ITALY
2003

1. Overview of the system

The Italian unemployment benefit system is a complex one, given the differences in eligibility conditions, amount and duration of the treatments existing among the various schemes. The unemployed may receive a contributory unemployment insurance benefit which in most cases amounts to 40 per cent of previous earnings for a maximum of six months while in some other cases it is up to 80 per cent of previous earnings for 4 years (64 per cent from the second year). In recent years the main innovation has been introduced in the ordinary unemployment benefit – the general insurance based scheme: since December 2000 the amount of this benefit has been increased from 30 per cent of previous earnings to 40 per cent and, only in the case of recipients aged over-50, the benefit duration has been extended from six to nine months. The new government, in power since June 2001, has announced a general reform and a rationalisation of the entire system in the near future and the subject has been dealt with in the social pact (*Patto per l'Italia*) signed among social partners (but one trade union) and the government in July 2002. The new rules are still under discussion in the Parliament. They would imply an increase of the benefits in the ordinary scheme up to 60% of the previous earnings during the first 6 months, with a subsequent decline to 40 and 30% within a total duration of 12 months.

Concerning the social assistance programmes, in Italy there is not a general minimum income scheme, apart from a recent trial (the so called *reddito minimo di inserimento* -- RMI) , initially tested in 1998 in very few municipalities, then extended in 2001 to a still limited area, and eventually terminated by the Parliament. A new system, still to be specified and aiming at avoiding clashes with employment incentives and increasing the role and responsibilities of local and regional authorities, has been envisaged for in the Budget Law for 2004..

With regard to family benefits, the most important ones – the *assegni per il nucleo familiare* (family allowances) – are means tested (on the basis of household income) and are reserved for employees (or benefit recipients, including pensioners and unemployed covered by unemployment insurance schemes, who are former employees). There are also universal family benefits – the maternity allowance and the allowance for households with at least three children – introduced in 1998 and reinforced with the Budget Law for 2001; these benefits are means-tested through an income and wealth measure known as the Indicator of Economic Situation of the household (in Italian, *indicatore della situazione economica* or, shortly, ISE) introduced in 1998 as a general instrument to evaluate social benefit eligibility.[1]

1. The ISE, introduced in 1998 and reformed during 2000, corresponds to household taxable income (including a "notional" income from financial assets minus a deduction for households living in rented houses) plus family net wealth as obtained by summing up real estate values (home ownership could be excluded up to a maximum of EUR 51 646) and financial assets (minus a deduction of EUR 15 494) of all family members. The family net wealth is multiplied by a coefficient of 0.20. The resulting value is corrected using the equivalence scale presented in Table 5 below: the ISE corrected by the equivalence scale is called ISEE (*indicatore della situazione economica equivalente*).

The tax unit is the individual (partners are taxed separately). Familiy related tax allowances are however very important, globally being larger than the family benefits above mentioned. The national currency is the Euro. The 2003 AW earnings level is EUR 22 599.

All net incomes, replacement rates and other figures in this report are based on the Italian tax and benefit system in effect as of 1 July 2003.

2. Unemployment insurance

There are three main types of unemployment benefits: a) Ordinary unemployment benefits, b) Wage supplementation funds (known as *Cassa Integrazione Guadagni* – henceforth CIG, either Ordinary or Special) and c) Mobility benefits. The calculations in this report present different figures for ordinary unemployment benefits and Mobility benefits.

2.1 Conditions for receipt

Unemployment insurance is compulsory for private sector employees.

a) Ordinary unemployment benefits are paid to workers individually laid off in the private sector or collectively laid off but not eligible for other benefits - excluding young workers in vocational training - who have paid contributions for at least 52 weeks during the two-year period preceding unemployment (ordinary requirement). Some benefits may also be reaped by those who worked at least 78 days over the last year (reduced requirement). The latter variant actually represents a different and peculiar scheme, as the duration of the benefits is unrelated to the current labour market status – the allowance is paid the year subsequent to that of reduced work – and is equal to the duration of the employment spell up to a maximum of six months, while the amount of the benefit is equal to the 30 per cent (instead of the 40 per cent) of the previous wage. All in all, the reduced requirement scheme resembles an *ex-post* compensation for those who have worked a limited amount of time (provided a 78 days-in-the-year threshold has been overcome). Particular and more favourable conditions hold for workers in the agricultural and in the building sector. In agriculture, to some extent the actual use of the benefits very much resembles that above illustrated for the reduced requirement scheme. In the building sector, on top of the ordinary scheme ther is a special scheme to a large extent resembling the mobility benefits (see later). Eligible people must be fit and available for work (but see above for the reduced requirement scheme).

