The Situation after the Armistice.

1. Since before the war the Italian tax system has been under considerable pressure to supply the Treasury with the ever-increasing sums demanded by emergency needs. Forced, as it was to immediately meet these needs, always of a highly urgent nature, the revenue authorities never had time to prepare organic and sound taxation measures, the yield of which is necessarily spread over a period of time after a series of preparatory operations. They were continually compelled to sacrifice the rationalization of tax measures and the equitable distribution of the tax burden for the sake of “hurrying up.” Thus, as occurs in almost all wartime and emergency finances, the Italian tax system became gradually incrusted or piled up with new taxes or amendments to old taxes not always consistent with the pre-existing system and which in the long run caused a number of troubles not easily eliminated.

The situation deteriorated fearfully after the Armistice signed by Italy with the United Nations. The country was subjected to two different authorities: the illegal government in the North and the legitimate government in the South, each of which took its own financial measures, the provisions enacted by the legitimate government being subsequently extended, often after considerable delay, to the provinces under Allied jurisdiction. Thus two different systems came into being, giving rise to considerable legal and practical complications when the peninsula was unified, as the legitimate government held null and void the legislation enacted by the Northern Government.

At the same time the far-reaching changes accompanying the fall of the Fascist regime together with the course of military operations and the phase of economic-administrative collapse caused a real crisis in State authority, which could not but have repercussions on the tax administration, thoroughly disorganizing it. The necessary work of reorganization was faced with many obstacles: difficulties in replacing damaged financial buildings, in rebuilding destroyed archives, because of lack of suitable accommodations in carrying out necessary transfers of personnel, in supplying the offices with the most elementary working facilities, and in appointing new capable officers to take the place of those dismissed for political reasons.

This grave functional decline occurred at the moment when complex and radical changes were taking place in the domestic market, a phase in which efficiency was indispensable in tax administration. The post-Armistice situation in this field is by now well known. The incomes of the individual taxpayers had been profoundly disrupted; the activity of many sectors, because of heavy damages by air raids and air war activity, had ceased either totally or to such an extent as to seriously affect their business efficiency; the disruption of land and sea transport had resulted in a considerable unbalance in prices and made it impossible to level them through a nationwide distribution of products; the lack of raw materials and electric power was holding up production in many areas and industrial sectors; the shortage of food products resulted in exceptionally high profits for many types of cultivation; finally, all those who through favorable circumstances managed to produce the commodities required by consumers, even with rudimentary equipment and at high cost, were rapidly making high profits. On top of this economic disruption a considerable and persistent inflationary process had set in, progressively raising prices to a level which today has reached 40 to 50 times the pre-war level. This inflation, operating in such a chaotic context, where price controls although still existing de jure had practically ceased to function save in a few specific sectors, created the most unthinkable and unprecedented unbalances and a true revolution in the real and nominal incomes of the individual economic operators. New income recipients and new firms appeared, some merely speculative, others based on sound foundations; old income recipients and firms were either washed away by the storm or saw their economic situation permanently or temporarily compromised.

The Revenue Administration in the early period found it absolutely impossible to cope with the complicated work required to identify the new taxpayers or to ascertain the changed levels of the old ones, whose income had almost always nominally increased (in proportions which, naturally, varied from taxpayers to taxpayers), although real value had been heavily curtailed; revisions by the Administration, who could expect no practical cooperation from the taxpayer, were continually necessary. The onerous of taxpayer morality, a certain leniency displayed by revenue officials laboring under all kinds of difficulties and problems, a considerable uncertainty as to the controls on commodity distribution and prices — all these factors encouraged heavy fraudulent evasions, chiefly in indirect taxes and especially in the turnover tax, which is one of the pillars of the Italian fiscal system.

2. — The consequences resulting from the situation during the critical period outlined above are obvious: a) very considerable reduction in tax “pressure” on the population despite the very large increases in tax rates; b) an appreciable unbalance in the distribution of the tax burden among the various categories of taxpayers.

