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Question 1: What are the important features of tax administration that may facilitate the cooperative compliance approach? Please build on positive and negative experiences in dealing with your tax administration.

The tax administration structure should be flexible and adapt to the HNWI circumstances and situation to maximize a cooperative compliance approach. Consider that broadly two main kind of HNWI exists, base on the class of income produced an downed assets:

- High annual income earners (in saving accumulation phase), whose main source of income is direct labor and direct capital investment in entrepreneurial activities, and, at the end of savings accumulation phase,*
- Passive income earners, whose source of income is generally financial investment in managed portfolios or direct passive investment in real estate.*

Therefore an efficient cooperative approach should be based on focusing capabilities on income generated by these two class of HNWI and the consequent different approaches to tax compliance and tax avoidance risks involved.

For example the grey are for Passive income earner is the generational transmission of wealth and tax administration should be specialized in understanding gift/inheritance tax and also taxation of tax production aimed to skip inheritance and income tax.

Conversely, for High annual income earners (that may also be Passive income earners) is crucial to specialize on the specific income generated. Generally there is no much need of specialized units of tax authorities for high income employees (as focus should be on the Employer) while special units may be useful, specially to satisfy Early Certainty approach, for professionals and small business independent entrepreneurs.

Moreover, one of the important features of tax administrations could be the establishment of dedicated HNWI units in each Country in order to be able to engage In cross-border co-operative forms of compliance.

Considering the globalization of investment alternatives, the high mobility of HNWI (for passive income earners there are frequent movements to low tax jurisdictions) and the grey area associated with cross border transactions, she dedicated units could create an efficient information system between the Countries managing and providing the main issues related to the tax matter and the provisions regarding the avoidance of the double taxation.

For example Italy is a country with high tax rates for income deriving from labor (up to 45%) and very low rates applicable to financial income (12.5%) and inheritance tax (4 to 8%). Also consider that Italy does not apply any wealth tax. Consequently Italy attracts HNWI (passive income) and

tax administrations in an international contest should cooperate to improve compliance and early certainty in the transfer of tax residence phase (eg some countries as Germany applies an exit tax whose application is deferred to actual disposal of assets if transfer occurs to a EU contry).

Question 2: Do you think that having a dedicated unit (or units) as part of your tax administration (either at national or at regional level) with particular responsibilities for HNWI is a good idea? If you are generally supportive of such an idea, what roles and responsibilities do you think such a unit should assume? In particular do you have any views on the following points?

a. How should a tax administration best gain insights into the behavioural drivers and the general context within which HNWI and their advisors operate? For instance, by employing staff with relevant private sector experience perhaps on secondment, on short term contracts, at the end of successful careers, or on permanent contracts. Should there be some form of “advisory board” involving advisors and other relevant market participants (e.g. private banks) or some other structured form of providing relevant background and context to the tax administration.

b. What role and responsibility should the unit assume with respect to the affairs of the taxpayer (e.g. research and risk assessment or full responsibility for the file including potential audit)?

c. What taxes relating to the HNWI and their affairs should such a unit deal with and why? For instance, should it be limited to income taxes or also cover inheritance and estate taxes, VAT/GST etc.?

d. Should the unit be responsible also for the affairs of all/certain entities controlled by a HNWI (e.g. only the personal affairs of the taxpayer, all operating entities and non-trading entities or only non-trading entities)?

e. Should HNWI and their advisors be assigned a designated contact point within the unit?

f. Should the unit be tasked with preparing an annual or periodic report about the overall environment and key developments, including the most pressing issues identified by HNWI and their advisors for use by the heads of tax administrations and finance ministries?

g. Should additional safeguards and security procedures apply to the information held by the unit?

Italian tax administration does not have a dedicated unit for HNWI.

