

ITALY 1999

1. Overview of the system

The unemployed may receive a contributory unemployment insurance benefit for a maximum of six months. New social assistance programmes were introduced in the two-year period 1998-1999, as follows. First, the minimum income support (*reddito minimo di inserimento* -- RMI) which is currently under trial in 39 out of about 8000 Italian municipalities. Second, the maternity allowance scheme. Third, allowances to households with at least three children aged under 18. All of these grants are based on the social and economic situation of the household, assessed through an income 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 Moreover, there are income-based family benefits, such as the family allowances.

The tax unit is the individual (partners are taxed separately). The national currency is the Lire (ITL). In 1999, ITL 1 819.274 was equal to USD 1 (average of daily exchange rates). The 1999 APW earnings level is 38 906 050 Italian Lire (for comparison purposes, the 1997 APW earnings level was ITL 38 078 450).

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 1999.

1 . The *ISE* corresponds to household taxable income (including income from financial assets minus a deduction for households living in rented houses, which is raised if the household does not own any house in the place of residence) plus family net wealth as obtained by summing up real estate values (home ownership could be excluded, depending on the type of benefit) and financial assets (minus a deduction of ITL 50 million, increased to ITL. 70 million in the case of home ownership, if the value of the house is not excluded) of all family members. The family net wealth is multiplied by a coefficient in the range from 0 to 20 percent (the maternity allowance and the allowances to households, discussed in the text, consider the maximum value of 20%). The resulting income level is corrected using the equivalence scale presented in Table 2 below. The *ISE* is based on social and demographic conditions and was introduced in 1998 as a general instrument of selection of social benefit eligibility. Concerning the *RMI*, the *ISE* is used only for the computation of the benefit via the equivalence scale and not for means testing (see point 4). The *ISE* was under trial in the first two year of implementation and has been reformed in May 2000 with the introduction of a fixed coefficient of 20% for family net wealth evaluation and with various changes in the system of deductions.

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. Net incomes and replacement rates for social assistance (RMI) are also presented but results are *exclusively* of indicative nature as the system is currently under trial in a limited number of municipalities.

Conditions for receipt

Unemployment insurance is compulsory for workers.

- 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 either paid contributions for at least 52 weeks during the two-year period preceding unemployment (ordinary requirement) or worked at least 78 days over the last year (reduced requirement). Particular and more favourable conditions hold for workers in the agricultural sector. Eligible people must be fit and available for work.
- 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 and of most service activities are excluded from those benefits. Recipients are not considered as unemployed, because 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 to Social 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.

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 ITL 850 000 (increased to ITL 861 000 in year 2000) 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.

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

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

- a) Ordinary unemployment benefits are 30 per cent the average gross earnings received over the last three months, with a maximum benefit of ITL 1 423 713 per month (or ITL 8 542 278 for six months, which is the maximum duration), raised to ITL 1 711 166 (ITL 10 266 996 for six months) for gross earnings exceeding ITL 3 080 098 per month.
- 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 similar 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 similar 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 the top of this benefit. It is not possible to receive a certain amount of earnings from work and still be receiving unemployment benefits.

2.3 Tax treatment of benefit

All those benefits are taxable; only unemployment benefits are exempt from social security contributions. 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. In the case of reduced requirements, duration is equal to the number of days previously worked.
- b) CIGo (ordinary CIG) is usually paid for 13 weeks but it is possible to obtain some prorogation if the firm incurs 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.

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 48 months over 5 years.

- c) The duration of mobility benefits depends on the age of the recipient and on the location of the firm. For instance, workers under 40 are entitled to this benefit for 12 or 24 months, respectively, according to whether they reside 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	
	Center - 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

None.

3. Unemployment assistance

None.

4. Social assistance

Before the 1998 and 1999 reforms, there was no universal income support in Italy, except for a few social benefit schemes (namely, social pensions) which were not meant to cover the entire population and for some benefits provided at local level in the absence of national guidelines.

The minimum income support (*reddito minimo di inserimento* -- RMI) was introduced in 1998 and is currently under trial in 39 Italian municipalities. The experimental nature of the scheme aims at assessing social expenditure while suggesting possible ways to reform the current system. The objective of the programme is to reduce the number of people/households living below the poverty line.