State revenues, in fact, increased as follows (in millions of lire):

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-44</td>
<td>27,576</td>
</tr>
<tr>
<td>1944-45</td>
<td>32,359</td>
</tr>
<tr>
<td>1945-46</td>
<td>41,244</td>
</tr>
<tr>
<td>1946-47</td>
<td>48,884</td>
</tr>
<tr>
<td>1947-48</td>
<td>65,443</td>
</tr>
</tbody>
</table>

(1) 1939 prices in lire. The index numbers refer to the corresponding years in which the financial year begins. Central Institute of Statistics, Bollettino dei prezzi, n. 1.

The actual increase in tax revenue, expressed in monetary terms, is, as can be seen, extremely slow during the critical 1944-45 financial year. Subsequently, the increase becomes faster: in 1945-46 revenue is 150% higher than in 1944-45; and in 1946-47, 70% higher than in 1945-46. Estimates for 1947-48 arrive at a 550 million revenue, but this figure is quite likely to materialize at a considerably higher level so that it will mark more than a 100% increase over 1946-47 revenue. This means that only since 1945-46, and practically, only since 1946, has the Revenue Administration been able to remove some of the causes for the failure of tax yields to adjust to the changed economic and financial situation of the country.

These considerations may be better under-
stood by comparing total tax yield (state, municipal, and provincial) with national income. Unfortunately, the estimates of the Italian national income have always left much to be desired due to lack of reliable census and statistical data. Since 1945, the total lack of statistical surveys has made the solution of this problem even more difficult.

For the national income in 1938 we can accept the figure of 166 million lire calculated by Prof. Vinci. The national income for 1945 in real terms may be calculated as 66.4% (1) of the 1938 income, but its monetary size, as a result of deflation of the lira, would be 206% of the 1938 level. This leads to an estimate of the 1945 Italian national income of 1,596 million lire. Assuming that in 1946 the national income, in real terms, rose to 68% of its 1938 level, and that the price level went up by an average of 2544%, the national income for 1946 can be taken as 2,200 million lire.

For 1947, it can be estimated that the national income, in real terms, will equal 70% of the 1938 level, and that the price level (based on the trends of the first few months of the current year) will be 3500% of 1938. Should these assumptions prove true in 1947, the national income will total 3,654 million lire.

The results would be as shown in the following table (in million lire):

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>National Income</th>
<th>State Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1938</td>
<td>116</td>
<td>145</td>
</tr>
<tr>
<td>1945</td>
<td>1,596</td>
<td>363</td>
</tr>
<tr>
<td>1946</td>
<td>2,000</td>
<td>287</td>
</tr>
<tr>
<td>1947</td>
<td>3,544</td>
<td>3500%</td>
</tr>
</tbody>
</table>

(1) Based on the yield of the first half year with allowances made for probable increase in the second half.

As unreal as the above figures may be in view of the rough approximation method followed, what in any case they render evident is the unmistakable breakdown in taxation pressure, a breakdown which in 1944 must have been even more apparent than in 1945, and with the present efforts of the Revenue Administration are remedying with already noteworthy success.

I have pointed out elsewhere (2) that this phenomenon was accompanied by:

— a widespread evasion, both legal and illegal, by income receivers of their direct tax assessments so that the percentage of national income actually assessed by the Revenue Administration for the levying of property and income tax, especially in 1945, went down to a negligible level;

— in fact, i. e., merely formal, tax pressure strongly dis tributed between types of income, and brought up to such high levels as to be obviously inconsistent with the average tax pressures calculated above.

In fact, summing the rates of the various taxes levied on the same income we obtain the following highly significant table (3):

<table>
<thead>
<tr>
<th>Source of Income</th>
<th>Nominal legal tax pressure (January 1941)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td></td>
</tr>
<tr>
<td>a) Salaries</td>
<td>4.70%</td>
</tr>
<tr>
<td>b) Wages</td>
<td>9.95%</td>
</tr>
<tr>
<td>Professions</td>
<td>5.54%</td>
</tr>
<tr>
<td>Mixed</td>
<td></td>
</tr>
<tr>
<td>a) Individual enterprises</td>
<td>4.69%</td>
</tr>
<tr>
<td>b) Corporate bodies</td>
<td>6.21%</td>
</tr>
<tr>
<td>Land</td>
<td>9.06%</td>
</tr>
<tr>
<td>Buildings</td>
<td>8.64%</td>
</tr>
<tr>
<td>Inscription of Capital</td>
<td>4.34%</td>
</tr>
</tbody>
</table>

The distribution of tax burdens has worsened, not only as between the various categories of incomes but also as between taxpayers with the same amount of the overall incomes within the same categories.