b) CIG (CIGo and CIGs – Ordinary and Special wage supplementation funds, respectively). Ordinary benefits are paid to workers for non-worked hours due to temporary reduction or suspension of the activity. Special benefits are paid when the suspension of the activity is not temporary, but is due to sector - or area - specific firm restructuring. Workers of small manufacturing firms (below 15 employees) and of most service activities are excluded from CIG. In both cases, people on these schemes have (at least formally) an on-going work relationship, as their contracts have not been terminated.

c) Mobility benefits are provided in case of collective dismissals by firms eligible for benefit from the CIGs and in case of individual dismissal of workers already in CIGs or under bankruptcy proceedings.[2]

Workers receiving mobility benefits and CIGs are eligible for Socially Useful Jobs (*Lavori Socialmente Utili* or LSU), directly created by the State and usually lasting 12 months (albeit prorogation for another 12 months is possible). Workers receiving mobility benefits have to compulsorily accept these jobs if they are asked to, otherwise they lose their benefit. The LSU programs are however under progressive dismantling.

If employed in LSU, workers receiving CIGs and mobility benefits maintain their benefit until it elapses. Afterwards, if they still remained employed in LSU, they will receive a benefit of EUR 472.36 per month, which is the amount paid for LSU if the workers involved are not receiving any other benefit. Workers receiving mobility and CIGs are not the only ones eligible for LSU. Unemployed workers with an unemployment spell of at least two years which usually do not receive any income support are also eligible. No new LSU should be activated after 2002 and the existing ones should be terminated.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

a) Ordinary unemployment benefits are 40 per cent of the average gross earnings received over the last three months, with a maximum benefit of EUR 791.21 per month (or EUR 4747.26 for six months, which is the maximum duration for under-50s), raised to EUR 950.95 (EUR 5,705.7 for six months) for gross earnings exceeding EUR 1,711.71 per month. In the case of reduced requirements, the benefit amount to 30 per cent of previous earnings. Different amounts hold for workers in the agricultural and in the building sector.

b) CIG (both Ordinary and Special) is 80 per cent of the average gross earnings paid for non-worked hours, with a maximum level of benefit equal to that of unemployment benefits.

c) Mobility benefits equal CIGs for 12 months. They are reduced by 20 per cent after one year, with a maximum level of benefit equal to that of unemployment benefits.

2.2.2 Income and earnings disregards

These three benefits are not means-tested. Family benefits can be paid on top of them. It is not possible to receive a certain amount of earnings from work and still be receiving unemployment benefits except for the CIG schemes which intervene for work interruptions. Up to now no practical implementation has been given to the fact that according to the legislative decree 297/2002, people registered as unemployed to the PES have to be "immediately available" to work, being however allowed to work provided their annual earnings are below 7500 euros.

2.3 Tax treatment of benefit

All these benefits are taxable; concerning social security contribution, the general rule is that benefits replacing less than 80 per cent of previous income are exempt. Hence, only unemployment

2. Generally, mobility benefits are limited to collective dismissals in the manufacturing sector excluding small firms.

benefits and mobility benefits after the first year are exempt from social security contributions (although imputed contributions are attributed to the benefit recipients). However, social security contributions on mobility benefits in the first year and CIG are paid at a reduced rate of 5.54 per cent. The tax credit for employees described in section 10.1.1.2 below applies as well to unemployment benefit, CIG and mobility benefit.

