



Analysis

Using the Italian crisis to impose control: a shift towards a fiscal surveillance state?

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The “technical” government has introduced passports for small children, limits on cash transactions, compulsory bank accounts and the “redditometro” (income-meter) to counter tax evasion.

After taking over from Silvio Berlusconi’s discredited government on 16 November 2011, the “technical” executive led by Mario Monti tackled a number of structural problems with the Italian economy such as widespread tax evasion and a sizeable underground economy. Measures approved during Monti’s 14 months at the helm included: limits on the use of cash; targeted controls by the customs and excise police (*Guardia di Finanza*, GdF) in exclusive holiday resorts; the introduction of passports for infants and forcing everyone to have bank accounts. A personal bank account - set up by their parents - will be necessary for children to pay for their passports and for pensioners to receive pension payments above 500 euros. Increased control has been coupled with “austerity” measures which range from cuts to public services, eligibility for pensions being delayed, an assault on workers’ rights that undermines the security of employment and a spending review to rein in costs that are viewed as wasteful.

The “technical” government fell on 21 December 2012 when Monti resigned after opposition from Berlusconi’s *Popolo della Libertà* (Pdl) caused him to lose his majority in parliament. After elections were called for February 2013, Monti threw off his mantle of impartiality (to maintain which he had been granted the status of senator for life by president Giorgio Napolitano) by standing for election when it became apparent that the *Partito Democratico* (PD) would run in alliance with *Sinistra, Ecologia e Libertà* (SEL, Left, Environment and Freedom).

A cash-free society

The first measures to shore up Italy’s banking system introduced by the Monti government under the “*decreto salva Italia*” (Decree to save Italy) included tracking transactions involving the payment of sums in excess of 1,000 euros. This was achieved by forbidding the use of cash for such payments, enabling them to be recorded in bank records and accessed by the GdF. In fact, article 11.2 of the decree establishes that from 1 January 2012, “financial operators must periodically communicate transactions” to the tax collection residents’ register (*anagrafe tributaria*) along with “any information concerning these relationships that is necessary for fiscal controls” as well as the sums transferred in such operations. The GdF will not be able to use this data on bank customers’

transactions without prior authorisation by the regional commander of the GdF or the central director of the tax revenue agency's (*Agenzia delle Entrate*) controls section. Nonetheless, the data will be used to "identify taxpayers for whom there is a high risk of evasion to be subjected to controls" (art. 11.4).

The government's intention to restrict the use of cash per se is clearly expressed in the title of article 12 of law decree no. 201 of 6 December 2011, "Lowering of the limit for the tracking of payments to 1,000 euros and countering the use of cash." The measure was not unprecedented. A limit of 5,000 euros was imposed on cash transactions by legislative decree no. 231 of 21 November 2007. This limit was lowered to 2,500 euros by law no. 148 of 14 September 2011 in order to comply with EU provisions designed to prevent the financial system being used to launder the proceeds of criminal activities or for terrorist financing.

The 201/2011 decree added article 4 *ter* to the 148/2011 law "for the purpose of favouring the modernisation and efficiency of payment instruments [and] reducing the financial and administrative costs that derive from the management of cash." Thus, expenses paid by local and central public administrations must be processed by telematic and IT means as part of the process to move beyond the use of paper-based transactions. Payments must be transferred into current or post office accounts and, in cases where cash is used, the amount cannot exceed 500 euros. This includes wages, pensions, and payments to service providers and any other payments that are due. Provisions have been made to exclude people on the minimum wage or state pensions from the requirement of paying the ordinary tax (*bollo*) for having a bank account and banks and financial entities will not be allowed to charge these users any costs. The economy and finance ministry will reach an agreement with the *Associazione Bancaria Italiana* (ABI, Italian Banking Association) to make a basic bank account available, providing minimum services (including a debit card) and whose cost structure is transparent. The cost of a basic account should be compatible with "financial inclusion" as defined by the European Commission Recommendation of 18 July 2011, whose section 4 point 9 states that "Member States should ensure that a basic account is provided either free of charge or at a reasonable charge." Law decree 201/2011 states that the agreement with ABI will ensure that this basic account will be available "without costs" for people falling within the "socially underprivileged" category.

