



EUROPEAN COMMISSION



EUROSTAT

Directorate C: National and European Accounts

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Ms Alfonsina Caricchia  
Istituto Nazionale di Statistica  
Head of National Accounts  
Via Cesare Balbo 16  
IT - 00184 Roma

**Subject:** Classification of the holding company "Equitalia S.p.A."

**Ref.:** Your letters dated 25/09/2007, 04/12/2007, 15/01/2008  
Our letters dated 27/11/2007, 09/01/2008

Dear Ms Caricchia,

Following your letters of 25/09/2007, 04/12/2007 and 15/01/2008, I am in a position to give you our opinion on the appropriate statistical classification of the holding company "Equitalia Spa" and its subsidiaries.

*The accounting issue for which a clarification is requested*

The issue for which an opinion is being sought concerns the sector classification of the holding company "Equitalia Spa" and its subsidiaries. Eurostat's opinion is also sought on the determination of the correct EDP accounting treatment relating to transactions to be registered in "Equitalia Spa" equity.

*Documentation provided*

The ISTAT's letter (25/09/2007) was accompanied by an analysis on the classification of the holding company "Equitalia Spa" and of its subsidiaries carried out by ISTAT, as well as by the following background documents: Law No 203/2005, Balance sheet of "Equitalia Spa", statute of "Riscossione Spa", table on the aggregated profit and loss accounts of subsidiaries.

*Description of the case*

According to the explanation provided by ISTAT, the newly created holding company, Equitalia Spa (initially named Riscossione Spa), which has an equity capital of 150 million Euro and is 100% public, has acquired 37 private entities whose activity was to recover taxes in arrears in Italy under concessionary service contracts. These entities now operate as subsidiaries of "Equitalia Spa".

The acquisition of the tax collection agents is to be done by way of an exchange of shares: 49% of the "Equitalia Spa" shares will be assigned to the private ex-shareholders of concessionary companies (after completion of the companies' valuation process) as a means of payment for the

acquisition of their shares in these companies. After the exchange, public shareholders – the Revenue Agency and the National institute of social security (INPS) – would own 26% and 25% of shares respectively. Moreover, by law, these public shareholders will be obliged to repurchase the 49% of shares owned by the private ex-shareholders of concessionary companies, at the latest by the end of 2010, at a price determined in advance.

### *Methodological analysis by Eurostat*

After an examination of the documentation provided and considering the additional information contained in ISTAT letters on 04/12/2007 and 15/01/2008 in reply to Eurostat's requests for clarifications (letters dated 27/11/2007 and 09/01/2008), Eurostat has reached the following provisional opinion.

#### *Applicable accounting rules*

ESA95 paragraphs 2.12 and 2.13 apply in this case. In addition, the Eurostat ESA95 Manual on government deficit and debt (MGDD) chapter I.1 as well as ESA95 2.23e and 2.40e are relevant.

#### *Availability of national accounting analysis*

ISTAT provided an accounting analysis of the case. ISTAT's view is that the holding company "Equitalia SpA", as well as its subsidiaries, should be classified in the institutional sector non-financial corporation (S.11). Moreover, ISTAT considers that the equity owned by the ex-shareholders of the concessionary companies, has a loan character and that the associated transactions should be classified as transactions in another debt instrument.

#### *Analysis*

Eurostat has analysed the classification of the subsidiaries, the classification of Equitalia SpA and the equity liability of Equitalia SpA.

#### *Classification of the subsidiaries*

Eurostat takes note that the holding company "Equitalia SpA" is 100% owned by government, which indicates that government control is exercised on both "Equitalia SpA" and its subsidiaries.

Moreover, attention is drawn on the fact that "Equitalia SpA" and its subsidiaries operate exclusively in the domain of tax collection and (partly) tax assessment, which are both typical activities corresponding to government prerogatives. The main activity of the company seems to be primarily in connection with tax rolls, which are issued by the Italian tax authorities.

