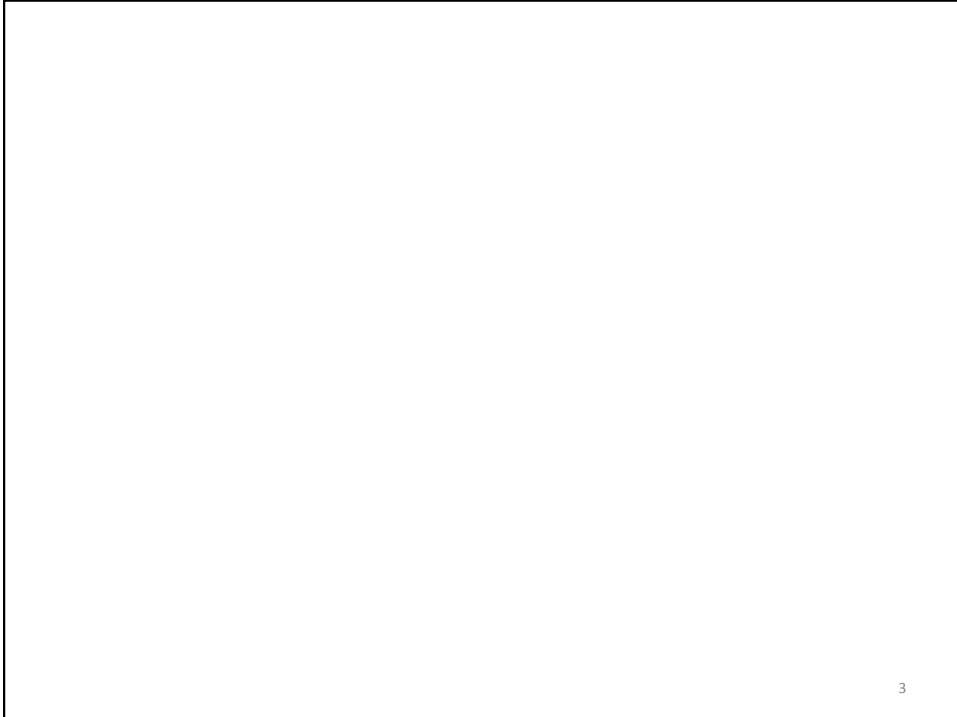


Audrey Ducroux lecture

Massimo Cremona
Adjunct Professor in tax planning for
corporations at the
Università Cattolica del Sacro Cuore - Milan

Obituary of **Audrey Ducroux**





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TITLE

"Only the brave could invest in
Italy" or

"Only the brave could invest in
Italy?"

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1. Italy at glance
2. How easy is to do business in Italy
3. Tax system

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ITALY AT GLANCE

Italy has the world's 9th largest economy by nominal GDP

GDP	Euro 1560 Bil.	2013	Source: IMF
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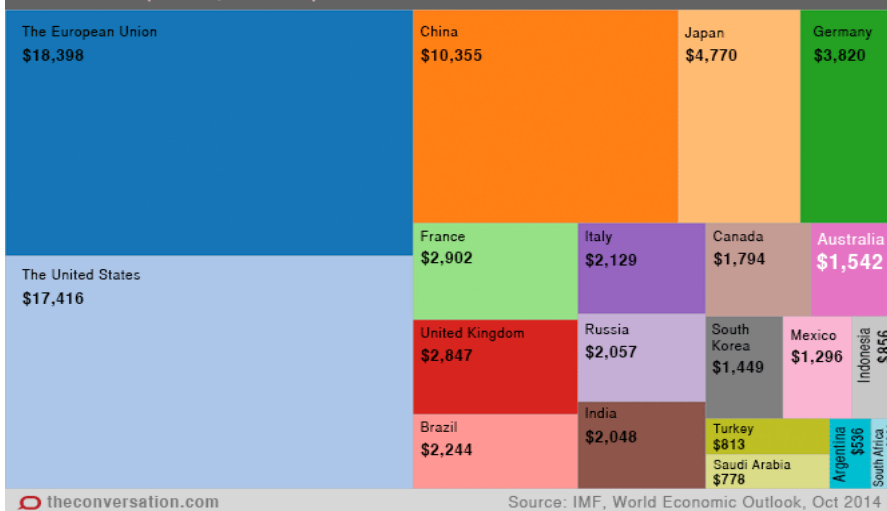
ITALY AT GLANCE – POPULATION 2013