While the Monti government was preparing to outlaw the use of cash for sums above 1,000 euros, a campaign to promote a cashless society was launched involving the Rai 3 programme Report. Its presenter Milena Gabanelli has for many years been at the forefront of revealing cases of corruption. Report has documented scandals including corruption at *Finmeccanica* and in the preparations for the G8 summit. Moreover, the *Corte dei Conti* (CdC), which audits Italy's accounts, has repeatedly issued warnings about the loss of revenue resulting from corruption, tax evasion, organised crime and a substantial informal economy. The 2012 report on the state's accounts for 2011 notes that:

"Recently, a commission established within the economy and finance ministry estimated the incidence of the underground economy in 2008 at 17.5% of the GNP (that is, 275 billion [euros]). Estimates from the tax revenue agency... quantify the rate of VAT evasion at 29.3% and that of IRAP (a regional tax on economic activity) at 19.4%, providing a figure of over 46 billion [euros] per year in missing tax revenue recorded only for these two taxes." (p. 70)

On 12 July 2012, at a hearing before the parliamentary oversight commission on the *anagrafe tributaria*, after outlining the tax evasion phenomena the CdC president Luigi Giampaolino highlighted that: “it is evident that a contribution to their reduction may come from the operation of IT and telematic instruments” (p. 4). The report submitted during this oversight session stressed that a key aim of the development of IT and telematic instruments is to attain a higher “tax compliance level in a mass fiscal system.” (p. 21)

A CdC text approved for submission to an audit of the draft law to counter corruption and illegality in public administration held on 14 September 2011 stressed that “the corruption phenomenon, which is in constant growth in Italy, has also become settled and nested within the public administration and represents the third most important source of tax revenue damage, according to data found in summons issued by the regional prosecutors’ offices in 2010.” (p. 13)

Passports for infants: travellers treated as suspects

As of 26 June 2012 (the deadline for implementation) minors will require their own personal passport to travel abroad. This is in application of EC Regulation 2252 of 13 December 2004 “on standards for security features and biometrics in passports and travel documents issued by Member States” which was amended by EC Regulation 444 of 28 May 2009. Passports in which children’s data was recorded on their parents’ document prior to the new provisions will be valid until the passport’s expiry. The Regulation states that a degree of harmonisation concerning the age when fingerprints will be taken is required. This has been provisionally set at 12 years, at which age a child’s fingerprints and digital signature will be acquired and stored on the relevant chip. The regulation notes that:

“During pilot projects in some Member States it appeared that the fingerprints of children under the age of 6 seemed not to be of a sufficient quality for one-to-one verification of identity. Furthermore, they are subject to significant changes which make it difficult to check them during the entire period of validity of the passport or travel document”.

The Regulation notes that the age limit will be reviewed and may be lowered following the publication of an in-depth study to “examine the reliability and technical feasibility, including through an evaluation of the accuracy of the systems in operation, of using the fingerprints of children under the age of 12 for identification and verification purposes.” In the meantime, Member States may reduce the lower limit during a four-year transitional phase (lasting up to 26 June 2013) to as low as six years of age.

This is part of the process to introduce heightened security that will involve fingerprinting the entire population of the EU (although Denmark, Ireland and the UK are not bound by the Regulation.) The 2009 Regulation notes that the “use of new elements” will render “passports and travel documents more secure and establish a more reliable link between the holder and the passport or travel document, thus making an important contribution to ensuring that passports and travel documents are protected against fraudulent use.” This begs the question of whether the fraudulent use of children’s travel documents is really a problem or whether the proposed changes are in fact a ramification of EU institutions’ growing pre-occupation with surveillance, identification and security.