2.4 Benefit duration

a) Ordinary unemployment benefits are paid on a 7-day week basis, for a maximum of 180 days, after a 7-day waiting period. For unemployed aged over-50 the duration is extended to nine months. In the case of reduced requirements, duration is equal to the number of days previously worked. Different durations hold for workers in the agricultural and in the building sector.

b) CIGo (ordinary CIG) is usually paid for 13 weeks but it is possible to obtain some prorogation if the firm remains in a reduction of activity for a longer period. In any case, CIGo cannot be paid for more than 12 months, whether consecutive or non-consecutive, over a period of two years.

c) CIGs (special CIG) is normally paid for 12 to 24 months (the length depending on the type of difficulties that the firm faces as well as on the restructuring strategy). There is a possibility to obtain some prorogation if restructuring lasts more than 24 months. In any case, CIGs cannot be paid for more than 36 months over 5 years.

d) The duration of mobility benefits depends on the age of the recipient and on the location of the job. For instance, workers under 40 are entitled to this benefit for 12 or 24 months, respectively, according to whether they had been working in the Centre-North or the South of Italy. Conversely, the benefit duration is extended up to 36 or 48 months respectively for workers over 50 (see Table 1 below).

Table 1. Duration of mobility benefits by age of the worker and geographical location*

Age	Location	
	Centre - North	Mezzogiorno
< 40	1 year	2 years
40 – 49	2 years	3 years
> 49	3 years	4 years

* In any case, duration cannot be longer than length of tenure in the last occupation.

2.5 Treatment of particular groups

2.5.1 Young persons

None.

2.5.2 Older workers

Longer durations of the benefits are established for older workers [see section 2.4 a) and c)].

3. Unemployment assistance

None.

4. Social assistance

There is no universal income support in Italy, except for a social benefit scheme (the so-called *assegno sociale* – "social allowance" – previously known as *pensione sociale* – "social pension") limited only to people aged over 65 without other sources of income . At local level there can be some provision for people in need, but these are local initiatives in the absence of national guidelines.

A minimum income support *(reddito minimo di inserimento* - RMI*)* was introduced in 1998 under trial in 39 (out of more than 8 000) Italian municipalities. Although the trial had been initially extended in 2001 to 266 other municipalities, it was terminated at the end of 2002[3].

5. Housing benefits

In Italy housing policies are addressed both to those who can afford to buy a house (tax allowances for the entire amount of taxes on the imputed income deriving from home ownership (until 2000, there was a limit of ITL 1.8 million [EUR 930]); 19 per cent-tax credit on mortgage loan interests up to certain amount for first-time buyers; there are considerable rebates on property transfer taxes for first-time buyers; low interest loans which are means-tested and regulated by local legislation for first-time buyers) and to those who can only afford to rent a house (means-tested tax credits).

Among the rent assistance provisions, we will focus on:

1. Fiscal measures on rents.

2. Rent subsidies for low-income people. These subsidies are not included in our study because only part of the eligible people are actually covered (in Rome, for instance, only 40 per cent of the eligible actually received the benefit in 2001).

3. Rent-limiting legislation, mainly regulated at local level.

4. Controlled rents for State-owned dwellings.

There is no difference between national rules for pensioners and recipients in their income ages, with the exception of some benefits provided at local level and addressed to the poor and the elderly (over 65).

5.1 Conditions for receipt

a) Tax credits are granted to people who rent a house and are means-tested.

b) Rent subsidies for rented houses are granted whenever the household taxable income falls short of twice the amount of the statutory minimum pension (EUR 5,227.56 x 2 = 10455.12 per year)

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3. In some municipalities in which the programme started later during 2001, the two-years basis of the trial has been maintained, ending in 2003.

and the rent exceeds 14 per cent of this income. These are minimal requirements which can be modified at local level.

c) Limited rents - known as social rents - for people with low-income (below twice the amount of the statutory minimum pension), are set for some categories of State-owned dwellings. Family size and different household needs are considered as eligibility conditions. The claimants are ranked by eligibility conditions on a list which is prepared by municipalities. Most of the stock of buildings so rented have been attributed in the past, the new additions to such a stock being relatively small, according to the households' conditions as experienced in the past.

d) State-owned dwellings, specifically those belonging to Social Security State Agencies, are generally rented at prices below market value according to criteria which however are not explicitly related to social policy goals.