4.1 Conditions for receipt

The target groups of the minimum income support are all people/households in need or people considered at significant risk of social exclusion. There is also a residence criterion, namely that beneficiaries should remain in the country for at least 12 months if they are EU citizens, and at least 3 years if they are not EU citizens. For people with working capacity the benefit is conditional on either availability to accept a labour offer, on active labour search, on participation in training programmes, or on care activity towards children or disabled people within the family. Beneficiaries must be of working age and be registered at the public employment service.

The benefit raises the household's income to a given threshold, slightly below the poverty line, testing for the absence of any asset beside residential housing. The benefit is administered at the local level by municipalities.

4.2 Calculation of benefit amount

4.2.1 Calculation of gross benefit

The minimum income support is a differential benefit, that is: the beneficiary receives an amount equal to the difference between the threshold and the household income. The household income corresponds to taxable income and the household is supposed to have no income from real estate or financial assets with the exception of the residential home ownership, albeit its value must be below a threshold set by local administrations.

The benefit is equal to ITL 510 000 per month (ITL 6.630 million per year) for a single with no other income sources. Obviously, in this case the benefit equals the threshold.

This threshold rises with the number of family members according to an equivalence scale designed to be applied to the *Indicator of Economic Situation* of the household (*ISE*). As mentioned in footnote 1, the *ISE* is computed combining household taxable income and wealth (up to an upper limit of 20 percent of the value of wealth) and correcting the resulting income level using the equivalence scale presented in Table 2 below. The *ISE*, based on social and demographic conditions, was introduced in 1998 as a general instrument of selection of social benefit eligibility.

Table 2. 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 June 18, 1998.

In practice, social assistance is computed as follows. For a household with four members and no income source, the threshold - on a yearly basis - is equal to $ITL\ 510\ 000 \times 13 \times 2.46 = ITL\ 16\ 309\ 800$. By contrast, assuming a four-member household with taxable income worth $ITL\ 13\ 000\ 000$, the benefit is equal to $ITL\ 16\ 309\ 800 - ITL\ 13\ 000\ 000 = ITL\ 3\ 309\ 800$. In sum, the benefit income raises the household income up to its threshold level.

The amount of social assistance benefit is related to the *ISE*. As mentioned above, the *ISE* is the general instrument used in Italy to operate means-testing of social benefits as is the case, for instance, of the family benefits described below in sections 6.1, b) and c).

Both the minimum income support and the corresponding threshold are indexed each year to the consumer price index (CPI).

4.2.2 *Income and earnings disregards*

The total household taxable income is considered. In addition, all other cash benefits granted to the family are included (i.e. family allowances are considered, though, by definition, they are not strictly considered part of the taxable income). Furthermore an earning disregard of 25 percent is applied to labour income, aimed at prompting income from work.

4.3 *Tax treatment of benefit*

Not taxable.

4.4 *Benefit duration*

One year, though it may be renewed as long as the eligibility conditions are met.

4.5 *Treatment of particular groups*

The equivalence scale is modified whenever the family includes disabled members, lone parents and/or both working parents.

5. Housing benefits

In Italy housing policies are addressed both to those who can afford to buy a house (tax allowances for ITL 1.8 million on home ownership; 18%-tax credit on mortgage loan interests up to certain amount 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:

- fiscal measures on rents;
- rent subsidies for low-income people;
- rent-limiting legislation, mainly regulated at local level;
- 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 (ITL 9 233 250 x 2 = ITL 18 466 500 per year).
- 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.
- d) State-owned dwellings, specifically those belonging to Social Security State Agencies, are generally rented to public sector employees, both at national and at local level.

5.2 Calculation of benefit amount

- a) The yearly housing tax credit is ITL 640 000 if the personal taxable income is less than ITL 30 million per year. It amounts to ITL 320 000 if the personal taxable income ranges between 30 and ITL 60 million 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 L 6 million 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 ITL. 6.5 million in municipalities with more than 300 000 residents while it is only ITL. 4.5 million 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. Besides, the maximum amount is increased by 30 percent for every point of the equivalence scale reported in Table 2 above 1.57 (in Lazio, no equivalence scale is used).

