Press Release

IN 2019, TAX LIABILITY ON MOTORING WAS MORE THAN 76 BILLION EURO. DUE TO THE IMPACT OF THE PANDEMIC, FOR 2020, ESTIMATES SHOW THAT THERE MAY BE A 14% REDUCTION, EQUIVALENT TO 11 BILLION EURO IN LOST REVENUE

The share in total national tax revenues was almost stable in 2019, rising from 15.8% to 15.9%, due to a slight drop in tax revenues (-0.3%), and in GDP, at 4.3% compared to a European average of 3.1%.
The negative impact of the pandemic to government funds in 2020 is likely to be partially offset by the success of the new car incentive scheme, which must be reinstated in 2021

Turin, 15th December 2020 - In 2019, the total tax liability on Italian motoring remained in line with 2018: **€76.3 billion** (+0.0%).

The amount of revenue delivered by the automotive sector as a percentage of overall national tax income, compared to 2018 was virtually the same, moving from 15.8% to 15.9%. There was a slight **decrease in tax revenue (-0.3%) compared to 2018** - a trend that reflected a fall in direct taxes (-0.8%) and an increase in indirect taxes (+0.3%) based on consumption.

"The automotive sector in 2019 generated significant tax revenues once again, ***confirmed at €76.3 billion*** **- states Paolo Scudieri, President of ANFIA.** *Even though the automotive sector recorded negligible growth in 2019, both in the new car segment (+0.3%) and in the used car segment (+0.5%),* ***revenue from motor vehicle purchases - VAT and IPT[1] - were both up 1.8% on 2018****. This was partly due to an increase in the average sale price of new cars (+2.4%) and the average cost of used vehicles (+2.2%) during 2019, reflecting higher technological content and increasingly higher safety standards.*

The ***percentage of tax revenue resulting from our sector as a percentage of GDP is confirmed at 4.3%****, the highest among the major European countries,* ***given that the average was around 3.1%[2]****.*

Of the three taxation areas of motor vehicles, it is once again the <u>use-related one</u> that accounts for the largest proportion of tax revenue from the sector, accounting

[1] Provincial Transcription Tax.

[2] Based on the latest data available, the average tax impact of the automotive sector has been calculated on the GDP of the main European countries (France, Germany, Spain, UK and Italy). The 5 major markets, in fact, represent about 77% of the total revenue of the sector in Europe (estimated by ACEA at 4440.4 billion Euros in the EU15 Italy ranked third after Germany and France (the latter being just above Italy) with a contribution exceeding 17% of the total.

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for 78.5% and tops €60 billion (-0.2% compared to 2018). *Contributing to this high figure are fuel levies (36.33 billion euro), VAT on maintenance and repairs and the purchase of spare parts, accessories, and tyres (11.15 billion euro, up 1.9%).*

Second, comes revenue from purchases (VAT and IPT payments) and accounts for 12.6% of the total, equal to 9.63 billion euro and is up 1.8% compared to 2018 (when it was up just 0.7%). Finally, revenue from ownership has a share of 8.8% of the total and is worth 6.75 billion euro (-0.7% compared to 2018), equal to all car tax payments.

Looking ahead regarding 2020, it is undeniable that the impact caused by the Covid crisis on a sector whose contribution to the state's finances is so vital will also affect its revenues. Since in the first 11 months of 2020, about 515,000 fewer new vehicles were registered, compared to the same period in 2019 (-29%) - a similar drop was also recorded for the used car market - and that VAT revenue from purchases alone was worth 7.76 billion euro in 2019. It is expected that this could drop to about 6 billion euro in 2020, not to mention levy items related to motor vehicle use will also fall, due to the restrictions placed on travel during the first lockdown and subsequent restrictive measures.

To avoid a new downward turn in the market, which already started in November 2020, plus to avoid undoing the environmental benefits seen through the incentives already applied so far (the scrapping of 120,000 cars and the reduction of CO_2 emissions by 155,000 tons per year), the measures to stimulate demand must be re-instated in the Financial Budget 2021, which the parliamentary process has already begun and needs to be approved by 31st December.

The proposed measures - concludes Scudieri - *in addition to being a fundamental lever for the recovery of the market and having immediate environmental and employment benefits for the entire Italian supply chain, will have a significant impact on the state's coffers, both by reducing further use of the redundancy fund and for the increase in income generated thanks to the incentives".*

Concerning revenue generated by **motor vehicle ownership**, i.e. from payments of vehicle tax (*item 7 in the table*), a slight decrease was seen in 2019 (-0.7%, approximately €40 million less than in 2018) may seem to contradict the increase in the number of vehicles in circulation in Italy, which in the same year approached 44.8 million, of which 39.5 were passenger cars. The causes of the drop in revenue are due to the discount applied by the Lombardy Region[3], which ranks the highest in Italy for the number of vehicles in circulation and evasion of stamp duty payments.