The higher flexibility of indirect taxes, which can more closely follow the movement of prices, has caused a considerable increase in the indirect taxation of consumption. While in the years immediately preceding the war 44% of the total taxes was yielded by taxes on consumption and 34% by taxes on income, in 1945-46 taxation on consumption yielded 72% to 73% of the total. If one bears in mind that in the Italian Revenue system consumption taxes are regressive, it can be stated that there was a worsening in the distribution of tax burdens. The tax authorities, substantially, have taken advantage of the upward movement of prices by adding the tax burden on to it, making it less obvious to the taxpayer.

This markedly regressive character of our taxation is not corrected by the application of personal taxes, since our two progressive personal taxes, the general income tax on total income (imposta complementare) and the inheritance and gift tax, have yielded only 7 to 8% of total yield, a percentage unchanged since before the war.

From a social point of view the distribution of tax burdens has improved in only one way: the total amount of direct taxes levied on unearned incomes has increased by a much larger percentage than the total amount of direct taxes levied on earned incomes. This means that the wealthier persons, whose total income consists mostly of capital dividends, are paying a tax proportionally higher than that paid by the lower brackets, who enjoy only an earned income. This consideration becomes of foremost importance in the second half of 1947 with the application of the "imposta straordinaria sul patrimonio" (capital levy), which, as will be mentioned later on, has a very high impact on capital incomes. While this improves the distribution of tax burdens among the various categories of taxpayers, we cannot help pointing out that, on the other hand, such high taxation of capital incomes is not the best way to encourage the country's productive activity and the formation of savings.

3. This, in brief, was the situation of the Italian taxation system following 8 Sep-

tember, 1943, with the factors that caused it and the effects that resulted.

The Revenue Administration, of course, did not impassively watch this collapse; they reacted as much as their capacity and the general situation permitted. At first slow and undecided, they progressively intensified and clarified their activity, following several lines of policy to reach their goal: increase of the tax revenues, improvement of the distribution of the tax burden among the various categories of taxpayers, and the "demobilization" of the wartime fiscal restraints.

The following pages outline the series of measures gradually taken by the Italian Revenue Administration within the general framework of the financial rehabilitation policy which is just now entering its most exciting stage. For greater clarity the measures taken to increase the tax pressure will be grouped under three categories:

a) adjustment and revision of existing taxes;

b) introduction of new taxes having a social and political background;

c) imposition of extraordinary taxes on property.

Adjustment and Revision of Existing Taxes.

4. A laborious and complex work has been carried out in this field, a large number of revisions being required by the fluidity of a situation made extremely unstable by the inflation process. An exhaustive analysis would take up much space and would touch technical details of little interest to a foreigner. The following study, although of a summary nature, will be detailed enough to convey a sufficiently clear impression of the complexity of the Italian taxation system as further intensified during the war, of the profound modifications and disruptions caused by the extravagant war-time and inflationary conditions, of the resistance and offensive held by the Revenue Administration, and of the main problems which are still open and unsolved. The foreign student may find in this appa-
comprehensible if one bears in mind the strong
dissatisfaction put up by consumers and other classes
affected.

A second method was attempted, that of
invoicing the pre-existing rates, but the
results were generally negative as the excessive
weight of the deferred element in the new rates
is already in the case of existing taxpayers.

The taxes (4) taken by the Revenue
Administration have been effected particularly
in the following sectors:

5. In the field of direct taxes, the tax on
buildings and related local surtaxes have not been modified
because of the existence of a freeze in rentals, which
has resulted in a considerable curtailment of real
income and hence of nominal income.