- d) 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, unemployment 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.

6. Family benefits

6.1 Conditions for receipt

- a) Family allowances. 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.
- b) Maternity allowances have been granted since half-1999 to mothers with children below 1 year of age (according to the law “this benefit equals 200 thousand lire for children born after the July 1, 1999, and ITL 300 000 for those born after July 1, 2000”). 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 and the assistance envisaged in Section 4 lies in its eligibility conditions. All of them are means-tested, though their definition of gross taxable income is different. Moreover, in the case of family allowances to families of employees and pensioners, the income brackets determining eligibility are not linked to any equivalence scale.

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 the three following Tables, Table 3 to Table 5, on the benefits granted in the period July 1, 1999 – June 30, 2000). 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.

Table 3. Family allowances for married couples* without children (thousands of ITL per year)

Household taxable income	Number of family members						
	1	2	3	4	5	6	7
0- 19,624		1,080	1,920	2,760	3,600	4,440	5,280
19,624 - 24,528		840	1,680	2,400	3,360	4,320	5,040
24, 529 - 29,433		600	1,320	2,040	3,000	4,200	4,800
29,434 - 34,335		240	960	1,680	2,640	3,960	4,560
34,336 - 39,240			600	1,320	2,400	3,840	4,320
39,241 - 44,145			240	960	2,040	3,600	4,080

44,146 - 49,050	600	1,440	3,240	3,720
49,051 - 53,952	240	840	2,880	3,360
53,953 - 58,856		240	2,520	3,120
58,857 - 63,760			1,200	2,760
63,761 - 68,666				1,200

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

Table 4. Family allowances for married couples with at least one child (thousands of ITL per year)

Household taxable income	Number of family members						
	1	2	3	4	5	6	7+*
0 - 20,659			3,036	5,820	8,340	11,436	14,400
20,660 - 25,563			2,664	5,124	7,896	11,184	13,956
25,564 - 30,468			2,148	4,428	7,272	10,992	13,572
30,469 - 35,370			1,524	3,672	6,576	19,548	13,128
35,371 - 40,276			1,020	2,592	5,616	9,468	11,796
40,277 - 45,180			600	1,896	5,052	9,084	11,352
45,181 - 50,085			360	1,332	4,104	8,460	10,848
50,086 - 54,988			360	900	3,156	7,884	10,212
54,989 - 59,891			300	600	2,388	7,380	9,900
59,892 - 64,795			300	600	2,136	5,232	9,264
64,796 - 69,701			300	540	2,136	3,588	6,804
69,702 - 74,606				540	1,824	3,588	5,088
74,607 - 79,510				540	1,824	3,072	5,088
79,511 - 84,415					1,824	3,072	4,392
84,416 - 89,320						3,072	4,392
89,321 - 94,226							4,392

Table 5. Family allowances for lone parents (thousands of ITL per year)

Household taxable income	Number of family members						
	1	2	3	4	5	6	7+*
0 - 23,928		2,316	4,296	9,576	12,876	16,836	20,724
23,929 - 28,833		1,848	3,828	8,652	12,348	16,632	20,196
28,834 - 33,735		1,260	3,168	7,728	11,424	16,308	19,608
33,736 - 38,640		540	2,376	6,732	10,560	15,708	19,080
38,641 - 43,546		480	1,716	5,352	9,372	14,328	17,292
43,547 - 48,450		480	1,128	4,428	8,580	13,800	16,764
48,451 - 53,354			792	3,696	7,332	13,008	16,104
53,355 - 58,258			792	3,168	6,072	12,276	15,312
58,259 - 63,161			660	2,772	5,148	11,616	14,856
63,162 - 68,067			660	2,772	4,752	8,784	14,064
68,068 - 72,973			660	2,376	4,752	6,600	10,824
72,974 - 77,875				2,376	4,092	6,600	8,580
77,876 - 82,781				2,376	4,092	5,676	8,580
82,782 - 87,686					4,092	5,676	7,392
87,687 - 92,592						5,676	7,392
92,593 - 97,496							7,392

* For families with more than 7 members, family allowances are increased by L 1.248 million per each subsequent child.