[3] From 1st January 2017, with the Simplification Law 2016, the Region of Lombardy introduced the possibility to pay the tax due by debiting a current account using RID and obtaining a 10% discount on the total amount due. The Stability Law 2018 introduced the possibility of extending this to all regions and the right to apply discount on the

Moving on to the detailed analysis, approximately **7.76 billion euro (+1.8%)** was paid in 2019 **during the registration of motor vehicles,** consisting of **VAT payments and vehicle registration fees** (*item 3 in the table*).

Several factors influenced the final figure for this levy charge. The modest increase in the new car market (up 0.3%, equivalent to around 6,000 additional cars), as well as the used car market (up 0.5%, over 3.1 million actual transfers of ownership) accompanied by an increase in the average sale price of new cars (up 2.4%) and the average cost of used vehicles (up 2.2%),[4] has already been mentioned. This element, for the purposes of calculating **VAT revenue**, combines a mix of sales which, in the new vehicle market, saw the share of cars purchased by private individuals remain stable (56.9% in 2019 and 57% in 2018) and the share of rental cars growing again (from 22.7% in 2018 to 24% in 2019), against a drop in the number of registrations in the name of companies[5] (from 20.3% in 2018 to 19.1% in 2019).

Despite minimal market growth for both new and used cars, revenue from **motor vehicle fees and PRA fees** increased 1% over 2018.

Regarding the **current year**, we reiterate that in January to November, the new car market fell by about 515,000 vehicles compared to the first eleven months of 2019, plus approximately 35,000 other new vehicles (light and heavy commercial, buses and towed vehicles). Considering that the used-vehicle market for all means of transportation was also down by more than 920,000 units[6], the estimated loss of tax revenue in the first 11 months of 2020, including VAT, motor vehicle registration fees and PRA fees stands at €1.7 billion.

Revenue from the collection of **IPT** (*item 6*), as mentioned above, also grew again in 2019, reporting an **increase of 1.8%**, totalling **€1.87 billion**, again because of the slight positive variation in the new and used car markets.

This tax levy is forecasted to **close 2020** down from the 2019 values. In fact, during the first eleven months of this year, registrations for new and used motor vehicles were

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stamp duty if payment is made by bank direct debit. To date, only the region Lombardia has activated the service, also increasing the discount to 15% starting from 2020.

[4] Survey by *InterautoNews*

[5] At its meeting on December 5th, 2019, Ecofin adopted Execution Decision no. 2019/2138, which authorises the Italian Government to extend, until December 31st, 2022, the deduction of VAT at the reduced rate of 40% for motor vehicles used in the context of business or professional activity. The flat-rate deduction applies to motor vehicles used for both business/professional and private purposes, not only if purchased but also if bought on lease, including finance leases, and rentals. VAT relating to management, maintenance and road transit expenses is deductible to the same extent of 40%.

[6] Gross of short-term transfers to dealers, for which, like other transactions, motor vehicle registration fees must be paid.

down[7] approximately 1 million units. The estimate of lost IPT revenue for 2020 is close to 400 million euro.

As for contribution items related to **motor vehicle use**, **fuel tax revenue** *(item 1)* showed **a slight decrease of 1.2% in 2019,** totalling **36.33 billion euro** compared to 36.76 billion euro in 2018, due to the combined effect of a drop in consumption and at the same time a reduction in the cost of the raw materials.

In 2019, fuel consumption in Italy showed a slight decrease (-0.6% with a total of 42.7 billion litres), despite the increase in demand for all fuel types except for diesel (down 1.3%): petrol up 0.1%, LPG up 2.4% and methane up 4.8%. This reflects the changes underway in the choices end-users are making, who are often affected by environmental constraints imposed - such as limitations placed on diesel vehicles in various urban areas of Italy - and which favour the advance of alternative fuels.

In the same year, average prices at the pump - apart from methane, which has remained steady in recent years - showed a drop compared to 2018: -1.8% for petrol, -0.7% for diesel, -6.2% for LPG. These **decreases were due to a reduction in the cost of raw materials** (except for methane, where it rose by +1.5% compared to 2018) **while the tax component (excise duties and VAT) remained unchanged and thus saw a further increase in its already large impact on the final price. (Petrol - from 63.5% to 64.3% - and diesel - from 59.5% to 59.8% - and LPG - from 39.9% to 41.3%**, while for methane the impact remained unchanged at 18.5%).

When we look at the **first ten months** of 2020, because of the pandemic, overall fuel consumption (petrol, diesel, and LPG) fell by more than 18% compared to January-October 2019 (-20.4% for petrol; -17.3% for diesel and -19.7% for LPG). As a result, revenue from taxes also fell by an estimate of more than €6.2 billion over the same period.

Tax revenues related to **lubricants** (*item 2*), in 2019 totalled **0.99 billion euro and represents a drop of 2%**, due to the combination of a slowdown in consumption[8] (-2.4% on 2018), as in the previous year, and a slight increase in lubricant prices (+0.9%), according to ISTAT data.