5.2 Calculation of benefit amount

a) The yearly housing tax credit is EUR 495.80 if the personal taxable income is less than EUR 15 493.71 per year. It amounts to EUR 247.90 if the personal taxable income ranges between EUR 15 493.71 and 30 987.41 per year.

b) Rent subsidies for rented houses differ in eligibility conditions and benefit amounts at the regional and municipality level. In the Lazio region (in particular in Rome), for instance, rent subsidies for rented houses are topping-up transfers for those who pay a rent exceeding 14 per cent of their income, up to a ceiling of EUR 3 099 per year. For households with disabled or old people (over 65) and with needs implying a significant risk of social exclusion, both the ceiling-related and the income-related eligibility conditions are increased by 25 per cent. Those subsidies are non-taxable.

The maximum amount varies with the size of the city population. In Lombardia, for example, the maximum amount is EUR 3 718 in municipalities with more than 300 000 residents while it is only EUR 3 099 in municipalities with less than 50 000 residents. Moreover, in Lombardia eligibility depends not only on the income level (as in Lazio), but also on the wealth of the household (the means-testing is operated by a partially modified ISE). Besides, the maximum amount is increased by 30 per cent for every point of the equivalence scale reported in Table 2 above 1.57 (in Lazio, no equivalence scale is used).

c) Rent-limiting legislation is finalised to set a social rent, the amount of which is subject to regional provisions. For example, in Tuscany the social rent corresponds to 7 per cent of the household income (taxable income, merely including tax credits for all dependent relatives) stemming from labor, pensions, unemplyoment benefits, social assistance benefits.

d) The rent paid for State-owned dwellings varies according to the house characteristics, but they are generally set under the market-value, although not according to explicit social policy criteria.

6. Family benefits

6.1 Conditions for receipt

a) <u>Family allowances</u>. The benefit is means-tested against the total household taxable income. A household is defined as the recipient, his/her spouse, and his/her dependent child/children under 18. Note that a low-income couple with no children is eligible for the benefit. The family allowance scheme grants cash transfers to families of employees and former-employee pensioners and unemployment benefit recipients.

b) Maternity allowances, enacted in 1999, are addressed to mothers with children below 1 year of age. Mothers must not be insured and must have an ISE below a given threshold. Generally speaking, beneficiaries are unemployed housewives or job seekers.

c) Allowances to households with at least three children under 18, enacted in 1999, are addressed to households with at least three children younger than 18, whose ISE lies below a given threshold.

The relationship between these benefits lies in its eligibility conditions. All of them are means-tested, though their definition of gross taxable income is different. Graduation according to family size also differs among them.

Starting from the end of 2003, a new universal bonus (equal to 1000 euros) was introduced in favour of new births by mothers who already had one child..

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

Family allowances are single cash transfers granted to each family. The benefit varies with the number of family members and is inversely connected to the household taxable income (see Tables 2 to 4, on the benefits granted in the period 1 July 2003 – 30 June 2004). The benefit is paid by employers on behalf of the National Social Security Institute (*Istituto Nazionale per la Previdenza Sociale*, INPS) and the income brackets are yearly adjusted to the consumer price index.

Part-time workers receive the entire amount of the benefit if they work at least 24 hours per week. If they work less than 24 hours then the benefit is reduced depending on the number of days worked. (the allowance is computed on a six days per week basis). For instance, if somebody works only one day then the benefit is 1/6 of the full amount. It should be noted that if somebody works a few hours every day of the week then no reduction applies since the reduction depends on the number of days worked rather than the number of hours (in the tax-benefit model it is assumed that people working part-time do not work every day).

Table 2. Family allowances for married couples* without children

(EUR per month)

Household Taxable Income	Number of family members						
	1	2	3	4	5	6	7
0 - 11.110,55	-	46,48	82,63	118,79	154,94	191,09	227,24
11.110,56 – 13.887,58	-	36,15	72,30	103,29	144,61	185,92	216,91
13.887,59 – 16.664,61	-	25,82	56,81	87,80	129,11	180,76	206,58
16.664,62 – 19.440,56	-	10,33	41,32	72,30	113,62	170,43	196,25
19.440,57 – 22.217,03	-	-	25,82	56,81	103,29	165,27	185,92
22.217,04 – 24.994,60	-	-	10,33	41,32	87,80	154,94	175,60
24.994,61 – 27.771,08	-	-	-	25,82	61,97	139,44	160,10
27.771,09 – 30.547,03	-	-	-	10,33	36,15	123,95	144,61

30.547,04 – 33.322,97	-	-	-	-	10,33	108,46	134,28
33.322,98 – 36.100,00	-	-	-	-	-	51,65	118,79
36.100,00 – 38.877,03	-	-	-	-	-	-	51,65

* Married couple with no children or couple with dependent relatives.