Maternity allowances amount to ITL 200 000 per five months (ITL 1 million per year). Insured mothers receiving maternity benefits smaller than that amount are entitled to receiving the difference. The household income is calculated as the sum of all family members' taxable incomes plus a share of the net household wealth and must lie below a threshold set by an appropriate scale of equivalence³. For instance, a three-member family receives the allowance if the household income is below ITL 50 million (that is ITL 50 million x 2.04/2.04). The threshold rises to ITL 60.5 million (that is ITL 50 million lire x 2.46/2.04) and to ITL 70 million (that is ITL 50 000 000 x 2.85/2.04⁴) respectively for households with four or five members.

The allowance to households with at least three children aged -18 is equal to ITL 200 thousand per month (ITL 2.6 million per year), and is granted to households whose total taxable income plus net wealth lie below a threshold set by an appropriate scale of equivalence. For example, the income threshold, on a yearly basis, corresponds to ITL 33.48 million (that is ITL 36 million x 2.46/2.85), to ITL 36 million (that is ITL 36 million x 2.85/2.85), and to ITL 40.32 million (that is 36 million x 3.2/2.85) respectively for households with four, five or six members.

Moreover, the whole annual benefit -- worth ITL 2.6 million -- 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

³ The parameters of the standard equivalence scale to assess the wealth indicator are divided by a coefficient equalling 2.04, or 2.85 respectively, allowing to set two different scales. The former is adopted to calculate the threshold for mother allowances and the latter for allowances to households with at least three children.

⁴ The ratios between the parameters are always rounded to the upper figure (for instance, 1.397 becomes 1.4).

equal to ITL 30.8 million -- which corresponds to the threshold (ITL 36 million) minus twice the benefit (ITL 2.6 million 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 half of the difference between the threshold and the total ISE. In our example, assuming the total ISE as equalling ITL 33 million - which falls between ITL 36 and 30.8 million -- the allowance equals $(ITL\ 36\ million - 33\ million) / 2 = ITL\ 1.5\ million$. Both allowances and the corresponding thresholds are yearly adjusted 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, under the condition that 70 per cent of the income stems from wages and salaries and former-employees' pensions.

6.3 Tax treatment of benefit

Not taxable.

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. Moreover, households with disabled members and/or with children have a priority right for the minimum income support benefit.

Free books are provided to students belonging to families with total annual household income below ITL 30 million. The household total income corresponds only to the taxable income of all family members (and does not include any proportion of net wealth). Different deductions are allowed: ITL 2.5 or 3.5 million respectively if the household does not own any house in the place of residence or any house in any place whatsoever; L 1 million for the second child; ITL 1.5 million for the third child; ITL 2 million for any subsequent child or any other member; ITL 2 million for each disabled member of the family.

7. Child-care benefits

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.

8. Employment-conditional benefits

Family allowances to employees or pensioners are described in Section 6.2.1.

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 L 9 233 250 per year in 1999. 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 enrollees, 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.

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

The tax unit is the individual. Spouses are taxed separately.

10.1.1.2. Tax allowances and tax credits

Standard tax credits⁵

Dependent spouse: provided that the spouse's income does not exceed ITL 5.5 million a tax credit is allowed, according to income brackets as follows:

5. Note that the tax credit system only concerns *central* personal income taxes (*IRPEF*) and not *regional* taxes. Regional taxes are calculated applying the corresponding regional tax rate to the taxable personal income after deducting for allowable expenses.

Table 6. Tax credit for dependent spouse

Income brackets (x ITL 1000)	Tax credit (ITL)
0 – 30 000	1 057 552
30 000 – 60 000	961 552
60 000 – 100 000	889 552
100 000 and over	817 552

Children: A tax credit, that varies according to the number of children, is granted to parents. This tax credit can be claimed in full by 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. This credit amounts to ITL 336 thousand for one child, ITL 672 thousand for two children, ITL 1.008 million for three children and ITL 1.344 million for four children.

In the case of a lone parent, the first child is allowed to a tax credit equal to that envisaged for the dependent spouse.

