

THE ROLE OF TAX RELIEF IN A TIME OF CRISIS

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ABSTRACT: *The different productive and financial innovations have historically played a key role in the origin of any economic crisis. The special feature of the present one is no doubt his greatness.*

There are many measures taken by various European Governments to tackle the crisis. All are intended to reduce the tax relief and raise taxes.

Can these measures succeed in bettering the various States from the current economic situation? The present study examines critically the measures taken by Italy and Romania proposing some alternative measures.

KEYWORD: *Italy, Romania, tax relief, tax shield, tax evasion, crisis.*

JEL CLASSIFICATION: *K 34, K 39*

1. INTRODUCTION

The different productive and financial innovations have historically played a key role in the origin of any economic crisis. The special feature of the present one is no doubt his greatness. Indeed, it's becoming a real economic crisis without precedent.

Among the various causes, highlighted and discussed by scholars, seems to occupy most significant the economic growth in the early 90s based on over-indebtedness of both citizens of the States. This crisis has fuelled speculation of various kinds ranging from the estate up to the purely financial.

2. THE ANTI-CRISIS MEASURES

Several measures are being taken by European Countries to tackle the crisis. Romania, with Emergency Decree no. 58 of June 26, 2010, has adopted a series of fiscal measures. From 1 July 2010 the ordinary VAT rate has risen from 19 to 24% ⁽¹⁾, conditions that qualify the nature of employment have been restated, the share of

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¹ Causing, in the opinion of the writer, a contraction in consumption.

expenditure deductions for dependent income was reduced from 40 to 20% of the taxable base⁽²⁾.

At the same time has been given a clean cut to the tax relief for micro-enterprises, i.e. companies (which for more than 50% carry out activities other than consultancy and management) that during the fiscal year recorded a turnover of less than 100 thousand euros and with a number of employees less than 9⁽³⁾. They, until December 31, 2009, enjoyed a reduced tax rate by as much as 3% (was 2% in 2007 and 2.5% in 2009) while from 1 January 2010 we apply a standard tax rate of 16%⁽⁴⁾.

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Also the Italian government has tried to solve the particular economic situation that characterizes "the boot", adopting stringent fiscal measures. The Secretary of the Treasury has, in fact, proposed a higher taxation of financial income (up to 20%), with the reduction, however, the tax on postal deposits (from 27% to 20%). And again, cuts in salaries of civil servants; amendment to Article 81 of the Constitution (which governs the rules of the state budget); cutting old-age pensions and those of women in the private sector.

According to Minister Tremonti, the interventions outlined above would be suggested by the ECB with the letter sent to Italy by the ECB. Not only that, the European Central Bank would also advocated the right for companies to dismiss (albeit compensated by insurance mechanisms); the incorporation of non-religious holidays with Sunday, the liberalization of public services and professional, and the large-scale privatization of local public services.

3. HYPOTHESIS OF RESOLUTIVE MANEUVER

Measures taken by European governments are really effective? The tax increases and drastic reduction of the tax relief are capable of putting into circulation the country's economy?

Undoubtedly, an increase in the tax burden increases, at least theoretically, the tax revenues enriching the coffers of the State. Such maneuvers, however, inevitably lead to a contraction in consumption, so a reduction in GDP⁽⁵⁾. The increase in the tax burden also increases the mistrust that the people nurture for the government, encouraging tax evasion.

Maneuvers in this sense, therefore, run the risk of aggravating the economic situation, plunging the nations into the abyss.

In the opinion of the writer, a wise and decisive action should be to focus on three fundamental aspects:

a) to increase tax breaks to guide the behavior of taxpayers, concentrating capitals in certain geographical areas;

² See the web site www.fiscooggi.it.

³ See Clujescu C., *Impactul eliminării impozitului minim*, in *Curierul Fiscal* n. 10 del 2010, p. 15.