More importantly, "Equitalia SpA" and its subsidiaries seem to provide mainly a service to government and not to tax payers. In this respect, amounts paid by tax payers are to be considered in full as taxes and therefore must be recorded in national accounts as tax revenues (or as other current transfers (D.7)- fines and penalties). According to the information provided to Eurostat, the fees paid by the tax payers consist of a tax collection commission kept by the subsidiaries of Equitalia SpA and penalties that are transferred to claimant government bodies. However, it would be doubtful that tax collection agents would be providing a real service mainly to tax payers instead of to government. It is also not clear in this context what would be

the exact nature of the services sold to taxpayers. In addition, it would not be plausible to envisage that the tax collection commission could meet the criteria of economically significant prices influencing supply and demand. Finally, it should be added that each subsidiary seems to be in a monopolistic situation with respect to each tax payer. To sum up, the part of fees retained by the tax collection agents should be considered as government expenditure and not as taxpayer expenditure: either as transfers by government, or payments made by government to the tax collection agents for purchasing a service.

Last but not least, it would seem unlikely that the subsidiaries could be deemed to be selling a service of a market nature at an economically significant price to government. There is also no competition between the tax collection agents for rendering this service to government. There are on the contrary reasons to believe that Equitalia SpA and its subsidiaries act on behalf of government in the field of unpaid taxes recovery, providing services only to government units.

Thus, the Equitalia SpA subsidiaries can (indirectly) be considered as owned by government and their main activity seems to be determined by government, which is also the main purchaser of services provided by the Equitalia SpA subsidiaries, which seem to conduct ancillary activities to government.

#### *Classification of Equitalia SpA*

Equitalia SpA seems to function as a holding for entities that seem to be institutional units with a nonmarket character classified inside general government. Accordingly, such holdings are to be considered as nonmarket. If Equitalia SpA were to be considered as a shell, it should be classified inside general government. If Equitalia SpA provides genuine services to its subsidiaries, then the nonmarket character of the group as a whole should be taken into consideration – by analogy with the sector classification of financial versus nonfinancial holdings under ESA 2.23e and 2.40e.

#### *Equity liability of Equitalia SpA*

Given that the law foresees an irrevocable buy out of the shareholder by a certain date and at a price agreed in advance (including accrued interest), Eurostat can agree with the ISTAT's analysis that these shares have the nature of a loan AF.4 (government liability).

#### *Conclusion*

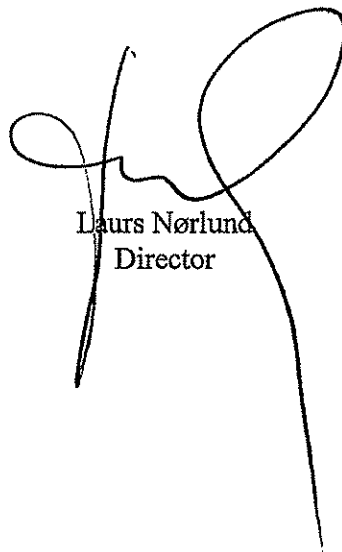
On the basis of the above considerations, Eurostat cannot agree at this stage with the classification of Equitalia SpA and its subsidiaries as proposed by ISTAT. As the main activity of the holding company Equitalia SpA and its subsidiary seem to be complementary to a typical government activity, they can be considered as being engaged in a kind of ancillary activity to government and therefore it is our opinion that they should be classified inside general government. The private shareholders stakes in Equitalia SpA have the nature of a loan (AF.4).

#### *Procedure*

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 3605/93 and the note on ex-ante advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat is therefore publishing all official methodological advice (ex-ante and ex-post) given to Member States on the Eurostat web site.

In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than **15 April 2008**.

Yours Sincerely,

A handwritten signature in black ink, consisting of a large loop at the top and a long, sweeping stroke that extends downwards and to the right.

Laurs Nørlund  
Director