In the case of a gross taxable income below L 30 million, the tax credit for the first child is ITL 1.058 million, while ITL 336 thousand are added for the second and for each other subsequent child. For instance, the total tax credit for two children amounts to ITL 1.394 million; the total tax credit for three children amounts to ITL 1.730 million; the total tax credit for four children amounts to ITL 2.066 million.

Table 7. Tax credit for dependent children

Tax credit for dependent children		Tax credit for dependent children (income up to ITL. 30 million)	
1 child	ITL. 336 000	1 child	ITL. 1 058 000
2 children	ITL. 672 000	2 children	ITL. 1 394 000
3 children	ITL. 1 008 000	3 children	ITL. 1 730 000
4 children	ITL 1 344 000	4 children	ITL. 2 066 000

Other members of the family: a tax credit of ITL 168 000 is granted for other dependants, provided the dependant's income does not exceed ITL 5.5 million. A dependant is deemed to be any person entitled to maintenance allowances (e.g.: parents, mother and father-in-law) under civil law.

Tax credit for employees: it varies from a sum of ITL 1 680 000 foreseen for an income up to ITL 9.1 million to a sum of ITL 50 000 for an income over ITL 100 million (seventeen brackets); the tax credit for a worker with the 1999 APW income is ITL 950 000.

Table 8. Tax credit for employees

Income brackets	Tax credit
< 9,100,000	1,680,000
9,100,000 - 9,300,000	1,600,000
9,300,000 - 15,000,000	1,500,000
15,000,000 - 15,300,000	1,350,000
15,300,000 - 15,600,000	1,250,000
15,600,000 - 15,900,000	1,150,000
15,900,000 - 30,000,000	1,050,000

30,000,000 - 40,000,000	950,000
40,000,000 - 50,000,000	850,000

...

...

Principal non standard tax allowances and tax credits

Major tax allowances include:

- Social security contributions due by law
- Rents, annuities and other charges burdening income 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 ITL 2 million)
- Medical and assistance expenses incurred by handicapped persons
- Principal residence income exempted for an amount up to ITL 1.1 million
- Donations to political parties (ranging from ITL. 500 000 to L. 50 million)
- Expenses to restore one's own residence house at 41 per cent of full expenses, shared in five or ten annual allowances of the same amount.

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

- Mortgage loan interest (up to ITL 3.5 million or ITL 7 million according to circumstances)
- Most of medical expenses for the part exceeding ITL 250 000
- Life and accident insurance premium and voluntary contributions up to ITL 2.5 million
- 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 ITL 1 million
- Charitable donations to non-profit organisations (up to ITL 4 million).

10.1.1.3. Tax schedule

The following tax schedule is applied to taxable income:

Table 9. Personal income tax schedule

Bracket (ITL x 1 000)	Rate (%)
up to 15 000	18.5
from 15 001 up to 30 000	26.5
from 30 001 up to 60 000	33.5
from 60 001 up to 135 000	39.5
over 135 000	45.5

The legislative Decree n.446/97 enacts a regional rate to be added to the rate of personal income tax rate. This rate is 0.5% for 1999.

11. Compulsory Employee Social Security Contributions to Schemes Operated within the Government Sector

The average rate charged to a dependent worker is 9.19 per cent. A ceiling of ITL 4 million applies. Contributions are not differentiated by marital status or sex.

11. Special benefit rules for part-time work

There are reduced requirements for unemployment benefits for part-time workers: at least 78 days over the last year preceding unemployment and provided that the person was registered on a placement list for at least two years.

Note that:

- what is relevant is the number days worked, regardless of the number of hours per day. Obviously, the number of hours worked affects the earnings and hence the unemployment benefit;
- the unemployment benefit cannot be paid for a period of time longer than the number of effectively-worked days.

12. Universal Cash Transfers

12.1 *Amount for spouse and for dependent children*

The cash transfer system for dependent spouse and for dependent children takes into account both family income and the number of dependent persons; according to this system, cash transfers are reduced when family income increases. Results reported in the country tables are partly based on Secretariat estimates.