⁴ The Romanian tax system adopted from the 2005 reform of taxation on income with a single tax rate of 16%, the so-called flat tax. Also some components of income are taxed by withholding at source, always to the extent of 16%.

⁵ Grossdomestic product is called in Italy *Prodotto Interno Lordo (PIL)*, while in Romania *Produsul Intern Brut (PIB)*.

- b) to implement a tax shelter to give the possibility to foreign capital to return without pay particular sanctions;
- c) to combat tax evasion.

3.1. The role of tax relief in a time of crisis

As is well known, many are the aims pursued by the tax relief. In fact, they can bridge a pre-existing disadvantage, like for example the tax relief for people with disabilities. Or they may induce taxpayers to take a certain action, through the provision of incentives.

At this particular juncture, seem to be extremely attractive incentives aimed at developing specific geographic areas.

These incentives are able to promote the economic and social development of neighborhoods and urban areas characterized by social unrest, economic and employment and development potential.

Despite the Doctrine denies similar forms of incentive, considering the latter an obstacle to the Community authorities, since they are able to generate phenomena of harmful tax competition, the Report Hökmark, passed by Parliament on February 14, 2006, provides for the possibility by States to "introduce favorable tax conditions for transition periods not exceeding five years [...] provided that the aid does not generate an added value that could be achieved with any other policy measure."

This report, authorized forms of tax concessions for certain areas, including within a given territory, as long as they comply with the rules implemented by the Community rules on competition policy.

As a result, aid, even if granted in the form of tax relief, may be considered acceptable if, in the first place, proportionate to the aim that we want to achieve, and secondly to be granted in a descending order and be able to achieve lasting effects even after its cessation.

In Italy, the proposal to establish the so-called *Zone Franche Urbane* (Free Trade Zone), consisting of a series of tax breaks to facilitate and initiate local development policies, found initial confirmation of the Budget Law for 2007 (Law n. 296/2006)⁽⁶⁾.

With paragraph 340 et seq. of Article 1 of the mentioned Law was established at the Ministry of Economic Development a fund for the establishment of free trade zones (ZFU) "in order to promote the economic and social development, including through restoration urban areas and slums in the cities of the South."

The new provisions, however, in accordance with Community rules on State aid for regional purposes for the 2007-2013 period have eliminated all references related to the South, extending to all territories ZFU in derogation of art. 87, para.3, letter a) and c). It follows that the ZFU currently include the central and northern areas, as defined by the new Charter of regional aid. Currently there are 22 ZFU, selected based on a series of socio-economic indicators of distress⁽⁷⁾.

⁶ As you can see from the website of the Ministry of Economic Development, the initiative comes from the French *Zones Franches Urbaines*, launched in 1996 and now active in more than 100 districts. See www.dps.tesoro.it

⁷ They are: Catania, Gela, Erice in Sicilia; Crotone, Rossano and Lamezia Terme in Calabria; Matera in Basilicata; Taranto, Lecce and Andria in Puglia; Napoli, Torre Annunziata and Mondragone in Campania;

Under the new law, beneficiaries of such facilities shall only micro-enterprise⁽⁸⁾, with the exception of those operating in the so-called sensitive sectors⁽⁹⁾. As for tax breaks, the new rules include a coordinated both in relation to direct taxes, which IRAP, ICI and contributions, limited in time and in some cases gradually decreased.

As in France, this system is addressed only and exclusively companies that will start a new business in the period between 1 January 2008 and December 31, 2012 in a given ZFU.

The scheme just outlined is compatible with the rules of the Treaty because, according to the Commission: a) aims to achieve a Community objective, namely the economic and social cohesion imposed by art. 2 and 3 of the Treaty itself, b) is necessary and proportionate to the objective, as it affects only 2.6% of the total population and the selection of areas is done through systematic indices) does not alter the patterns to an extent contrary to common interest. For these reasons, the European Commission has approved the above help with note C-2009-8126 of October 28, 2009⁽¹⁰⁾.