The agreement of both parents will be necessary to validate an application for the travel document and they must be present when the application is processed. Whenever an under-14 travels abroad accompanied by someone who is not their parent, a signed declaration bearing the name of the

person responsible for them will be needed. This person will be issued a document by the police that they will have to hand in along with the minor's passport during border controls. In this case, travelling will entail going to the city's police headquarters (*questura*) with a signed declaration and photocopies of the identity cards of the person in whose charge the minor will be, as well as those of its parents and the child itself. Had they not already done so, the child's parents would need to apply for a passport for their child which would involve setting up a current bank account in the child's name to pay for the document. The passport will be valid from birth to three years of age, and renewed every five years thereafter until they are 18, to "guarantee the minors greater individuality and security" by enabling "the updating of the photograph and the minor's identification during border controls." Passports are valid for ten years in the case of adults. To be issued the document, applicants will have to produce two biometric photographs of the minor. The cost of a passport is 82.79 euros.

The "redditometro" (income-meter)

On 24 December 2012, a decree issued by the economy and finance ministry set out the provisions for the so-called "*redditometro*" to gauge whether the living standards of taxpayers matched their declared income. It is applicable to revenue from 2009 onwards. Its stated aim is to "adapt" controls "to the changed socio-economic context of the last decade" and to make it "more efficient." The premise of the measure is that "synthetic assessment of the overall income of persons may be based on the inductive content of elements that indicate their tax paying capacity." This "inductive content" may be identified by analysing "significant samples of taxpayers" who are categorised on the basis of their family unit type and the area in which they live, as well as average spending patterns for each type. Finally, the Agenzia delle Entrate reserves the right to use other categories that are not included in the chart gauging "contributive capacity," including any annual savings.

A chart is provided to indicate the costs incurred by taxpayers to acquire services and goods, and for their maintenance, that may be used as "elements indicative of contributive capacity" (art. 1.2). A second "inductive element" will be drawn from the average costs incurred by the type of family unit to which a taxpayer belongs, based on national statistical studies on their spending. The relevant chart details 11 different types of family unit (single under-35; couple under-35 without children; single 35-64 years old; couple 35-64 years old without children; single over-65; couple over-65 without children; couple with a child; couple with two children; couple with three or more children; single parent; and other) divided into five geographical areas (northwest, northeast, centre, south and islands) whose average expenditure will be estimated. Socioeconomic analysis and studies, some of them sectoral (that is, estimates of what people should earn in a given profession, particularly freelance workers) will also be treated as "inductive elements" to gauge a taxpayers' contributive capacity. Sectoral studies have intermittently been used to collect taxes from freelance professionals on the basis of estimates of what people should be earning rather than their recorded activity due to suspicion of large-scale tax evasion. The tax revenue authority will use the higher figure between that arising from the costs of services and goods, that estimated from averages for family unit typologies, and that produced through socioeconomic analysis.

The "*redditometro*" has been changed on numerous occasions. Contrasting the chart's spending categories with those from a similar measure approved in 1992 makes for amusing reading. There were nine categories in the table attached to the 1992 measure: luxury goods and vehicles; home costs and insurance; airborne vehicles; boats and sea vessels; cars, other means of transport and motor vehicles or camper vans; main and secondary homes; domestic workers; race horses; and

insurance premiums. These were expanded in the table attached to the 2012 version of the *redditometro* to 11 categories with subdivisions covering the widest possible range of expenses: consumption of foodstuffs, drinks, clothing and shoes; residence (mortgage, rent, water, condominium, maintenance costs etc.); fuel, central heating and energy; furniture, electrical home appliances and services (cleaning products, underwear, pots and pans, domestic workers); health (medicines and visits); means of transport (repair costs, oil, petrol, maintenance, spare parts, trams, buses, car rentals); communications (purchase of telephones and bills); education (nurseries, schools, paid courses, postgraduate studies, studies abroad, student hall fees); leisure time, culture and games (games, toys, television, radio, books, magazines, music, stationery, TV license, Internet services, plants, repairs, lotteries, pay TV, leisure activities, sports clubs, season tickets for sports and cultural events, online gaming, horses, pets, vets); other goods and services (insurance, social security contributions, barbers, hairdressers, beauty care, personal care products, spas, jewellery, silverware, watches, bags, suitcases, payments for professional services, hotels and holidays, eating out, regular payments to spouses); and economic investments (in property, vehicles, shares, insurance policies, bonds, art works and antiques).