13. Policy developments

13.1 Policy changes introduced during the last year

- The main changes in the tax system concern the personal income tax rates and brackets.
- The main changes in the benefit system introduced in year 2000 -- starting December 1 -- comprise an increase in the replacement rate of ordinary unemployment benefits from 30% to 40% of the average gross earnings received over the last three months (limited to unemployed satisfying ordinary requirements) and an increase in the benefit duration from 6 to 9 months for the unemployed over 50 years of age.
- Parental leave and benefits reform was started in 2000. More flexibility was introduced both on the demand and on the supply side. Employees can subdivide the same period of paternal benefits over a longer period as they are entitled to benefits up to a higher children age; besides a 50% reduction on social contributions is granted to small firms for new workers hired to temporarily replace employees on parental leave.
- Procedures for placements and active labour market policies were enforced together with the reorganisation of job placement. The reform does intervene on the so-called "risk brackets", particularly young, long-term unemployed and female job-seekers so as to help their re-insertion in the active life.
- Part-time law. In 2000 the law has been reformed, following the agreement reached at European level by social parties. The final objective of the reform is to increase the share of part-time contracts in Italy, to implement their wider use in public sector, to reduce the rigidity of their utilisation without damaging the worker's conditions. The law is promoting part-time throughout the simplification of administrative and procedural mechanisms, the introduction of "flexible" clauses and higher financial incentives.
- Conversion of severance pay into shares or bonds issued by the firm, to be deposited within the pension fund joined by the firm. This reform covers all private sector employees, it began in 1999 and will end in 2002 included. Italy is trying to create and develop its private pension system based on pension funds and the reform represents a way to encourage pension funds in addition to fiscal incentives.
- Maternity allowances were increased to ITL 300 000 for five months.
- A tax credit increase was granted to dependent workers, dependent spouses, children and other dependent relatives. A further tax credit for children under 3 years of age was introduced for an amount of ITL 204 000 per year.
- Tax credits for rented houses were raised up to ITL 640 000 if the household taxable income is less than ITL 30 million per year and to ITL 320 000 if the household income ranges between ITL 30 and 60 million per year.
- Social allowances - a means-tested benefit to people aged 65 or more - were augmented to ITL 8.367 million per year.

- Supplementary benefits to pensions below the statutory minimum were raised to ITL 9.381 million per year.
- The health care reform was introduced in 1999 aimed at improving health care quality and efficiency through the introduction of new rules and regulation in the NHS organisation, through specific interventions on assistance levels; public-private relation; NHS integrative funds; medical staff; integration and districts; corporatisation; funding.
- A general policy law was introduced (Law n. 328 of November 8, 2000): it enunciated the principles of the social assistance reform. The law reorganises the set of existing rules on social assistance and introduces new interventions. In particular, the main interventions are for the individual or family poverty. It also provides an integrated service network (either economic and/or in-kind) to support families, even on a temporary basis.

13.2 Policy changes announced

- Starting from 2001, family allowances will be granted to self-employed workers enrolled in the special pension funds for self-employed workers run by INPS.
- The whole annual benefit for a household with at least three children aged less than 18 will be provided in the case whereby the ISE is smaller than or equal to the difference between the threshold and the value of the maximum benefit.
- In 2001, maternity allowance will increase to ITL 500 000 per five months.
- The Budget Law approved by Parliament at the end of year 2000 proposes some changes, namely:
 - a) In 2000, there will be a slight variation in the first bracket of the taxable income going from ITL 0 - 15 million to ITL 0 - 20 million; tax credits for work-related expenses (both for dependent workers and for self-employed) will be raised; the first house income will be totally exempted from personal income tax.
 - b) In 2001 and 2002, there will be a reduction in marginal tax rates in the different taxable income brackets; a tax credit increase for children and other dependent relatives.
 - c) In 2001, tax credits for rented houses will be raised to ITL 960 000 if the personal taxable income is less than ITL 30 million per year and to ITL 480 000 if the personal income ranges between ITL 30 and 60 million per year.
 - d) The experimental period for the minimum income support, currently adopted in 39 Italian municipalities up to 2000, will be prolonged till the end of 2002. In addition, beneficiaries will be some depressed areas where region-specific policy interventions (known as *patti territoriali*) are already effective.
 - e) Since 2001 supplementary benefits to pensions below a statutory minimum will be increased by ITL 80 000 per month for people under 75 and by ITL 100 000 per month for people over 75.