Economies	Population /000 as of 2013	Change PY
China	1,357,380	0.49%
India	1,252,140	1.25%
USA	316,129	0.72%
Indonesia	249,866	1.22%
Brazil	200,362	0.86%
Russia	143,500	0.22%
Japan	127,339	-0.17%
Mexico	122,332	1.23%
Germany	80,622	0.24%
Turkey	74,933	1.26%
France	66,028	0.54%
UK	64,097	0.63%
Italy	59,831	0.49%
South Korea	50,220	0.43%
Spain	46,647	-0.24%

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ITALY AT GLANCE – GDP IN US\$ BILLION 2013

The GDP of G20 countries Real GDP (in US\$ billions)



Source: IMF, World Economic Outlook, Oct 2014

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ITALY AT GLANCE – GDP PER CAPITA AT PPP (PURCHASE POWER PARITY)

Country	Level USD as of 2013	1Y Chg
USA	53,101	2.69%
Germany	40,007	1.71%
UK	37,307	2.68%
Japan	36,899	3.29%
France	35,784	1.34%
South Korea	33,189	3.88%
Italy	30,289	-0.86%
Spain	29,851	0.61%
Russia	17,884	2.87%
Mexico	15,563	1.43%
Turkey	15,353	3.65%
Brazil	12,221	2.90%
China	9,844	8.76%
Indonesia	5,214	5.87%
India	4,077	4.55%

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ITALY AT GLANCE – NET DEBT AS % OF GDP

Country	Level as % fo GDP as of 2013	1Y Chg
Japan	134,12	4.67%
Italy	110,70	4.64%
France	87,62	3.64%
UK	83,09	1.69%
USA	81,34	1.22%
Spain	60,44	7.75%
Germany	55,72	-2.36%
Mexico	40,42	2.62%
South Korea	36,02	3.03%
Brazil	33,62	-1.68%
Turkey	27,34	-0.14%
China	n.a.	n.a.
Russia	n.a.	n.a.
India	n.a.	n.a.
Indonesia	n.a.	n.a.

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ITALY AT GLANCE – SURPLUS/ DEFICIT AS % OF GDP

Country	Level % of GDP as of 2013	1Y Chg
Spain	-8,12%	-0.55%
Japan	-7,60%	0.22%
UK	-4,49%	1.09%
USA	-4,13%	2.15%
India	-2,62%	0.43%
France	-2,19%	0.24%
Russia	-0,80%	-1.62%
South Korea	0,15%	-0.88%
Turkey	1,05%	0.07%
Germany	1,65%	-0.24%
Brazil	1,89%	-0.22%
Italy	2,02%	-0.28%
China	n.a.	n.a.
Mexico	n.a.	n.a.
Indonesia	n.a.	n.a.

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ITALY AT GLANCE - REVENUES AS SHARE OF GDP

Country	Level as of 2013	1Y Chg	~5Y Ago	~10Y Ago
France	52,87%	1.06%	49.21%	49.64%
Italy	47,77%	0.15%	46.46%	43.96%
Germany	44,69%	-0.08%	45.14%	43.31%
Spain	37,93%	0.81%	35.08%	38.81%
UK	37,74%	0.93%	35.56%	36.04%
Brazil	37,22%	-0.46%	34.82%	33.20%
Turkey	36,06%	1.60%	32.58%	31.21%
Russia	35,80%	-2.11%	35.04%	36.65%
Japan	31,68%	0.49%	29.59%	27.91%
USA	30,71%	1.66%	28.40%	29.29%
South Korea	23,64%	-0.52%	23.05%	21.19%
Mexico	23,34%	-0.12%	22.13%	19.06%
China	22,94%	0.30%	20.19%	16.65%
India	20,00%	0.52%	18.52%	18.90%
Indonesia	17,85%	-0.20%	16.50%	19.31%

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ITALY AT GLANCE - UNEMPLOYMENT

Country	% as of 2013	1Y Chg	~5Y Ago
Spain	26,60%	1.40%	18.10%
Italy	12,20%	1.50%	7.80%
France	10,40%	0.50%	9.10%
Turkey	10,00%	0.80%	14.00%
UK	7,90%	0.00%	5.40%
USA	7,40%	-0.80%	9.40%
Indonesia	6,30%	0.20%	7.90%
Brazil	5,90%	-0.20%	8.30%
Russia	5,60%	0.10%	8.30%
Germany	5,30%	-0.10%	7.70%
Mexico	4,90%	0.00%	5.20%
China	4,60%	0.10%	4.40%
Japan	4,30%	-0.20%	4.00%
India	3,60%	0.00%	3.90%
South Korea	3,10%	-0.10%	3.60%

