

Fiscal Money Works: the Italian case

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Un saggio di Stefano Sylos Labini del gruppo Moneta fiscale per i lettori di Law in Action

In questo saggio, interamente in inglese, Stefano Sylos Labini spiega, ai lettori di **Law In Action**, il funzionamento e i risultati delle prime applicazioni della moneta fiscale con un focus sul caso italiano.

Buona lettura!

Fiscal Money Works: the Italian case

The proposal of Fiscal Money, which consists of transferable tax credits freely tradeable on the market, has been published by Project Syndicate on September 19, 2017, by Biagio Bossone, Marco Cattaneo, Massimo Costa and myself "[Making Fiscal Money Work](#)" and has been massively applied in the construction sector in Italy since the second half of 2020.

Transferable tax credits in the construction sector

Transferable tax credits issued for the construction sector are spaced out along several years - mainly 5 or 10 years. This means that every year it is possible reduce taxes for the 20% or the 10% of the total amount received from the State to finance restructuring works.

These transferable tax credits can be immediately given to the firm that is carrying out the restructuring works, so the client will pay less euro because a part is paid by tax credits. This is the so called "discount on invoice". Of course the tax credit has a lower value than euro cash, so the construction firm will get a higher amount of tax credits which depends on the financial discount rate. Than the construction firm can go to the bank to monetize the tax credit or can sell the tax credit to other firms that have to pay taxes. It could be possible to exchange the tax credit against goods or services or against euro. So the tax credits can circulate into the economy many times before they will be exercised to offset taxes at face value.

Of course the acceptance is on a voluntary basis: if I want to be paid in euro, I will refuse tax credits. This is why Fiscal Money is legal within the Eurozone.

The amount of transferable tax credits issued in the construction sector in the period 2021/23 reached about 200 billion of euro which is a remarkable quantity but it is spaced out in several years, permitting to offset the reduction in tax revenues produced by the exercise of tax credits with a higher revenues triggered by economic growth.

All the mechanism works on the free circulation of tax credits: more they will be exchanged better will be for economic growth and fiscal revenues.

This is the way for the State to finance the economy without taking out euros and for the poorer social groups to increase their purchasing power.

The results of the first application of Fiscal Money

The results, as shown by the [Financial Times graphs](#), were impressive if compared with the performance of other European countries (Figure. 1).



Figure 1 – Gross fixed capital formation and real GDP in the period July 2019 – October 2023. Output in the construction sector in the period December 2019 -2023.

To complete the framework, we have also to underline the drastic reduction in the Debt/GDP ratio from 155% in 2020 to 137% in 2023 (Table 1).

	DEBT /GDP %	DEFICIT/GDP %
2019	135	1,6
2020	155	10
2021	147	8,8
2022	141,6	8,6
2023	137,3	7,4

Source: ISTAT (National Institute of Italian Statistics)

Table 1 – Debt/GDP and deficit/GDP in period 2019 – 2023.

On the contrary, the Deficit/GDP ratio remained at very high values (above 7% in the period 2020/23) ""because it was artificially inflated by classifying tax credits as payable. According to ESA, tax credits are divided into two types: payable ones where the State reimburses with cash the part that is not offset and non-payable ones where there is no right to reimbursement (ESA paragraph 20.167 declares: "Tax credits can be payable, in the sense that any amount of the of the credit that exceeds the tax liability will be paid to the beneficiary. In contrast, some tax credits are non-payable and described as wastable. They are limited to the size of the tax liability").

Since payable tax credits increase public spending, they must be accounted as a greater deficit when they are issued. Non-payable credits, on the other hand, must be accounted only when they are exercised (they reduce the government tax revenue at the time of use).

New Eurostat guidelines

In March 2023, Eurostat invented a new type of tax credits: borderline credits which do not exist in the ESA regulation. These transferable credits, according to Eurostat, have a high probability of being fully exploited and for this reason they must be classified as payable and therefore increase the deficit when they are issued. It is surprising because even if these tax credits circulate, the State will not do any expenditure because there is no right to reimbursement. This is the case for construction tax credits issued in Italy.

Transferable tax credits in the United States

It is interesting to point out that transferable tax credits are now being used in the [United States](#) to finance the ecological transition.

The opposition of transferable tax credits in Italy

Mario Draghi, when he was the premier of the Italian Government in 2021/22, did "whatever it takes" to stop the circulation of tax credits, creating big problems for those who had received them because it became more difficult to monetize and the discount rate soared. Draghi's decisions, maintained by Meloni government, have reduced the multiplier of transferable tax credits with negative effects on economic growth and fiscal revenues.

Conclusions

With transferable tax credits Italy can regain autonomy and flexibility in economic policy, creating purchasing power by avoiding borrowing money on the markets. The GDP growth is the only way for reducing the debt/GDP ratio.

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