- f) Since 2001 the tax credits already granted to pensioners will be enlarged to people over 75 who benefits from land income. The amount of this tax credit will not exceed ITL 360 000.

14. Memorandum Item: identification of an APW

The data refer to the annual earnings of production workers in the manufacturing sector. See OECD (2001) *Taxing Wages*.

ITALY

The annual tax/benefit position of an unemployed single person 1999 (in lire)

	Ordinary unemployment insurance: 180 days ⁽¹⁾	Mobility Benefit ⁽²⁾	Mobility Benefit: first year ⁽³⁾	Mobility Benefit: after 1 year ⁽⁴⁾	Social assistance (RMI): ⁽⁵⁾ 12 months
	<i>APW earnings</i>	<i>APW earnings</i>	<i>2/3 APW earnings</i>	<i>2/3 APW earnings</i>	<i>APW earnings</i>
A. Taxable benefits					
Non-means tested benefits					
Unemployment insurance/CIG	11 671 815	20 533 992	17 084 556	15 562 421	0
Total taxable benefits	11 671 815	20 533 992	17 084 556	15 562 421	0
B. Income tax and social security contributions					
Social security contributions	0	1 887 074	1 570 071	1 430 186	0
Taxable income	11 671 815	18 646 918	15 514 485	14 132 234	0
Income tax	2 159 286	3 741 433	2 911 338	2 614 463	0
Regional tax	58 359	93 235	77 572	70 661	0
Tax credits	1 500 000	1 050 000	1 250 000	1 500 000	0
Total income tax and social security contributions	717 645	4 671 742	3 308 982	2 615 311	0
C. Non-taxable benefits					
Means-tested benefits					
Social assistance	0	0	0	0	6 630 000
Housing benefits ⁽⁶⁾	640 000	640 000	640 000	640 000	0
Family benefits	0	0	0	0	0
Total non-taxable benefits	640 000	640 000	640 000	640 000	6 630 000
D. Net income out of work (A-B+C)	11 594 170	16 502 250	14 415 574	13 587 110	6 630 000
E. Net income in work	27 888 186	27 888 186	20 084 218	20 084 218	27 888 186
F. Net replacement rate (D/E) (per cent)	42	59	72	68	24

See the notes on page 22.

ITALY

The annual tax/benefit position of an unemployed married couple with two children (6 and 4 years old) 1999 (in lire)

**** In this table and in the next one, in the column regarding social assistance, family allowances should not be considered: these benefits are granted only to employees and insured unemployed (i.e. unemployed receiving ordinary unemployment benefit, CIG or mobility benefit). In the case of the RMI, only when a member of the family is employed, it is possible to get at the same time the RMI and the family allowances. But here we are considering the long term position of the unemployed

	Ordinary unemployment insurance: 180 days ⁽¹⁾	Mobility Benefit ⁽²⁾	Mobility Benefit: first year ⁽³⁾	Mobility Benefit: after 1 year ⁽⁴⁾	Social assistance (RMI): ⁽⁵⁾ 12 months
	<i>APW earnings</i>	<i>APW earnings</i>	<i>2/3 APW earnings</i>	<i>2/3 APW earnings</i>	<i>APW earnings</i>
A. Taxable benefits					
Non-means tested benefits					
Unemployment insurance/CIG	11 671 815	20 533 992	17 084 556	15 562 421	0
Total taxable benefits	11 671 815	20 533 992	17 084 556	15 562 421	0
B. Income tax and social security contributions					
Social security contributions	0	1 887 074	1 570 071	1 430 186	0
Taxable income	11 671 815	18 646 918	15 514 485	14 132 234	0
Income tax	2 159 286	3 741 433	2 911 338	2 614 463	0
Regional tax	58 359	93 235	77 572	70 661	0
Tax credits	2 159 286	3 501 552	2 988 911	2 685 124	0
Total income tax and social security contributions	58 359	2 220 190	1 570 071	1 430 186	0
C. Non-taxable benefits					
Means-tested benefits					
Social assistance	0	0	0	0	16 309 800
Housing benefits ⁽⁶⁾	0	640 000	640 000	640 000	0
Family benefits	5 820 000	5 820 000	5 820 000	5 820 000	0
Total non-taxable benefits	5 820 000	6 460 000	6 460 000	6 460 000	16 309 800
D. Net income out of work (A-B+C)	17 433 456	24 773 802	21 896 912	20 521 574	16 309 800
E. Net income in work	32 857 738	32 857 738	27 659 770	27 659 770	32 857 738
F. Net replacement rate (D/E) (per cent)	53	75	79	74	50

See the notes on page 22.