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ITALY AT GLANCE - LIFE EXPECTANCY AT BIRTH

Country	Years Average as of 2012	1Y Chg	~5Y Ago
Japan	83.10	0.61%	82.59
Italy	82.94	0.36%	81.73
France	82.57	0.55%	81.21
Spain	82.38	-0.12%	81.18
UK	81.50	0.68%	79.60
South Korea	81.37	0.50%	79.83
Germany	80.89	0.19%	79.74
USA	78.74	0.13%	77.94
Mexico	77.14	0.29%	76.23
China	75.20	0.21%	74.58
Turkey	74.86	0.43%	73.53
Brazil	73.62	0.37%	72.53
Indonesia	70.61	0.31%	69.69
Russia	70.46	1.15%	67.85
India	66.21	0.38%	65.11

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ITALY AT GLANCE - GINI INDEX - A HIGHER GINI INDEX REFLECTS A MORE UNEQUAL INCOME DISTRIBUTION

Country	Gini Index	As Of
South Korea	31.59	1998
Japan	32.11	2008
France	32.74	1995
India	33.90	2010
Italy	35.52	2010
Spain	35.75	2010
UK	38.04	2010
Indonesia	38.14	2011
Russia	39.69	2009
USA	40.81	2000
China	42.06	2009
Mexico	48.07	2012
Brazil	52.67	2012

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ITALY AT GLANCE - ESTIMATED CONTROL OF CORRUPTION (SCALE: -2.5 TO 2.5)

Estimated Control of Corruption	Level as of 2012	1Y Chg	~5Y Ago
Germany	1.78	4.30%	1.73
UK	1.64	3.44%	1.66
Japan	1.61	2.88%	1.31
France	1.42	-6.56%	1.38
USA	1.38	8.83%	1.41
Spain	1.05	-0.59%	1.11
South Korea	0.47	0.81%	0.37
Turkey	0.17	202.69%	0.08
Italy	-0.03	-130.88%	0.25
Brazil	-0.07	-148.63%	-0.02
Mexico	-0.41	2.20%	-0.24
China	-0.48	-13.68%	-0.54
India	-0.57	-1.24%	-0.36
Indonesia	-0.66	-3.49%	-0.56
Russia	-1.01	-2.05%	-1.05

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ITALY AT GLANCE - ESTIMATED GOVERNMENT EFFECTIVENESS (SCALE: -2.5 TO 2.5)

Country	Level as of 2012	1Y Chg	~5Y Ago
Germany	1.57	1.76%	1.52
UK	1.53	-1.67%	1.64
USA	1.51	-0.06%	1.60
Japan	1.40	-4.92%	1.46
France	1.33	-3.14%	1.58
South Korea	1.20	-4.77%	1.05
Spain	1.11	7.38%	0.92
Italy	0.41	8.12%	0.29
Turkey	0.40	11.33%	0.26
Mexico	0.32	4.77%	0.18
China	0.01	-93.34%	0.15
India	-0.18	3,483.20%	-0.03
Brazil	-0.12	5.46%	-0.09
Indonesia	-0.29	16.88%	-0.24
Russia	-0.43	-6.21%	-0.34

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ITALY AT GLANCE - ESTIMATED RULE OF LAW (SCALE: -2.5 TO 2.5)

Country	Level as of 2012	1Y Chg	~5Y Ago
UK	1.69	2.74%	1.66
Germany	1.64	1.89%	1.72
USA	1.60	-0.01%	1.61
France	1.43	-0.61%	1.48
Japan	1.32	2.13%	1.32
Spain	1.04	-11.32%	1.17
South Korea	0.97	-5.29%	0.85
Italy	0.36	-14.23%	0.42
Turkey	0.04	-55.57%	0.08
India	-0.10	-6.42%	0.09
Brazil	-0.11	1,770.34%	-0.37
China	-0.49	24.99%	-0.34
Mexico	-0.56	0.90%	-0.72
Indonesia	-0.60	-1.74%	-0.66
Russia	-0.82	11.62%	-0.93

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ITALY AT GLANCE

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ITALY AT GLANCE

- **CONCLUSION**
 - Strong industrial economy with important surplus
 - GDP decrease after 2008 crisis
 - Large Unemployment especially in young and female population
 - Huge governmental debt
 - Low government effectiveness
 - Good and long life
 - Reasonable Unbalances

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ITALY AT GLANCE – LIGHT AND SHADE

- Country which is suffering strong industrial competition of developing countries
- Country which did not invest in infrastructure due to large net debt
- Country rich at individual level but with significant public issues
- Strong individuality with small and medium size MNC very active.