For families with more than 7 members, family allowances are increased by 10 per cent of the amount in column 7 plus EUR 53.71 per each subsequent child.

Table 3. Family allowances for married couples with at least one child*

(EUR per month)

	1	2	3	4	5	6	7
Fino a 11.697,13	-	-	130,66	250,48	358,94	492,18	619,75
11.697,14 - 14.474,16	-	-	114,65	220,53	339,83	481,34	600,64
14.474,17 - 17.250,64	-	-	92,45	190,57	312,97	473,07	584,11
17.250,65 - 20.026,05	-	-	65,59	158.04	283,02	453,97	565,00
20.026,06 - 22.803,62	-	-	43,90	111,55	241,70	407,48	507,68
22.803,63 - 25.580,09	-	-	25,82	81,60	217,43	390,96	488,57
25.580,10 - 28.357,66	-	-	15,49	57,33	176,63	364,10	466,88
28.357,67 - 31.133,07	-	-	15,49	38,73	135,83	339,31	439,50
31.133,08 - 33.909,56	-	-	12,91	25,82	102,77	317,62	426,08
33.909,57 - 36.685,50	-	-	12,91	25,82	91,93	225,18	398,70
36.685,51 - 39.463,62	-	-	12,91	23,24	91,93	154,42	292,83
39.463,63 - 42.240,09	-	-	-	23,24	78,50	154,42	218,98
42.240,10 - 45.017,13	-	-	-	23,24	78,50	132,21	218,98
45.017,14 - 47.793,60	-	-	-	-	78,50	132,21	189,02
47.793,61 - 50.571,18	-	-	-	-	-	132,21	189,02
50.571,19 - 53.348,76	-	-	-	-	-	-	189,02

* For families with more than 7 members, family allowances are increased by 10 per cent of the amount in column 7 plus EUR 53.71 per each subsequent child.

Table 4. Family allowances for lone parents*

(EUR per month)

	1	2	3	4	5	6	7
Fino a 13.548,11	-	99,68	184,89	412,13	554,16	724,59	891,92
13.548,12 - 16.325,15	-	79,53	164,75	372,37	531,43	715,81	869,20
16.325,16 - 19.100,55	-	54,23	136,34	332,60	491,67	701,86	843,89
19.100,56 - 21.877,58	-	23,24	102,26	289,73	454,48	676,04	821,17
21.877,59 - 24.655,16	-	20,66	73,85	230,34	403,35	616,65	744,21
24.655,17 - 27.431,64	-	20,66	48,55	190,57	369,27	593,93	721,49
27.431,65 - 30.208,11	-	-	34,09	159,07	315,56	559,84	693,09
30.208,12 - 32.984,61	-	-	34,09	136,34	261,33	528,34	659,00
32.984,62 - 35.760,55	-	-	28,41	119,30	221,56	499,93	639,37
35.760,56 - 38.538,66	-	-	28,41	119,30	204,52	378.05	605,29
38.538,67 - 41.315,69	-	-	28,41	102,26	204,52	284,05	465,84
41.315,70 - 44.091,08	-	-	-	102,26	176,11	284,05	369,27
44.091,09 - 46.868,66	-	-	-	102,26	176,11	244,28	369,27
46.868,67 - 49.645,68	-	-	-	-	176,11	244,28	318,14
49.645,69 - 52.423,25	-	-	-	-	-	244,28	318,14
52.423,26 - 55.199,74	-	-	-	-	-	-	318,14

* For families with more than 7 members, family allowances are increased by 10 per cent of the amount in column 7 plus EUR 53.71 per each subsequent child.