ITALY

The annual tax/benefit position of an unemployed lone parent with two children (6 and 4 years old)

1999

(in lire)

	Ordinary unemployment insurance: 180 days ⁽¹⁾	Mobility Benefit ⁽²⁾	Mobility Benefit: first year ⁽³⁾	Mobility Benefit: after 1 year ⁽⁴⁾	Social assistance (RMI): ⁽⁵⁾ 12 months
	<i>APW earnings</i>	<i>APW earnings</i>	<i>2/3 APW earnings</i>	<i>2/3 APW earnings</i>	<i>APW earnings</i>
A. Taxable benefits					
Non-means tested benefits					
Unemployment insurance/CIG	11 671 815	20 533 992	17 084 556	15 562 421	0
Total taxable benefits	11 671 815	20 533 992	17 084 556	15 562 421	0
B. Income tax and social security contributions					
Social security contributions	0	1 887 074	1 570 071	1 430 186	0
Taxable income	11 671 815	18 646 918	15 514 485	14 132 234	0
Income tax	2 159 286	3 741 433	2 911 338	2 614 463	0
Regional tax	58 359	93 235	77 572	70 661	0
Tax credits	2 159 286	2 444 000	2 644 000	2 685 124	0
Total income tax and social security contributions	58 359	3 277 742	1 914 982	1 430 186	0
C. Non-taxable benefits					
Means-tested benefits					
Social assistance	0	0	0	0	14 851 200
Housing benefits ⁽⁶⁾	0	640 000	640 000	640 000	0
Family benefits	4 296 000	4 296 000	4 296 000	4 296 000	0
Total non-taxable benefits	4 296 000	4 936 000	4 936 000	4 936 000	14 851 200
D. Net income out of work (A-B+C)	15 909 456	22 192 250	20 105 574	18 997 574	14 851 200
E. Net income in work	31 561 738	31 561 738	25 774 218	25 774 218	31 561 738
F. Net replacement rate (D/E) (per cent)	50	70	78	74	47

See the notes on page 22.

Notes:

⁽¹⁾ These are annualised amounts. Note that unemployment benefits are paid for a maximum of 6 months (180 days) only. The amount of income tax shown on these tables is merely due to the annualisation of the benefit income. Those who receive unemployment benefits do not pay income taxes on the corresponding amount.

⁽²⁾ Mobility benefits are limited to collective dismissals in the manufacturing sector excluding small firms. The replacement rate of mobility benefits is reduced by 20 percent for those who have been on the benefit for more than one year. Note however that a person earning at the APW earnings level qualifies to the maximum benefit -- ITL 1 711 166 per month -- regardless of the entitlement period (i.e. whether the person is on the benefit for less or more than one year). Therefore, only one column is shown for the APW case.

⁽³⁾ The net incomes and replacement rates during the first year of mobility benefits are identical to those of the CIG benefits (see section 2.2.1 for more details), therefore the position of a CIG benefit recipient is not shown on the tables.

⁽⁴⁾ The duration of Mobility benefits depends on the age of the recipient and the location of the firm (see Table 1 in section 2.2.1) with a minimum of one year and a maximum of four. For these calculations, it is assumed that mobility benefits will last more than 12 months.

⁽⁵⁾ The Italian social assistance scheme (*Reddito Minimo di Inserimento* -- RMI) is currently under trial in 39 out of about 8000 Italian municipalities (see section 4). Net incomes and replacement rates for this benefit are *exclusively* of indicative nature.

⁽⁶⁾ The housing benefit considered here is a tax credit for rented houses (see section 5.2, paragraph a). Therefore, it is only applicable when the total figure for income tax and social security contributions is positive. When the income tax and social security contributions figure is zero, the housing tax credit is 'wasted', therefore it is not shown on the tables under housing benefits.