The Tax is levied in Italy using the system of
cadastre according to which the average continuing
income is ascertained through a long period of time
and is revised only periodically. As a consequence of
the revision made before the war (5) which kept
the revenue offices occupied for several years, base
valuations are based on assessments expressed in pre-
war values, i.e. were the considerable and irreg-
ular increases registered by prices of agricultural
products and the fact that the system followed for
assessments made it impossible to carry out a rapid
revaluation (which was, however, made inadvisable in
view of the present instability of the currency and
abnormality of the agricultural market), the rates of
the tax were first increased and later the incomes
themselves were subjected to an automatic reduc-
tion. This effect, in January 1945, land-tax and tax
rates (6) were automatically reduced by applying a multiplier of 0.5 (7); effective 26 January, 0.6
(8); and then of 0.7 (9). A determination of
multipliers varying in accordance with the incre-
asing agricultural income is especially difficult because of the
considerable difference among the increases of incomes,
each varying with type of crop, agricultural income,
and type of tenure. As the cadastral system is not one, that will permit a discrimination between
cases, it was necessary to adopt the lowest multiplier
to avoid putting too heavy a burden on the marginal
cases. In this field, therefore, there are still action

which are paying too low a tax for their capacity to
carry on business, and similarly the Revenue Admin-
istration conduct nothing but wait for a new financial
situation and the agricultural market to normalize, meanwhile
gradually increasing the multipliers—this whilst wait-
ing for the correction of the present system of
rates the amendments will be made.

In the field of the Income Tax, their unprece-
dented derrangement called imperative for an em-
ergency provision that would allow the Revenue
Administration to collect taxes from the individual
and the tax office. Initially, an automatic revaluation of
taxes by applying properly discriminated multipliers
was also considered for this field, but this was first
abandoned largely because the events had not
created profound changes in the position of the
individual taxpayers and unequally affected the various
economic groups. A longer and burden system was
selected, but which one afforded greater guarantees of
equality; the incomes of the Category B (in-
comes from capital and earnings mixed, such as
the profits of a business enterprise) and Category C
(incomes independently earned, such as the earnings
of professional men) were subjected to the tax office
to extraordinary revision (10) which took, as a basis
the income of the same period (1944) for each tax-
payer independent of the date at which his particular
assessment would be made; adjustment was
made to the tax office, the rate of which was which
was any effect upon the amount of the income and its
nominal value. To ensure a quick collection of taxes
on the revised assessed incomes, the Law as an
exceptional provision to 31 December, 1946 (11), 30
June 1947 (12), and the latest, 30 June 1947 (13). The
spreading out of the work of revision over such a long
period of time in practice resulted in a further
partial failure of the revision scheme since inflation pro-
gressed the revised incomes rapidly became anachron-
istic, and the piling up of postponed tax years from
1941 to the year in which the assessment was made
allotted the taxpayers' reluctance to agree upon the
amount and timing of payments. On the other hand,
the excessively high tax rates made it impossible, for
obvious reasons of equity, to make assessments
which correspond to incomes actually being received. With
the aim of avoiding these drawbacks and lasting
the return to normal in this field, a Decree was
exposed by the Economic and Administration
which was reviewed with a fixed multiplier—compared with the
individual revision system this presents fewer inconvenience—and the rates will be reduced (in such
way, however, that higher charges to the taxpayer
will always result)

The ordinary property tax (14), abolished effective
1 January 1948, presented the problem of adjusting
the taxable amounts, with aspects of complexity due
above all to a lack of some sources of income. While
some investments yield large dividends, others
yield nothing or next to nothing, and a single rate,
however determined, has a very high impact on some
sources of income, but a single rate could not be sup-
portable. Initially, an adjustment of the impact was
sought by raising the rate tax from 0.5% to 0.75% (with
effect from 1 January 1945), and this rate was
applied to the average 1944—1945. Since then the
rate was cut to 0.40%, so that the actual burden
grew increased five times (two and a half times for build-
ing property). Had a revaluation multiplier higher
than that actually used, while proportionally reducing the
rate, the tax would have been even closer to current
values and besides achieving a fairer distribution
tax pressure would have laid the groundwork for further measures (capital levy)

In relation to the problem presents different aspects as the predominant system is that of
specific taxes, i.e., taxes based on quantity, capacity,
or some qualitative factor, rather than on value. Con-
sequently, as the value of the money decreases taxes
determined on this basis must be gradually increased.

To this end the stamp taxes (registration and stamp duties, which have the character of taxes on business
activity increased (16), as well as manufacture taxes (which had been reduced if, where the goods are removed
from the producer's warehouse) (17), consumption
taxes, and customs duties on "colonial" (18).

