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Subject: Clarification on the recording of the “Bonus 110%” and of the tax relief relating to the “Transition Plan 4.0”

Reference: Your e-mail of 21 May 2021

Dear Mr Blangiardo,

Thank you for your note dated 21 May 2021 on the recording of two tax reliefs, the so-called “Bonus 110%” and the tax relief relating to the so-called “Transition Plan 4.0”. Following the information provided, Eurostat would like to clarify some aspects concerning the two tax reliefs.

1. THE ACCOUNTING ISSUE FOR WHICH A CLARIFICATION IS REQUESTED

The issue, for which an opinion is being sought, is the clarification on the correct ESA 2010 accounting treatment of the so-called “Bonus 110%” and of the tax relief relating to the so-called “Transition Plan 4.0”. ISTAT, the Italian statistical office, requested in addition a clarification on some operational guidelines relating to the recording of tax credits in general.

1.1. Documentation provided

ISTAT provided to Eurostat by e-mail dated 21 May 2021 a note describing the features of two tax reliefs. The note also included ISTAT’s statistical analysis of the above tax relieve measures recording in national accounts.

1.2. Description of the case

Among the measures implemented by the Italian government to mitigate the economic impact of COVID-19 pandemic, two new tax reliefs for households and businesses were introduced. The so-called “Bonus 110%” might be used by beneficiaries that carry out measures aimed at increasing the energy efficiency of residential buildings and undertake anti-seismic interventions. The tax credit, equal to 110% of the expenses incurred from 1 July 2020 to 30 June 2022, can be used in three possible ways:

- (1) By an original beneficiary as a deduction from the gross income tax in the tax declaration over five years (and in five equal annual instalments¹) and always within the limits of the beneficiary's tax liability of each year.
- (2) By an original beneficiary as a discount on the invoice (partial or total).
- (3) By a transferee, if the original beneficiary opts to transfer the tax credit to third parties, e.g. suppliers of the services, financial institutions. The transferee can use the tax credit for the full amount or for an amount not yet used by the original beneficiary and under the same conditions, i.e. to offset the gross income tax and within the limit of the tax liability for the year. A multiple transfer of the tax credit is allowed.

The tax relief relating to the so-called "Transition Plan 4.0" builds up on the already existing facility, which was extended by the Budget Law 2021 until the end of 2022. It is provided to Italian companies for investments in new capital assets, specified by legislation, with the purpose to stimulate private investments and technological transformation of production systems. The size of the tax relief varies according to the type and value of assets acquired.

In contrast to the “Bonus 110%” scheme, this tax credit can be used to offset the total fiscal debt, i.e. including also other types of taxes, not only income taxes, and social contributions. The beneficiaries can either reduce their fiscal debt in the following three or five years in equal instalments or, in case the apportioned yearly amount exceeds the fiscal debt in a given year, they can carry forward the tax credit to the following years. In such case, the time limit does not apply and the taxpayer can offset the fiscal debt until the tax credit is fully used up².

2. METHODOLOGICAL ANALYSIS AND CLARIFICATION

2.1 Applicable accounting rules

The applicable accounting rules are the following:

- ESA 2010 chapter 20, paragraphs 20.167-20.168
- The Manual on Government Deficit and Debt (MGDD), Recording of tax credits in section 2.2.2

2.2 Availability of national accounting analysis

In their note of 21 May 2021, the Italian statistical authorities provided to Eurostat a methodological analysis, according to which the two tax reliefs are seen as two very different

¹ Four equal instalments are allowed for the expenses incurred in 2022.

² A possibility of the transfer of the tax credit to third persons was under discussion at the time of sending the request for advice. According to information available to Eurostat later on, this possibility was not included in the final proposal.

measures in terms of parameters and in the modalities on how beneficiaries and/or third parties can use them. Consequently, ISTAT considered that the “Bonus 110%” had features of a non-payable tax credit while the tax relief relating to the “Transition Plan 4.0” was a payable tax credit. On this basis, a few operational guidelines for the recording of tax credits were proposed by ISTAT in their note, with the intention to be consulted with Eurostat.

2.3 Methodological analysis and clarification by Eurostat

2.3.1. “Bonus 110%”

ESA 20.167 reads: *“Tax credits can be payable, in the sense that any amount of the credit that exceeds the tax liability will be paid to the beneficiary. In contrast, some tax credits are non-payable, and described as ‘wastable’. They are limited to the size of the tax liability.”* The treatment in national accounts depends therefore on the type of tax credit. Non-payable tax credits are recorded as reducing government tax revenue.

The recording is different for payable trade credits (ESA 20.168): *“In contrast, this is not the case for payable tax credits, which by definition can affect non-taxpayers as well as taxpayers. As they are payable, payable tax credits are classified as expenditure and recorded as such for their total amount.”*

One possibility for using the “Bonus 110%” is a deduction to the tax liability (gross income tax) of an original beneficiary taxpayer over the following five years in five equal tranches (or in four annual instalments respectively). Thus, each year the taxpayer reduces the tax liability by a proportional part of the tax relief. In the situation when the tax credit exceeds the tax liability of the year, the amount in excess cannot be claimed from government and thus it is lost. In this case, the tax credit seems to fulfil the definition of the non-payable tax credit. From the point of view of this individual tax payer, it is limited to the size of the tax liability and the part not used is de facto ‘wasted’ for the taxpayer.

