

Memorandum on Italian Decree-Law 39/2024 (tax incentives for construction)

Press release

- **The Superbonus and, to a lesser extent, the Transition 4.0 business incentives had a significant impact on public accounts, leaving a heavy legacy for the future**
- **The unique features of the Superbonus have made it complex to estimate the financial effects since its introduction**
- **The broadening of targets and repeated extensions have generated an increase in expenditure well beyond initial expectations**
- **In the future, avoid an incentive rate that place the burden of expenditure entirely on the State**
- **Tax relief should be selective on both activities to be encouraged and the recipients, and provide for expenditure limits and effective on-going and ex-post monitoring mechanisms**
- **Consider supporting energy efficiency with direct contributions to expenditure that vary according to income and energy class or subsidised loans with prior authorisation and spending limits**

19 April 2024 | The Parliamentary Budget Office (PBO) forwarded a memorandum to the Finance and Treasury Committee of the Senate of the Republic on the matter of tax relief for building, in the context of the examination of Decree-Law 39/2024. The analysis of the PBO focuses on the purposes of the decree, traces in detail the regulatory evolution of the Superbonus and provides elements on the financial effects so far evident for both the Superbonus and the incentives for the Transition 4.0. The review concludes with some general considerations in which, drawing inspiration from the lessons learnt from the Superbonus experience, there are some elements that should be avoided in the design of future incentives and others that should be present for the effectiveness of the measures and expenditure control.

The Superbonus together with the Façade Bonus and, to a lesser extent, the Transition 4.0 business incentives had a significant impact on public accounts in recent years, leaving a heavy legacy for the future. Their financial effects are to date higher than expected in official estimates for the entire period of validity of the measures.

As of 1 March 2024, the date of publication of the General Government income statement, the amount of the Superbonus **in the period 2020-23 was approximately EUR 170 billion**. What was observed on an accrual basis in the 2020-23 four-year period **will have an impact, in terms of debt**, mainly on the 2024-26 three-year period: **an impact**

averaging 0.5 per cent of GDP per year in the 2021-23 three-year period will be followed by a higher burden of about 1.8 per cent in the following three-year period.

The difference between results and expectations was macroscopic in the case of the Superbonus and it had no precedent in Italy. Evident factors have contributed to it since its introduction, although difficult to predict in terms of the magnitude of the effects, related to the specific features of the measure and others that have arisen as consequences thereof.

Among what contributed to the significantly higher expenditure than expected, PBO identifies:

- the high percentage of the relief, which meant that the incentivised expenditure was entirely covered by the State, thus effectively eliminating the conflict of interest between buyer and supplier;
- the setting of higher maximum eligible expenditure compared to those provided for other incentive measures concerning buildings;
- the inclusion in the incentivised expenditure of works already subsidised at lower rates (trailed works);
- the possibility of benefiting from the tax relief through an invoice discount and the transfer of the tax credit to third parties, which has enlarged the number of recipients to include those who would have not be able to fully or partially benefit from the tax deduction and those who would not have had sufficient liquidity to start building works;
- the automatic nature of the tax relief;
- the lack from the outset of prior authorisation mechanisms that would have made it possible to include an expenditure ceiling without affecting the rights acquired by the recipients.

Among the factors that have occurred subsequently, there are:

- the progressive extension of the validity of the measure from the end of 2021 to the end of 2025 (with the rate at 110 per cent until the end of 2023);
- the announcement effects of regulations aimed at limiting the use of the tax relief, which have led, at times, to accelerations concerning both authorisations and the execution of works;
- the rise in the prices of raw materials and construction materials due, in addition to the general increase in the prices of energy goods, to the increased demand for works and the disappearance of conflicting interests between buyer and supplier;

- the emergence of fraudulent phenomena as the control system is essentially based on certifications by private entities.

The PBO analysis also provides evidence on the evolution of subsidised investments: monthly flows, by type of building, territorial distribution (average cost and intensity of fruition), sectoral composition of offset credits.

In the set of measures concerning business incentives in Decree-Law 39/2024, the PBO positively assesses the introduction of a more effective ex-ante and ex-post monitoring of the utilisation of incentives. Moreover, on the basis of the available data related to Transition 4.0, the PBO highlights that, although in the three-year period 2021-23 the overall effective revenue loss is still lower than initially estimated, its time evolution shows risks of increasing revenue losses. The figures for offsets made in the first three months of 2024 already account for 70 per cent of the total estimated for the whole year (EUR 4.6 billion).

According to the PBO, **lessons should be learned from the experience of the Superbonus for the design of future incentives.**

Firstly, **the incentive rate should be set at a level that encourages behaviour deemed deserving without placing the entire spending burden on the State:** cost-sharing helps in fact to limit opportunistic behaviour. In determining the level of the rate, it should also be taken into account that the recovery of the initial cost of the investment will be ensured over time by the energy savings produced by the efficiency improvement.

Moreover, **the tax relief should be selective** with regard to both the activities incentivised and the recipients. In fact, in the case of the Superbonus, it would have been possible to better condition the granting of subsidies to the interventions that guarantee the greatest energy savings with the same amount of resources used, thus moving in the direction of the new European green objectives. For the recipients, the possibility of opting for invoice discounts and transferrable tax credits has been recognised for all taxpayers instead of limiting it to those who would have had fiscal capacity problems and liquidity constraints to anticipate the expenses.

Lastly, it is necessary to **subject incentives to prior authorisation**, where the automatic nature of the recognition of the Superbonus and other building incentives has made, and would continue to make, the risk that the measure would produce greater effects than expected.

Looking ahead, in its memorandum, the PBO concludes, **the advisability of replacing a tax relief such as the current one with a monetary transfer** (a direct contribution to the expenditure), **modulated according to the economic condition of the household and the energy class of the building, subject to prior authorisation and to an expenditure limit, or with subsidised loans, should be assessed.** The measure should then be immediately supported by an **on-going and ex-post monitoring system** to promptly assess the

progress of expenditure and the effectiveness of the measure and possibly redirect it. The on-going monitoring and the ex-post assessment are relevant for updating the trends of already existing incentives and for improving the effectiveness of new measures.