(4) Following are the meanings of the Italian abbreviations
used when referring to Laws or Decrees:
R.D.L.: Royal Decree; D.L.R.: Royal Legislative Decree;
D.L.: Legislative Decree of the L.G. General of the Kingdom;
D.L.P.: Presidential Legislative Decree (under the Republic
regime).

(6) D.L. No. 584 of 25 May 1942.
(7) D.L. No. 205 of 7 February 1946.
(8) D.L. No. 574 of 10 June 1946.
(9) D.L.P. No. 526 of 30 November 1946.

(13) Enacted by D.L.R. No. 132 of 12 September 1939.
This tax was conceived as a tax on unearned income, based not
directly upon income but rather on capital values. The base
values, to avoid taxation either excessively or inadequately, are
the average of the three years preceding the collection of the
tax, and once assessed remain unchanged for three
years.

(14) No. 11 of 30 April 1945.
(15) D.L. No. 237 of 25 April 1945; D.L. No. 43 of 5 August 1945; D.L. No. 108 of 11
December 1945; D.L. No. 114 of 30 March 1946; D.L. No. 142 of 20 March 1947; D.L. No. 526 of
11 April 1947; and D.L. No. 527 of 5 May 1947.

(16) "Colonial" include such footnotes as tea, coffee, sugar, spices, etc.
6. — The return to normal of tax assessments and the adjustment of fixed and specific taxes to the changed monetary values can continue, especially during a developmental process, only with extremes of slowness and imperfection. The Revenue Administration, therefore, sought new sources of revenue also by increasing tax rates.

The increase in rates of tax, however, yielded results contrary to those desired, and the administration often had to retrace its steps and start out fresh on the matter. The actions taken in this respect are summarised as follows:

As regards the “Imposta di Ricchezza Mobile” (roughly equivalent to the U.S. income tax), effective 1 January 1945, the tax rate was increased in the following measure (20): incomes derived from financial capital (Category A) from 2% to 3.5%; incomes derived from real capital and earned income (Category B) from 18% to 21%; independently earned incomes (Category C) from 14% to 16%. No change was made in the 8% and 4% rates on the incomes of employed workers respectively, salaried of clerical workers and wages of manual workers. As regards Category B the rate increase is merely nominal as at the same time the special 10% tax on income from individual business enterprises was abolished (21) and the tax on dividends was decreased from 25 to 10% (22).

Such heavy rates, however, (which are further increased by the tax on dividends and the extraordinary income tax) proved a serious obstacle to a more correct assessing of incomes. And therefore a Decree now being enacted provides for their radical decrease in connection with the redistribution of income.

It is hoped that this decrease in tax rates will permit the offices to assess the taxable amounts at a level much closer to the actual incomes.

The increase of progressive taxes is well known, becomes automatic during the process of monetary devaluation since the same real value steadily increases in nominal value and consequently is subject to the payment of the higher rate. In the Italian case, the increase in the progressive income tax (in the categories of income and inheritance tax) has been of the same order, and the changes in the rate introduced by law, sometimes intended to further increase the progressiveness of the tax and sometimes for the purpose of raising additional resources, were actually and de jure a sanction of the higher progressiveness caused by the monetary devaluation. Thus the general income tax (imposta complementare (21), allowance being made for the additional tax established in 1940, was applied at rates increasing progressively from 1% for net incomes of 5,000 lire to a maximum of 30% for total net incomes exceeding 1 million lire (23). The rate for 1 million lire was raised from 25% to 35% (24), the minimum taxable income was raised to 6,000,000 lire, taking to be roughly equivalent to the 3,000 lire of the initial rate. Slightly reduced for the lower brackets, the rate was raised to 30% for the first 5,000,000 lire, to 40% for the next 5,000,000 lire, and so on up to a maximum of 75% for incomes exceeding 6 million lire (25). The rate for 1 million lire was raised from 25% to 35% (24), the minimum taxable income was raised to 6,000,000 lire, taking to be roughly equivalent to the 3,000 lire of the initial rate.

The rates on the inheritance tax were modified in 1945 (26). The estates and legacies were valued according to the degree of kinship, and were generally raised with the exception of a slight decrease (quite unproportioned to the changed value of money) for the smaller estates. The maximum rates for the five classes of taxpayers contemplated by the tax scale were respectively raised from 16% to 24%, from 24% to 32%, from 32% to 40%, from 40% to 45%, and from 50% to 60% (26).

