



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 VAT reimbursements

Ref.: Your letter dated 17 January 2008

Dear Ms Caricchia,

Following your letter of 17 January 2008, I am in a position to give you our opinion on the appropriate statistical classification of the VAT tax reimbursements.

The accounting issue for which a clarification is requested

The issue for which an opinion is being sought concerns the classification of reimbursements of car VAT to corporations resulted from the September 2006 Court of Justice Sentence, after the introduction of new rules and the specification of procedures for this reimbursement introduced by government.

Documentation provided

ISTAT's letter (17.01.2008) contained a detailed analysis of the case, describing the new conditions created after the initial decision of the Revenue Agency which has been clarified subsequently by administrative rules and Decrees introducing two possible procedures for reimbursements, as well as defining the documentation needed to be provided by taxpayers in both cases.

Description of the case

The European Court of Justice ruled in 2006 that limitations on VAT deductions for cars in Italy were illegal and that the Italian Government would need to reimburse corporations starting in 2003. The total amount estimated to be due for repayment was 17204 million euro. In national accounts, an amount of 1222 million euro was deducted relating to taxes on income due, leading to a net amount of VAT to be recorded of 15982 million euro. This amount was recorded by the Italian statistical authorities as other capital transfer (expenditure) of general government in 2006. In 2007, the introduction of new administrative rules defined two possible procedures for reimbursement as well as the documentation needed for the taxpayers to be eligible to this tax rebate. The new conditions created by these new administrative rules have certain implications concerning the time of recording of the VAT tax reimbursements in general government accounts.

Methodological analysis by Eurostat

After an examination of the information contained in ISTAT's letter on 17.01.2008 and considering the new conditions created by the introduction of the new administrative rules and the better specification of procedures introduced by government, Eurostat has agreed with ISTAT's opinion.

Applicable accounting rules

ESA95 paragraphs 1.57 and 4.107 apply in this case. In addition, the Eurostat ESA95 Manual on government deficit and debt (MGDD) chapter III.4 is relevant.

Availability of national accounting analysis

ISTAT provided an accounting analysis of the case. ISTAT view is that the VAT tax reimbursement should not anymore be recorded in the general government 2006 accounts but in the years in which the reimbursements requested by taxpayers are validated by Revenue Agency, as happens for all other tax rebates. Furthermore, according to ISTAT view, reimbursements asked with the simplified procedure (forfeit procedure) that are automatically validated, should be recorded in the 2007 general government account, while the remaining amount of reimbursement should be recorded in the following years as the Revenue Agency will validate the reimbursements requested under the alternative procedure (analytic procedure).

Analysis

Eurostat agrees with the accounting analysis undertaken by ISTAT. The introduction of new rules and better specification of procedures for VAT tax reimbursement, introduced by government during the year 2007, have determined a substantial reduction in the tax burden of the State. The initial hypothesis of government, according to which almost 100% of eligible claimants would have asked for reimbursement, does not appear to be confirmed anymore. In these circumstances, it is not possible at present to record a capital transfer from government for the total estimated amount at the time of the sentence of the Court of Justice (2006). Instead, due to the new situation of uncertainty created as far as the actual amounts to be effectively reimbursed are concerned, Eurostat agrees that the VAT tax reimbursement should be recorded at the moment in which they will be validated by the Revenue Agency, as it happens for all other tax rebates.

Conclusion

On the basis of the above considerations, Eurostat agrees with the new accounting treatment of VAT tax reimbursements proposed by ISTAT.

Procedure

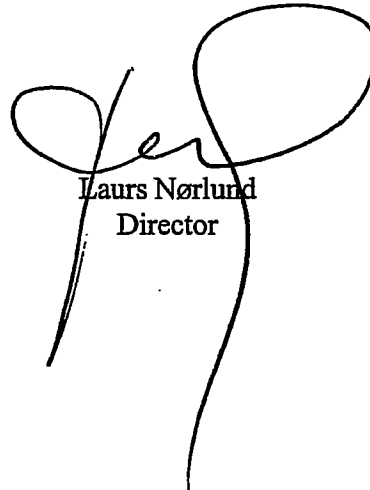
There is no explicit Community legislation which governs a procedure by which Eurostat gives its views on operations which have not yet been enforced. Nevertheless, Eurostat is prepared to give a preliminary view on the statistical classification of such operations provided that it is in possession of all of the necessary background information. The preliminary view is given in accordance with the guidelines for ex-ante advice published on the Eurostat web-site.

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the

operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

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 intends, therefore, to publish all future 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 05/03/2008.

Yours sincerely,



Laurs Nørlund
Director