In short, they would allow a precise picture to be drawn up of any taxpayer's private life, including the pettiest details, in order to assess the likelihood that they are guilty of tax evasion. Moreover, notions such as average expenditure disregard the fact that at a time of high youth unemployment many families support their sons and daughters long after they become adults. Savings that are used to meet expenses would also be flagged as an "incongruence" with declared income, the criterion that will result in further controls and, possibly, fines. The fact that taxpayers will have an opportunity to explain any "incongruence" between their tax returns and their spending does not change the fact that the burden of proof is placed on them to reverse an assessment that may result from generic estimates.

On 6 January 2013, *Corriere della Sera* columnist Piero Ostellino sparked controversy by describing the measure as those of a "fiscal police state." He said that the "bureaucrats" who drew up the tables are reminiscent of fascist police officers in pre-1945 Italy or the Stasi in East Germany. Two days later, Attilio Befera, head of the tax revenue agency, replied that "we are not a fiscal police state" and that it was merely a means of identifying the most "shameless tax evasion." He explained that:

"our redditometro consists of an IT procedure that crosses databases and uses statistical indicators with extreme caution, striving to identify the degree of correlation between the income that emerges from a subject's tax returns and their capability to spend, as detailed on the basis of the data that the tax authority has available to it, as reliably as possible."

Social and fiscal control as the new imperative

The measures detailed above are not limited to Italy and the Monti government. The passport measure was in application of an EU Regulation, while lowering the minimum threshold for cash payments complied with EU measures to counter money laundering and terrorist financing. This was supposedly to counter tax evasion and the informal economy, which are admittedly substantial in Italy, although the low threshold appears excessive and will cause problems to people who do not have bank accounts by choice, because they have never had much money or because they have never needed one. It also appears to be an attempt to shore up the banks by ensuring that as high a proportion of transactions as possible flows through them. Forcing everyone to have a bank account

also solidifies the role of banks at a time when banks have fallen into disrepute due to their role in the economic crisis. These measures, alongside the *redditometro*, are indicative of a move towards ever-increasing social control of citizens by the state. Moreover, for its part the state is routinely failing to fulfil its obligations to its citizens. Corruption is rampant in public administrations (both the Lazio and Lombardy regional councils fell in 2012 due to scandals), thousands of businesses are closing (11,615 in 2011) and unemployment is on the rise, without an adequate social security network. Evictions and crisis-induced suicides are other significant phenomena. In many cases a stranglehold between delays in payments from the state and uncompromising tax collection at prohibitive levels is proving unbearable for small and medium businesses.

The election results of February 2013 highlighted the degree of disenchantment with “austerity.” Over 50% of voters cast their ballots for parties that opposed Mario Monti’s policies (Berlusconi’s PdL and Beppe Grillo’s Movimento 5 Stelle, M5S), with the outgoing prime minister only winning around 10% of the vote. This means that the pre-election favourites who emerged as marginal victors, Bersani’s PD alongside SEL, appear unable to muster a workable majority. To do so they are trying to obtain support from the virulently anti-austerity M5S whose stated aim is to rid parliament of the existing political class. It appears that Monti’s entry into the arena of electoral politics may have backfired and that his neo-liberal recipe for tackling the crisis is ill-suited to a country in which small and medium businesses are prevalent.*

* Italy has the highest number of small and medium businesses in the EU (3,813,805). This figure is drawn from a European Commission Small Business Act for Europe country profile for 2012:

http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2012/italy_it.pdf

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Annexes to the “*redditometro*” decree:

- 1) Tabella A – Contenuto induttivo degli elementi indicativi di capacità contributivi. (GU 4.1.13)
- 2) Tabella B – Tipologie di nuclei familiari e relative aree territoriali di appartenenza. (GU 4.1.13)

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"Il redditometro del dottor Stranamore. Fiori, animali, pentole: perché respingo l'invasione del Fisco", Piero Ostellino, Corriere della Sera, 6.1.13.

"Perché non siamo uno Stato di polizia fiscale. Il nuovo redditometro è solo una procedura informatica", Attilio Befera, Corriere della Sera, 8.1.13.

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