At the same time, a series of facilities and exemptions granted to families with more than one child were either cancelled or reduced, thus contributing to the increase of the tax rates.

Such high rates present serious difficulties. In fact, we notice that the yield of the general income tax is substantially reduced. The yield of higher brackets is as compared with those in the lower ones. A revision of the whole scale of rates is therefore urgently called for, and there is reason for belief that the problem will be solved effectively next year.

The rate of the general turnover tax (imposta generale sulle transazioni), original rate increased to 3%, was subsequently increased to 5% to 7% by adding a 1% special wartime surcharge. At the end of 1944 (28), the general rate was raised to 4%, at the same time dropping the surcharge. The special rates (29) for certain products of a luxury nature were raised from 6 to 9% (30). In December 1944 (31), the allowance was brought back to 3% in order to keep up with the increase in the value of the family tax and the allowance for personal income tax.

7. Although it operates under the most difficult conditions, the Taxation Department has all the means to eliminate the tax superstructures, which had reappeared. In December 1943 (32), the tax on vehicle tax to motor vehicles (33), the raising of the maximum rate of the family tax from 8 to 12% (34), and, lastly, a new general increase in all local taxes.

The introduction of social and political taxes

8. — The public sentiments and the need for a more equitable system of taxation could not but be considered by the Government in working out its taxation policy. It was, therefore, compelled to sometimes take measures more of a political than of a strictly fiscal nature.

One of public opinion’s most inedible parcelling the function of the tax on dividends from corporate income. The amount of the tax was based on the nature and the amount of the dividend received by the individual investor. A dividend certificate had to be submitted with the dividend payment, certifying that the dividend had been paid to the investor. A tax of 15% was levied on dividends received by residents of Italy. The tax was payable within 60 days from the date of the payment of the dividend. The tax was deductible against income from stock investments and from income from real estate. The tax was not applicable to dividends received by residents of other countries.
mands was for some provision on the enrichment of fascist leaders (progetti di regime). This matter had already been dealt with, immediately after the fall of fascism, by the first Badoglio Government (59), and was reconsidered in 1944 (95). This provision relegated to the State all property acquired after 28 October 1922, except when it could be proved that such property had been lawfully acquired, by all those who had held or been in any way active in fascist political activity as well as their ascendants, descendants, spouses, or whomever was in business association with them or had interests in common. This measure, because of its political character, met enormous difficulties in putting it into effect, and had to be repeatedly revised to make the procedure more strict and uncompromising and its limits wider (97), partly because of the fear of the Government that in view of the scanty yield it might be charged with insufficient zeal.

It was mainly the difficulty encountered in ascertaining each particular case that made the Government decide to include this law within the scope of the general taxation system, thereby changing it from a penal sanction to a fiscal penalty (59). The settlement reached between citizen and Revenue Administration as to the amount that could be confiscated was an all-important step in this direction and gave rise to vivid hopes of a speedy execution of this measure. Unfortunately, events did not correspond to these optimistic wishes. Instead, the yield (which had been expected to be as high as 100 milliard lire) will materialize into a very modest figure.

During the summer of 1949 an extraordinary excess profits tax had been introduced (95). With the end of the war there remained little reason for this tax; the reference period for “normal” profits, after the turmoil just undergone, lost all significance; on the other hand it became necessary to discontinue the tax in order not to interfere with the normal functioning of the income tax and not to create hindrances to economic rehabilitation. As of 1st January 1946 the Government did discontinue it and at the same time issued instructions to the effect that all profits obtained between 1940 and 1945 over and above normal limits, if not already subject to the R.P.T., should be confiscated (94).