These forms of tax relief are one of many examples to help you understand how these institutes can have a positive impact on the national economy. Romania has known these forms of institutes too. The *Facilitate pentru zone defavorizate*, in fact, are the Romanian version of the facilities in question. However, they were banned by the European Community as it did not meet certain parameters, such as the duration.

From my humble point of view, Romania could, or should accomplish and re-implement similar tax relief.

3.2. The tax shield and the fight against tax evasion

A manoeuvre oriented only on tax breaks would, surely, insufficient. Measures would be required to increase the economic budget. But such measures can increase tax revenues without putting your hands into the pockets of citizens? The answer, not too obvious, is: the tax shield.

Tax shield amends some illegal or irregular behave made by the taxpayer as regards the production and possession of capital abroad arising from income not reported by the payment, with a flat-rate tax, one-off, a value below the normal tax rates.

Decree-Law 194/2009, the so-called "thousand extensions", introduced in Italy a tax shield so-called tax shield *Ter*⁽¹¹⁾. Thanks to it have returned home about 300 billion euros. Such funds have produced a revenue of 5 billion euros.

Campobasso in Molise; Cagliari, Quartu Sant'Elena and Iglesias in Sardegna; Velletri and Sora in Lazio; Pescara in Abruzzo; Massa Carrara in Toscana e Ventimiglia in Liguria.

⁸ For the definition of microenterprise see European Commission Recommendation 6th may 2003, GU L 124 of 20.05.2003.

⁹ The sensitive sectors are the sectors of metallurgy, shipbuilding, the manufacture of synthetic fibers, the manufacturing of cars or transport of goods by road.

¹⁰ On 11 June 2009, the DPS has initiated the procedure for notification of the aid scheme, N346/2009 registered at the competent services of DG Competition of the European Commission. By letters dated 15.07.2009 (D/53152) and 08.28.2009 (D/53666), the European Commission has requested additional information. The Italian authorities have provided such information by electronic mail dated 07.20.2009 (A/16932) and 09.09.2009 (A/19466). Data28 In October 2009, the Commission authorized the ZFU with known C-2009-8126. In relation to the suitability of urban zones, see Boria P., *Diritto tributario europeo*, 2010, Milan, p. 231.

¹¹ Indeed, it was the third time that was called the shield.

Another method of increasing the financial resources without burdening citizens who regularly pay their taxes is to combat tax evasion. If everyone paid correctly, everyone would payless.

A possible solution to the problem of tax evasion is offered by the U.S. model.

In Italy, consumers do not have the ability to deduct taxes from their family expenses and consumption.

It's obvious that if someone will ask "do you want a receipt?" or "do you want the invoice?" a consumer responds increasingly disinterested tone, perhaps trying to exploit the situation to rip a small discount on the selling price.

If consumers had the possibility to download from the taxes to 10-15% of the costs incurred for the purchase of consumer goods would have greater interest in insisting on the receipt or invoice.

Tax evasion would be reduced drastically and in a natural way. The political class (of all colours) does not seem to be satisfied with the solution the U.S., claiming that this method would force consumers to fill out complex tax returns and to retain receipts and invoices.

However, consumers would be happy to keep some more paperwork in return if they had the opportunity to reduce their tax burden, while tax evasion in Italy would receive a blow without increasing the cost of controls and verification costs.

4. CONCLUSION

At a time of global crisis, to boost the economy, it is necessary stimulate the tax breaks and combat evasion through natural methods and inexpensive.

The tax increase inevitably leads to impoverish the population that will lose more and more confidence in the State.

Certainly we cannot say that the measures analysed in this work are the only ones likely to heal the pitiful economic situation. However, as shown, even if they increase revenue to the Treasury, they don't put their hands in their pockets to the citizens, because, in the opinion of the writer, exaggerated the tax burden, such as truancy is a crime.