Maternity allowances amount to EUR 271.56 per five months (EUR 1,357.80 per year)[4] and is granted to mothers whose ISE (see section 1, note 1) lies below a threshold. Insured mothers receiving maternity benefits smaller than that amount are entitled to receive the difference. The threshold has been fixed by the law with reference to a three-member family: in this case mothers can receive the allowance in 2003 if their ISE is below EUR 28,308.40. The threshold is modified according to the equivalence scale in Table 5 below: for example, it rises to EUR 34,253.16 (that is EUR 28,308.4 x 2.46/2.04) and to EUR 39,631.76 (that is EUR 28,308.4 x 2.85/2.04)[5] respectively for households with four or five members.

4. The amount was ITL 200 000 (EUR 103.29) per month till the end of 2000. It was increased to ITL 500 000 (EUR 258.23) from the beginning of 2001 and afterwards adjusted by the relevant price index.

5. The ratios between the parameters are always rounded to the second decimal (for instance, 1.397 becomes 1.40).

Table 5. Equivalence scale to be applied to the Indicator of Economic Situation (ISE)

Number of family members	Parameters
1	1
2	1.57
3	2.04
4	2.46
5	2.85*

* For households with more than 5 members, the parameter is increased by 0.35 for each member above the fifth. Moreover, the parameters shown in Table 2 are increased by:

- 0.2 for lone parents with children.
- 0.5 for each disabled member of the household.
- 0.2 for couples with children, when both parents are working.

Source: Legislative Decree n. 109 of 18 June 1998.

The allowance to households with at least three children aged -18 is equal to EUR 113.23 per month (EUR 1,471.99 per year), and is granted to households whose ISE lies below a threshold. The threshold has been fixed by the law with reference to a five-member family: in this case households can receive the allowance in 2003 if their ISE is below EUR 20,382.05. The threshold is modified according to the equivalence scale in Table 5: for example, it corresponds to EUR 17,528.56 (that is EUR 20,382.05 x 2.46/2.85), and to EUR 22,827.9 (that is EUR 20,382.05 x 3.2/2.85) respectively for households with four or six members.

The whole annual benefit - worth EUR 1,471.99 - is provided in the case whereby the total ISE is smaller than or equal to the difference between the threshold and twice the value of the maximum benefit. For instance, a five-member family whose total income is less than or equal to EUR 17,438.07 - which corresponds to the threshold (EUR 20,382.05) minus twice the benefit (EUR 1,471.99 x 2) - is entitled to the whole benefit. In the case whereby the total ISE falls within the difference between the threshold and the threshold minus twice the maximum benefit, the allowance corresponds to the difference between the threshold and the total ISE.[6] In our example, assuming the total ISE as equalling EUR 18 000, the allowance equals (EUR 20,382.05 – 18 000) = EUR 2382.05. Both allowances and the corresponding thresholds are adjusted yearly to the consumer price index. Both benefits are administered at the local level and provided by INPS on behalf of municipalities.

6.2.2 Income and earnings disregards

Total household taxable income is considered in assessing family allowances benefits; however, the benefit is granted only if at least 70 per cent of the income stems from wages and salaries and former-employees' pensions.

6.3 Tax treatment of benefit

Not taxable.

6. Until the end of 2000 the allowance corresponded to half this difference.

6.4 Treatment of particular groups

Both the income brackets and the amounts of allowances to employees and pensioners are modified whenever there are disabled people and/or lone parents within the family.

The scale of equivalence set for mother allowances and for allowance to households with at least three children is modified when there are disabled people and/or lone parents within the family and/or when both parents work (see Table 5). Moreover, households with disabled members and/or with children have a priority right for the minimum income support benefit.

Free books and scholarships are provided to students belonging to families with an ISEE below EUR 10 632.94 in the case of a household with three members. The threshold is modified according to the equivalence scale in Table 5.

7. Child-care benefits[7]

Child-care services are essentially nurseries for children below 3 years of age. They are provided according to rules set by regional laws and implemented at municipal level with different criteria. Those measures mainly consist of in-kind means-tested benefits. Generally speaking, the household income and composition are considered to rank eligibility and fees. Above 3 years of age, while not compulsory, the public system provides for an almost universal and free of charge coverage through the State and municipal “maternal” schools.

8. Employment-conditional benefits

Family allowances to employees are described in section 6.2.1. These are in-work benefits except for the case of former employees (as pensioners or unemployment benefit recipients) who are also entitled until they receive the benefit.