The abnormal economic situation during recent years, however, has given birth to a rash of sudden enrichments of a speculative origin particularly disliked by the people. After a first partial attempt (59) which did not satisfy public opinion, the provisions for the confiscation of war profits (95) were extended to allow the State to confiscate all profits resulting from activity of any kind whatever connected with either the shortages caused by war, improvised speculation, or even unjustified levels of saving and property. Ministerial instructions clarified these vague directives to mean that all profits originating from illegal activities or at least those contrary to moral ethics were taxable. The entire matter was later re-clarified (57) (the name, in this occasion, being changed to "emergency profits - Profitti di continenza") by extending its targets to include previously neglected cases (such as: State goods allocated to private business for war production, which, taking advantage of the economic disorganization, resold the goods at uncontrolled prices on the free market; unearned profits arising from the difference between the blocked purchase price and the free selling price of industrial products sold at the time price controls are lifted). The effective date of some of the measures was 1st January 1939, of others 1st January 1945.

This tax on emergency profits and speculation has many arbitrary characteristics, as much because of its principle of retroactivity, perhaps too light-heartedly adopted, as for its procedure of assessment and guarantees for the collection of the tax levies, which is a system absolutely new to Italian law and often injurious to the rights of the third party who acquired in faith using legal means, as also for the wide discretion it leaves to the tax officer on whose subjective criteria the application of the law often depends.

Certainly the confiscation of political and of emergency profits are both exceptional measures in the strictest sense of the word, including as they do legal principles foreign to traditional Italian tax principles and above all because the determining elements in distributing the tax burden is not the size of income or property but the political status of the subject and, therefore, the let us call it, moral qualities of the income. This innovation found the financial bureaucracy unequipped and yet compelled to ascertain circumstances outside the bounds of its normal activity. Hence were created a considerable number of difficulties and obstacles which interfered not a little not only with the collection of exceptional but with that of normal taxes as well.

The critics could go on. However, against the anxieties above and others of similar force was the fundamental undeniable need for financial justice against the newly rich who, without creating profits that would help the Nation’s economic recovery, swarmed around to many compromising or ruined economic situations.

It is highly probable that such exceptional measures would not have appeared had, as in other countries, the property increases that occurred during recent years been heavily hit, as was proposed by the original project of the Capital Levy to be discussed below. A substantial impost in that sector, even without completely eliminating all arbitrary aspects, would have at least meant a real system with every guarantee of objectivity. It was, I maintain, a mistake to have rejected such solution, a mistake that was everybody’s fault: the parties of the left who in wanting to make the tax a political instrument by making it retroactive to 1935 caused just alarm among all savers who had lawfully and laboriously accumulated their savings over such a long period of time; the parties of the right, who on the other extreme, blinded by an exaggerated conservatism, feared the tax beyond reason and showed that they preferred the worst but the (at least apparently) temporary solution to the best and most convincing one: the country’s public opinion, which allows itself to be appeased by a tax having only formal validity but in practice being inoperative and arbitrary. On the whole, a bitter conflict of tendencies forced the selection of just that method which was most expensive and most incongruous in order to satisfy a state of mind of the collective which was certainly based on serious and legitimate grounds (95).

The Capital Levy.

9. — The taxation measure which constitutes a substantial burden for its taxpayers and a decisive step in the financial efforts of the Country is the extraordinary tax on property.

This tax was long and widely discussed in Italy, and since 1945 diverse plans for it were drawn up and abandoned by the Ministry of Finance. The tax as originally conceived was: a) joined with a change of currency, an operation which would have allowed the ascertainment of individual money holdings and bank deposits; b) combined with a tax on increase in real net property that occurred during recent years.

Altogether it was a complex plan touching on extending political and technical problems. In effect, to the difficulties already mentioned in the taxation of property increases were added opposition and resistance to the so-called “currency change”. The outcome, after laborious discussion, was the abandonment of the original scheme which was at least theoretically a more rational one, and the adoption of a simpler if not less integrated bill: D.L.P. No. 145 of 29 March 1947.

A detailed study of the new tax would be interesting; but as it is at present under study by the Constituent Assembly, where, it is now evident, it will undergo modifications, it seems best to postpone all deeper analysis, pointing out
It has also been pointed out that an extraordinary tax of this kind if applied during an inflationary process is inopportune in another sense, in the possibility that its yield will little by little be annulled. The objection is undoubtedly important. But the present Italian Government has put at the basis of its policy the most energetic defense of the value of the lire, and this it intends to accomplish, chiefly by reducing the financial deficit of the State, retaining its expenditures and increasing its receipts. The extraordinary tax on property is precisely designed to be a substantial contribution to the success of this policy. If one considers that besides the 80-100 million lire expected from the proportional tax, the progressive tax (spread over a six-year period) may yield 200-300 million lire of this, it is easy to see that this hope is not utterly unjustified.