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ITALY

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EASE OF DOING BUSINESS IN ITALY

(Source World Bank <http://www.doingbusiness.org/data/exploreeconomies/italy>)

Doing Business 2015 Rank (out of 189 economies)	Doing Business 2014 Rank***	Change in Rank
56	52	-4
Doing Business 2015 DTF** (% points)	Doing Business 2014 DTF** (% points)	Change in DTF** (% points)
68.48	68.19	0.29

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EASE OF DOING BUSINESS IN ITALY

Topics	DB 2015 Rank (out of 189 economies)	DB 2014 Rank (out of 189 economies)	Change in Rank
Starting a Business	46	61	15
Dealing with Construction Permits	116	114	-2
Getting electricity	102	97	-5
Registering property	41	41	0
Getting credit	89	86	-3
Protecting minority investors	21	19	-2
Paying taxes	141	137	-4
Trading across border	37	34	-3
Enforcing contracts	147	147	0
Resolving insolvency	29	27	-2

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EASE OF DOING BUSINESS IN ITALY

- **MAJOR ISSUES:**

- Dealing with Construction Permits (relationships with local and central authorities)
- Paying taxes (formalities and relationships with P.A.)
- Enforcing contracts (low of effectiveness of justice or too many lawyers)

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ITALY – MUCH MORE

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ITALIAN TAX SYSTEM

- High tax pressure
 - mainly on individuals and more precisely on employment income
 - very few individuals with a tax income over 200.000 euro (0.18% paying 6,9% of total individual income tax)
 - 38,1% of individuals paying 86% % of total individual income tax
 - and majority below 20.000 euros (61,8%,)
- Too many formalities
- Large tax evasion
- Tax authorities quite aggressive with large companies
- Low taxation (12,5- 26% tax rate) for financial income (interest on governmental bonds, on dividends or capital gain)

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ITALIAN TAX SYSTEM

- Major source of revenues:
 - Income tax on individuals
 - EU harmonized Vat taxation
 - Income tax on corporations
- High administrative fines and low threshold for criminal offence (all the major remarks for companies fall into criminal offence)

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FLAVOR OF TAX EVASION IN ITALY

EU Report sept. 4, 2015 – In Millions of Euros

Paese	2012			2013		
	Vat revenues	Theoretical revenues	VAT Gap	Vat revenues	Theoretical revenues	VAT Gap
Francia	142,526	157,36	14,834	144,414	158,51	14,096
Germania	194,034	216,984	22,95	197,005	221,878	24,873
Grecia	13,712	20,595	6,883	12,593	19,09	6,497
ITALIA	96,17	141,332	45,162	93,921	141,437	47,516
Polonia	27,783	37,175	9,391	27,78	37,911	10,131
Spagna	56,652	68,262	11,61	61,35	73,444	12,094
Uk	142,943	159,695	16,752	141,668	157,099	15,431

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ITALIAN TAX SYSTEM

- Reform for abuse of law and duplication of the statutory limitation in case of criminal offence (implemented in august 2015)
- Major reform of the tax system announced for 2016.
 - No significant reductions of formalities
 - No significant modification of the tax system but simple fine tuning.
 - No significant tackle to large tax evasion of individuals
 - Reform of taxation on immovable property used as primary home.

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ITALIAN TAX SYSTEM

- Forecast:
 - no mayor tax reduction due to budget needs
 - Maastricht constrains
- The tax reduction can be implemented only after a severe public cost cutting.
- Public cost cutting cannot be implemented due to large unemployment and political reasons
- Real issue: quality of services provided by public sector (health, school, justice, security protection etc.) is quite low.
- High tax pressure like a welfare state but poor quality services provided.

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CONCLUSION

- **GOVERNMENT REFORMS:**
 - Labor law reform with more flexibility – Jobs act (done) – Immediate positive effects
 - Electoral reform (in process)
 - Constitution reform (in process)
 - Tax reform with reduction of the tax pressure (announced)
 - Reform of school system with more flexibility (in process)
 - Reform of P.A. with more flexibility (announced)

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CONCLUSION

- **GOVERNMENT REFORMS:**
 - Many in progress or announced but few implemented
 - Implementation too slow and reduced effectiveness
 - No major actions for reduction of the too high government net debt
 - No major actions to tackle bureaucracy and P.A. power.

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CONCLUSION

**"Only the brave could invest in Italy" or
"Only the brave could invest in Italy? "**

- Difficult to do business
 - with P.A. or
 - in highly regulated activities
- Strong industrial basis with individualism and creativity.

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ITALY

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