Il Ministro
dell'Economia e delle Finanze

P. 781 IR

Rome, 7th February 2017

Dear Valdis, dear Pierre

The Council, with decision no. 2015/1401 of 14 July 2015, authorized the Italian Government to introduce the split payment mechanism for all purchases by the Public Administration. That derogation expires on the 31st of December 2017. As illustrated in the Report prepared by the Ministry for the Commission Services last June[1] , the application of the split payment has been very successful in terms of revenue collection with no detrimental effect on the suppliers due to adoption of measures that have ensured the efficient functioning of the VAT reimbursements.

In the light of the above, the Italian Government intends to ask the Commission to present a proposal for the extension of the existing derogation. The extension should be granted for a further three years in order for the split payment to continue to apply until the end of December 2020. In addition, we would need to clarify with the Commission Services that the scope of the existing derogation and its extension can consistently be taken to include entities and transactions that the initial domestic legislation implementing the derogation has left out the scope of the split payment.

In addition, let me take this opportunity to forward you, for information, the official transcript of my intervention in the Senate of the Italian Republic on 2 February, in response to parliamentary enquiries on the state of public finance, in application of Article 151-bis of the Regulation of the Senate.

In my intervention I described the commitment of the Government to adopt measures to deliver a structural adjustment of 0.2% of GDP that will be further detailed in the forthcoming Stability Programme i.e. by the end of April at the latest.

Mr Valdis DOMBROVSKIS
Vice-President
European Commission
Brussels

Mr Pierre MOSCOVICI
Commissioner
European Commission
Brussels

[1] Article 3 of the Council decision requests the Italian Government to present an interim Report on the functioning of the derogation and the state of the reimbursements, in general and to taxable persons subject to the application of the derogating measure.

Furthermore, I informed the Parliament of the composition of the adjustment that the government is planning, which is the following:

- 0.05% expenditure cuts, of which roughly 90%, i.e. 0.04% intermediate consumption and the rest, i.e. 0.01%, from tax benefits;
- 0.15% revenue increases of which 40%, i.e. 0.06%, from the above mentioned measures for reinforcing and improving action against tax evasion. This means that roughly one billion euros will come from the measures described above. The remaining 60%, i.e. 0.09% will come from increases in excise duties and other indirect taxation. As announced in Parliament, neither VAT increases or interventions on tax expenditures, nor a further voluntary disclosure extension, are planned.

While some of these measures could be adopted in the coming weeks, the entirety of these measures will in any case be adopted by end-April.

At the same time, a Fund dedicated to dealing with the consequences of seismic events, i.e. to emergency and reconstruction, will be established. At the current stage we cannot assess the overall impact on public finances of the latest events but it is likely to be well beyond one billion euro already in 2017.

As stated in my letter of 1st of February, the Government considers this consolidation path - in line with the intensity of deficit reduction achieved since 2014 - sound as it reconciles supporting economic growth, debt sustainability and income distribution. The Italian Government intends to continue following such a strategy.

I trust that the Commission will fully take into account these elements in its forthcoming assessment of the Italian budgetary situation.

Yours sincerely

Pier Carlo Padoan

Attachment:

Official transcript of the intervention of Minister Padoan before the Senate at the Question Time of 2nd of February.