It should be noted that along with the tax, a policy of credit restriction is to be carried out. This is to prevent the tax from being an inflationary stimulus. If the taxpayer cannot recourse to bank credit there is nothing left for him but to sell his capital and consumption goods to secure the means necessary to pay the tax and with this there will be a push toward the lowering of prices.

The capital levy leaves open for the time being the problem of taxing the increased monetary value of corporate assets. It is not beyond possibility that this problem will be settled by the Constituent Assembly when the tax law is being written in its final form. At present the most suitable way is being sought to directly tax corporations and collective groups by considering them as separate persons side by side with physical persons.

10. The above, in digest form, is the picture of Italian tax legislation during recent years. To attempt an overall evaluation at the present fluid and maturing stage would perhaps be premature.

Certainly it cannot be affirmed that the solutions chosen have always been prompt and adequate to the problems to be met. As we have seen, measures issued were often uncoordinated and incomplete (as in the adjustment of taxable amounts and in specific taxes) or brought results contrary to those expected (as for some increases in rate), or were unimplemented with the general tax system (as in the extraordinary taxes). This happened for several reasons: partly because of a certain inexperience on the part of the new governing class which rose out of the ruins of fascism and partly in response to the need for pressures of the masses of the people perhaps over-simplified means for conforming to the philosophy of the Nation's tax system even though inspired by motives of justice, partly for the necessity to compromise with the many resistances of the conservative positions and first and above all because of the extremely precarious situation in which the Revenue Administration was placed by the general disorganization and inflation which rendered all revenue matters immediately obsolete.

The whole situation represents a grand complex of efforts which deserve to be appreciated precisely in view of the seriousness of the situation and the waste in finding the point of equilibrium between the various interests fighting to better themselves in the division of the heavy burdens left over by the war.

I would not say, however, that the Italian taxation system, taken as a whole, has become substantially heavier since 1943. The only real increases are those on the progressive personal tax on total income and the inheritance tax (where the intent of the legislators was opposed by the increasing inflation process) and the introduction of the extraordinary proportional and progressive tax on property. Therefore, tax increases there were — for the higher incomes and property incomes. To these should be added the other exceptional measures, confiscation of political, emergency, and war profits, which, however, by their nature can hit only classes with limited numbers and are not, therefore, of great importance in equalizing tax burdents under a more general plan. But I do not hold that the Administration should be criticized for insufficiently intensifying the pre-existing taxes, as under the present abnor-
In the new Constitution now being drafted, which will apparently provide for a large amount of administrative decentralization, nothing can be said on the orientation of the expected reform except that it is the inevitable step in the evolution of the State's budget, caused by unavoidable circumstances but not a question of a radical reorganization of the tax system. This will be difficult also because it is necessary to consider the position of the local bodies and the population. Although the Italian financial situation is still serious and demands the greatest caution in making forecasts, the possibility of a reversal of the economic movements and of stopping the process of monetary devaluation is now not more concrete. Within this framework, the extraordinary tax on property makes its probable welltimed appearance as an anti-inflationary instrument, and it is hoped that it will be properly applied within the framework of its implementation and its coordination with the other delicate aspects of the overall financial policy.

For its part, the policy of credit restriction, firmly pursued since June 1947, ought to strengthen the results of two years work devoted to the reorganization of the tax machinery and to ensure a paid-in increase in revenues much more substantial than that which began showing in the last months of the 1946-47 financial year. That policy, in fact, pursued with coherence and flexibility, will necessarily affect the behaviour of prices. For the time being, the result of the new policy is clearly visible: the free markets of foreign currencies, gold, and stocks, all of which were showing a pronounced downward trend. In the field of prices, the effects of the policy are felt only in specific sectors, but if we persist it should either stop or even reverse the tendency of some of the price indices.

These are many of the positive factors closely coordinated with general financial action which, in conjunction with the considerable economic recovery which is now clearly taking shape, should favorably affect the yield of taxes and the State's financial situation — so that we may expect in the near future a definite shrink to such dimensions that it may be met by means of the taxes and capital markets (60) without inflationary consequences.

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