by EU it would represent the decisive step in order to finally reach the permanent VAT regime, without which there is not a real internal market, as it would greatly simplify the clearing system (i.e. offsetting among Member States) that would still be necessary but would be based on *tax return data*.
4. The final regime would be completed with the adoption of a rate on the "intra-community exports" of each State *identical in all EU and coinciding with the lower standard rate among the Member States* (now intra-community exports are taxed at zero rate) leaving Member States free to manage the domestic rate, even at regional level i.e. sub-national, just as Keen and Smith suggested. All this would greatly facilitate the fight against intra-community VAT frauds that are huge and would give powerful tools to States to fight the high level of internal evasion on final consumption.
5. The introduction of the value-added tax has represented one of the big successes in the community structure. This success has practically invaded the entire world: at present the States⁷ that have adopted it are 136, but without a reform like the one outlined it will not be possible to take further steps towards European harmonization. It is not by chance that the

⁷ The list of the States adopting VAT is in the book "Global conference on Value Added Tax", edited by the Department for fiscal policies of the Ministry of Economics, see *Quaderni* n. 2, 2005

Financial Times has recently entitled an editorial: "*Europe VAT regime is like a Swiss cheese*"⁸.

Points 1), 3) and 4) outline a sort of a small "cultural" revolution that seems to be vital if we want to seriously fight the VAT frauds abandoning the derogations to the Sixth Directive that for some years the EU Commission has allowed under pressure from each Member State⁹. The change to the permanent regime, and its consequent simplification of controls, would be a reliable base on which to quickly reach a remarkable reduction in tax evasion. The results would greatly benefit the MS, in terms of their coffers, and the EU budget, in terms of a significant increase, thereby reducing tensions on the short-sighted and fruitless discussions on the community budget of the past months and of the near future.

⁸ "*Europe VAT regime is like a Swiss cheese*", editorial of 1 February 2006. The article commented on the umpteenth quarrel on reduced rates for high labour intensity services. But its conclusion is of rare value: "VAT has been a European invention with clamorous success, spread over all developed countries except the United States, and it has behind itself more than a hundred States. It is an efficient tax, and the only one that can be adapted to the fast worldwide shift to a service based market. It is therefore very ironic to see its European ancestors make such a mess, it is time for them to begin to close all these loopholes".

⁹ It is symptomatic that Austria, which in 2002 obtained a derogation limited to a case of certain specific productions in the construction industry, in 2006 is trying to extend it to many other activities for a specific bracket of turnover. After the derogation to Austria, similar derogation was given to Germany in 2004. It is clear that step by step the VAT system will be broken up.