Another form of employment-conditional benefit – delivered through the tax system – is the tax credit for employees described in section 10.1.1.2.

Supplementary benefits (*integrazioni al minimo*) for low-income households are granted to recipients of old-age and survivors’ pensions whenever their accrued benefits fall short of a statutory minimum, set equal to EUR 5,227.56 per year in 2003. Eligibility for supplementary benefits is subject to the requirement that the claimant’s personal taxable income - if married, that both partners' cumulated incomes - be below a given threshold. While the 1995 pension reform abolished supplementary benefits for new enrolees, no changes were introduced for all other cases.

Since 1998 self-employed women have been entitled to a birth allowance (*una tantum*), the amount of which depends on the contribution amount for disability and survivor's insurance.

Moreover, this category of workers, provided they are enrolled in the special pension funds for self-employed run by INPS, are entitled to family allowance benefits, as shown in section 6.2.1.

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7. This section uses the information provided to the OECD in June 2003.

9. Lone-parent benefits

See family benefits in section 6.

10. Tax system

10.1 Personal income tax

10.1.1 Central government income tax

10.1.1.1 Tax unit

Spouses are taxed separately.

10.1.1.2 Tax allowances and tax credits

10.1.1.21 Standard tax credits

- *Dependent spouse*: provided that the spouse's income does not exceed € 2.840,51 a tax credit is allowed, according to income brackets as follows:

Income brackets (EUR)	Tax credit (EUR)
0 – 15 494.00	546.18
15 494.01 – 30 987.00	496.60
30 987.01 – 51 646.00	459.42
51 646.01 - and over	422.23

- *Children*: A tax credit, that varies according to the number of children, is granted to parents. This tax credit is due in full to only one parent, if the spouse is not dependent, the tax credit is shared between the parents either at 50 per cent or according to a different percentage agreed by them.

Total tax credit allowed on parent with dependent children (*)	
1 child	€ 516.46 (income up to € 36 151.98) € 303.68 (income up to € 51 646) € 285.08 (income over € 51 646)
2 children	€ 1032.92 (income up to € 41 316.55) € 640.42 (income up to € 51 646) € 570.16 (income over € 51 646)
3 children	€ 1549.38 (income up to € 46 481.12) € 977.14 (income up to € 51 646) € 855.24 (income over € 51 646)
4 children	€ 2065.84

*) The total tax credit is given as the sum of the credits allowed for each children (these may be different amounts depending on the level of income of the parents)

Tax credit for dependent children in case of widowed spouse or parent with a not acknowledged child for an income up to € 15 494 (**)	
1 child	€ 546.18
2 children	€ 1 062.64
3 children	€ 1 579.10
4 children	€ 2 095.56

**) For single parents with two children the law provides for a tax credit for the first child equal to that of the dependent spouse. For the second child the single parent is granted the total tax credit.

- *Other members of the family:* a tax credit of € 142.54 (up to 51646) or € 133.25 (over € 51646) is granted for other dependents, provided the dependant's income does not exceed € 2840.51. A dependent is deemed to be any person entitled to maintenance allowances (e.g.: parents, mother and father-in-law) under civil law.

- *Tax allowances and tax credits for dependent workers:* A reform of the personal income tax (IRPEF) has started with the 2003 Financial Law which introduces a "no tax area" that results from the calculation of income related tax allowances. This set of new measures leads to tax savings for low/middle income earners.

The standard allowance ("no tax area") is € 7500,00.

The actual allowance granted to each individuals depends on the value of a ratio that is defined as a function of net income: (26000 + 7500 – net income) / 26000.

The way in which the actual allowance is to be computed is illustrated in the following table:

ratio > or = 1	Actual allowance = Standard allowance
0 < ratio < 1	Actual allowance = 7.500,00 * ratio
ratio < or = 0	Actual allowance = 0

The new tax credits for dependent workers vary with income as follows:

INCOME	TAX CREDIT
From € 27.000,00 to € 29.500,00	€ 130,00
From € 29.500,01 to € 36.500,00	€ 235,00
From € 36.500,01 to € 41.500,00	€ 180,00
From € 41.500,01 to € 46.700,00	€ 130,00
From € 46.700,01 to € 52.000,00	€ 25,00

The Financial Law introduces a grand-fathering clause which allows taxpayers penalized by the new regime to calculate their taxes due using the previous tax regime.