Alternatively, however, the original beneficiary might transfer the tax credit to third persons for the full amount or for the amount not yet used. If the tax credit is transferred, the transferees (suppliers, financial institutions, etc.) can use it to offset their tax liability in the five (or four respectively) following years up to the limit of the annual tax liability. The amount of the tax credit exceeding the tax liability is lost if not used but, alternatively, it can also be transferred further for the part not yet used. Thus, a multiple transferability of the tax credit is allowed in this particular case.

One might consider that the nature of the tax credit does not change after introducing the possibility of its transfer to third persons, and might still be seen as a non-payable tax credit. In particular, this would be the case when taking into account the fact that the amount of the tax credit is, in each modality, limited to the size of the tax liability and that the exceeding amount cannot be in any case reimbursed by government. However, it might also be argued that the possibility of transferring the tax credit to other beneficiaries brings a new element, which has to be taken into account in the assessment of the tax credit, as it might be considered that the tax credit (or the part not yet used) will be finally, in substance, not lost and will be claimed at the end by one or more transferees, mainly in the case of multiple transfers.

The transferability of tax credits is a concept not developed in the ESA 2010 and no precise guidance on the treatment of such phenomenon in national accounts is at present provided.

Eurostat thus considers that transferable tax credits should be seen as borderlines cases between non-payable and payable tax credits and, before providing any operational guidance, as requested by ISTAT, and introducing precise rules for their recording, a methodological analysis and discussion with the statistical community is required. Eurostat intends therefore to develop the issue of transferable tax credits with the view to include it in the forthcoming update of the MGDD.

2.3.2. Tax relief relating to the “Transition Plan 4.0”

The beneficiaries of this tax credit are companies investing into specific categories of capital assets determined by legislation. The eligible companies then might use the tax credit to offset the total fiscal debt in three or five respectively equal instalments. It has to be stressed that the fiscal debt relates to the overall debt position of the beneficiary and can also include other tax obligations (e.g. VAT) and social contributions. This is an important element implying that government, by extending the scope of tax debts eligible for deduction, aims to provide a wide support to companies in a certain area. In this way, the tax credit relating to the “Transition Plan 4.0” might be deemed to be a subsidy, as correctly indicated by ISTAT in the note. ESA 4.81, the second indent, reads the following: *“Subsidies and social benefits made available via the tax system in the form of tax credits and the incidence of linking payment systems with the tax collection system are increasing. Tax credits represent tax relief and so reduce the tax liability of the beneficiary.”* Thus, the recording as expenditure rather than a reduction in tax revenues seems fully justified for the tax credits that would have the nature of a subsidy.

If the yearly apportioned amount of the tax credit is higher than the total fiscal debt in that particular a year, the amount in excess cannot be claimed for reimbursement by government. It might however be carried forward to offset the fiscal debt in following years. The parameter of three/five equal instalment in fact defines the maximum amount to be used in a year but in practice it does not limit the use of the tax credit in time. Accordingly, the tax credit might reduce the total fiscal debts of a beneficiary for an unlimited number of years until it is fully exhausted.

Although the tax credit described above will not be settled in cash, it will not be wasted and eventually will be “paid” (settled via offsets). Therefore, de facto, it has a nature of a payable tax credit. The likelihood that the government will provide the full amount of the tax credit to the beneficiary is therefore very high, though no associated cash flows might be observed in time. For all these reasons, Eurostat considers that the tax credit should be considered as a payable tax credit, as it would have the nature of a subsidy.

It has to be noted that specific guidance on cases of (permanently) reportable tax credits or tax credits reportable for longer time period is not elaborated in the ESA 2010 text. As in the case of the “Bonus 110%”, Eurostat intends to undertake the methodological analysis, discuss and consult with the Member States with the aim to update the MGDD accordingly.

3. CONCLUSIONS

Given the possibility to transfer the “Bonus 110%” by an original beneficiary to third persons, including a multiple transfer, Eurostat considers that the tax credit is a borderline case and cannot be clearly assigned to either a non-payable or payable tax credit. In contrast, the tax credit relating to the “Transition Plan 4.0” has features of the payable tax credit taking

into account the unlimited use in time by a beneficiary and the possibility of offsetting other tax obligations, not necessarily linked to the underlying tax. In a view of the forthcoming MGDD update, Eurostat intends to introduce specific methodological guidance that would cover the cases of transferable tax credits and the tax credits reportable for longer or unlimited period of time.

4. PROCEDURE

This view of Eurostat is based on the information provided by the Italian authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopt a fully transparent framework for its decisions on debt and deficit matters in line with Council Regulation 479/2009, as amended, and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on its website.

Yours sincerely,

(e-Signed)

Luca Ascoli
Director