In our opinion, a dedicated unit with particular responsibilities for HNWI could substantially improve a cooperative approach. Please also refer to previous answer for suggestions about the skills the unit should have.

a. With reference to point a. a solution could be to employ staff with relevant private sector experience (e.g. hiring outside tax professionals on permanent contracts); the creation of an ad hoc advisory board may not be beneficial as in our view the market players (advisors and private bank) have no particular interest in disclosing information to tax authorities. They may potentially lose client if their perception is a form of collaboration and exchange of information with a tax administration.

b. With ref. to p. 2, unit should have Full responsibility for the file including potential audit.

c. Unit capabilities should be not limited to income taxes and IHT/Estate tax (but focused on them) as the HNWI may have business in form of corporation requiring VAT and Corporate tax capabilities. In our view the unit should cooperate with Corporate Tax/VAT/TP units rather than having in-unit capabilities and therefore focus and specialize on HNWI recurrent tax issues and areas.

d. We deem the unit should be responsible for the affairs of all entities controlled by a HNWI

e. Yes, although relationship with tax authorities should be managed by the HNWI professionals and not directly by HNWI, as generally HNWI have no tax technical skills to cooperate adequately and to understand tax matters that require deep expertise.

f. Yes, on a no name basis and for the purpose to improve cooperation with HNWI.

g. Yes, particularly with respect to privacy protection (eg a list of HNWI belonging to the unit may be targeted by marketing of private banks or, in some jurisdictions, by criminality). A lack of high level privacy may determine an exodus of HNWI vs. more protective countries (eg Switzerland).

Question 3: If you are from a country that currently has a dedicated unit dealing with HNWIs what advantages or disadvantages have you seen in having such a unit and do you have any comments on the way it was set-up and is operated? What are the features that you find the most useful?
N/A, Italy has not a dedicated unit dealing with HNWIs.

Question 4: If the tax administration offered this or a similar approach, what would encourage HNWIs and their advisors to opt into it? In your answer please consider the points discussed below and indicate which points may be more important and which may be less important. Please also describe any other elements or concerns that you think would be relevant for HNWIs and their advisors (e.g. privacy concerns), and how these may be addressed.

The main aspect that could encourage HNWIs to opt for the dedicated unit are:

- low and no further compliance activity;
- Early certainty for planned transactions.
- No or reduced underpayment penalties or other civil or administrative penalties.
- Enhanced responsiveness.

However, as mentioned before, privacy is essential.

In our jurisdiction a voluntary opt-in approach would not work, as no HNWI will volunteer. The potential advantages of being part of the unit will not be sufficient and will be conversely seen as a privation of privacy and an increased risk of audit. Also consider that HNWIs have many professionals working for them and they will generally ask for solutions to them rather than to tax administration. In a country like Italy, where the relationship between taxpayers and administration is conflictual and not cooperative as “tradition” and tax laws are frequently changed and in some cases retroactive voluntary opt-in approach would not be successful.

We deem it is useful to create the HNWIs unit but to include HNWIs on a mandatory basis, establishing certain criteria to define HNWIs. Considering that Italy is an high saving country, we would suggest classifying HNWIs based on the value of their class of investment assets and, secondarily, their source of income (eg. Financial activities, number of real estates directly or indirectly owned, kind of activity).

Question 5: The Focus Group seeks input from HNWIs and their advisors about the framework for voluntary disclosures and what particular elements would encourage taxpayers to come forward, e.g. solutions to issues such as lack of back-year records, inability to calculate final tax liability, concerns regarding privacy.

We do not suggest a kind of incentive scheme for opting-in. Tax rules should be equal to all taxpayers and no discount should be given to HNWIs. As per Q. 5, HNWIs should be included in the unit automatically, as they meet the criteria to be considered as such.

We believe that the unit should be (i) skilled and prepared to manage tax issues and compliance issues of HNWI, eg specializing in trust, foundations, IHT and similar (ii) open to a very cooperative relationship with HNWIs, being this later the sole “incentive” available to them. A tax administration in a democratic country cannot create differences among classes of taxpayers.

Question 6: Please express your views on the merits of a product ruling regime in connection with HNWIs. In addressing this question please take a broad view of the term “product ruling” to include any form of advance certainty (whether formal ruling or not) and also consider which segment of HNWIs you think would be the users of the types of products for which product rulings could be made available (i.e., certain HNWIs might be more likely to enter into tailor made arrangements that do not lend themselves to product rulings).

A product rulings regime constitutes a useful source of information and may have an impact on taxpayer compliance behavior.

Furthermore, it could be possible for HNWIs to have a favourable product ruling from the tax administration and therefore to minimize the compliance activity and having an early certainty for planned transactions.

The ruling should not be however used to create a profile on the specific HNWI that will discourage individual to make use of ruling. Ruling on a no name basis should be allowed.

Question 7: Do you have any other comments which you wish to make?

As mentioned above, it is necessary to create an efficient information system between the unit of the Countries managing cross-border issues for HNWI.