10.1.1.22. Principal non standard tax allowances and tax credits

- *Social security contributions due by law*
- Rents, annuities and other charges burdening income deriving from immovable property
- Periodical benefits allowed to the spouse fixed by judicial authority
- Periodical benefits (life annuities and so on), allowed by will, gift, judicial authority
- Charitable donations to some religious institutions (up to € 1 032.91)
- Medical and assistance expenses incurred by handicapped persons
- Principal residence income exempted for the total amount of the cadastral income
- Donations to political parties (ranging from €51.65 to €103 291.38)
- Expenses to restore one's own residence at 36 per cent of full expenses, shared in 5 or 10 annual allowances of the same amount. A temporary reduction in the standard rate of VAT of 20% to 10% applies to the renovation and repair of private dwellings, excluding materials which form a significant part of the value of the supply
- Credit for leaseholders of principal residence (a sum of € 495.80 for income up to € 15 493.71 and a sum of € 247.90 for income up to € 30 987.41)

As to the following expenses, a tax credit of 19 per cent of each incurred expense is allowed:

- Mortgage loan interest (up to € 1 807.60 or € 3 165.20 according to circumstances)
- Most of medical expenses for the part exceeding € 129.11
- Life and accident insurance premium and voluntary contributions up to € 1 291.14
- Expenses to attend secondary school and university courses; in case such courses are private, the expenses allowed cannot exceed those foreseen as to State courses
- Funeral charges up to € 1 549.37
- Charitable donations to non-profit organisations (up to € 2 065.83).

10.1.1.3. Tax schedule

The following tax schedule is applied to taxable income:

Bracket (EUR)	Rate (%)
Up to 15 000.00	23
From 15 000.00 up to 29 000.00	29
From 29 000.00 up to 32 600.00	31
From 32 600.00 up to 70 000.00	39
Over 70 000.00	45

10.2. State and local taxes

10.2.1 Regional surcharge tax

This surcharge tax has been introduced in 1997. The tax is levied by each region on resident taxpayers' total taxable income at a discretionary rate, which must fall within an established range. As from the year 2000 this range is 0.9 – 1.4 per cent. For the year 2003 the lowest rate of 0.9 per cent has been chosen as the representative rate.

10.2.2 Local surcharge tax

This surcharge tax has been introduced in 1999. The tax may be levied by each local government at an initial rate that cannot exceed 0.2 per cent. If the tax is levied, the local government can increase the initial rate, on a yearly basis, up to a maximum of 0.5 per cent. Each yearly increase cannot exceed 0.2 per cent.

11. Compulsory Social Security

The average rate charged to an employee is 9.19 per cent up to EUR 36 959 and 10.19 per cent above this amount. Income above EUR 80 391 is not subject to Social Security contributions.

There is no distinction by marital status or sex.

12. Policy developments

12.1 Policy changes introduced during the last year

The tax system has been deeply reformed for incomes earned in 2003. The main changes include a new tax schedule, new income brackets, the inclusion of a "no-tax area", some changes in the tax credits.

The Budget Law for 2004 envisaged a new minimum income support scheme, the *reddito di ultima istanza*. This new system is still to be defined and will see an increasing role of regional authorities, both in defining the rules of the scheme (benefit amount and conditions for receipt) and in financing it.

12.2 Policy changes announced

During 2002, following an agreement with most of the social partners (the so-called, *Patto per l'Italia*, not signed by the greatest trade union), the Government presented to the Parliament a law aiming to deeply redefine the unemployed benefit system. This law is still to be passed by the Parliament. According to it, the ordinary unemployment benefit will be increased with a mechanism of phasing-out, namely: 60% of previous wage in the first six months of unemployment, 40% in the subsequent three months, 30% for the last three months. Hence, the maximum duration will be extended from 6 months (see Section 2.4) to 1 year. However, unemployment benefits (of all kinds) will not be paid for more than 24 months (30 in the Mezzogiorno) in 5 years. A close link with active labour market policies will be established.

At the moment of writing, the Budget Law for 2005 –which can possibly envisage some policy developments – is still to be presented in the Parliament.