As the fleet ages - in 2019 the average age for cars on the road collectively was 11 years and 5 months - **revenue from VAT relating to maintenance and repair, plus the purchase of spare parts, accessories, and tires** (*item 4*) continues to increase. It closed the year **at +1.9%,** with a total value estimated at **11.15 billion euro**, compared to €10.94 in 2018.

[7] In this case, the used car market is considered net of short-term transfers to dealers, since they, unlike the final purchaser are not required to pay IPT.
[8] Source: Ministry of Economic Development

During 2019, Italians spent 33.4 billion euro (4.1% more than in 2018) on car maintenance and repair[9]. An increase in the number of cars on the road (39.54 million units in 2019, up 1.4%) and their age has increased the cost of servicing (up 1.4%)[10] and the number of services needed (up 1.2%)[11]. Given the 2019 figure, spending on car maintenance and repair in Italy is on the rise for the sixth consecutive year, following its downturn in the two years 2012-2013. The activity of maintenance and repairs of vehicles have become more and more important: in a market where, technological innovations and the use of on-board electronics are increasing, activities and repairs that take place daily in the workshops are constantly evolving and require continuous updating for the mechanics, called upon to ensure the best possible service.

Tax revenue from these services also includes those applied during the preliminary inspection and servicing of the cars. Expenditure on car overhauls resulted in an increase of 2.8% in 2019 compared to 2018, due to a rise in the number of motor vehicles needing services (+2.8%), despite there was no change in the fixed fee for overhauls (which has remained at €45 since 2007) plus additional charges (VAT, DMV fees and postage).

We remind you that, as of January 2018, garages must record the number of kilometres clocked by the vehicle undergoing the service and submit it to the database of "Il Portale dell'Automobilista" (a website that falls under the Ministry of Transport), to simplify checks and detect any attempts at mileage fraud.

Concerning 2020, in the first half of the year spending on vehicle inspections fell by 21.1% with a consequent **drop in VAT** revenue of 35 million euro[12]. This was due to the March-April lockdown and various travel restrictions the latest Simplification Decree has postponed the deadline for mandatory inspections to 28th February 2021.

At the same time, the ISTAT seasonally adjusted index for turnover in Services, specifically for wholesale trade, repair of motor vehicles and motorbikes, showed a fall of 6% in the first quarter of 2020 and 16.3% in the second quarter. Although the trend figures for the first half of 2020 are not currently available compared to the same period in 2019, we can assume that there will be a contraction of more than 10% in January-June 2020, which, in figures, could mean approximately €1.2 billion in lost tax revenue.

Taxation on **motorway tolls** (*item 5*) amounted to **€2.18 billion in 2019, an increase of 0.9%** compared to 2018. This increase was due both to the rise in the number of kilometres travelled (+0.6%) and the increase in motorway tolls (for 2019, the average increase in tolls for vehicles on the entire motorway network, calculated based on mileage, was 0.83%, one of the lowest in recent years).

[9] Source: Autopromotec Observatory
[10] Source: Autopromotec Observatory
[11] Source: Autopromotec Observatory
[12] Estimates Autopromotec Observatory

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As for the year under review, the restrictions imposed to manage the pandemic have severely affected motorway travel. According to AISCAT, in the **first 6 months of 2020,** the total volume of traffic **fell to almost 25 billion-Km compared to over 40 billion-Km in the same period of 2019 (-37.6%).** In terms of revenue, we can estimate a loss of **almost 400 million euro in the first half of 2020.**

Income from insurance **premiums for third-party liability, theft, and fire** (*item 8*) **grew slightly (0.3%) to 3.92 billion euro**, compared with 3.91 billion euro in 2018. This result stems from a fall of 0.4% in third-party liability motor insurance (2018 closed at +0.6%), and an increase of 4.5% in Commercial Motor Vehicle Insurance (fire, theft, collision), which is consistent with the positive trends seen in 2015-2018, boosted by the upturn in new car sales, albeit at a slower pace since 2014. The drop in third-party liability insurance is the combined effect of an increase of around 1.3% in the insured fleet and a fall in average premiums charged, which, according to quarterly IVASS figures,[13] will be 2% for private cars in 2019.

It should be noted that the progressive reductions in average premiums in recent years, thanks to higher revenues were also made possible by the new anti-fraud measures introduced by Decree-Law No. 1 of 2012 (Liberalisation Decree), which was converted into law by Law No. 27/2012, the implementing measure for which was then issued by IVASS in May 2015: making the displaying of insurance certificates obsolete along with payment confirmation, but **combating evasion of motor insurance using automatic controls carried out by telematic devices** (speed cameras, tutors, accesses to Limited Traffic Areas and others devices). The delivery of policies with 'bonus reduction clauses' stemming from the installation of black boxes is also having an impact on reducing insurance premiums.

According to the latest ANIA estimates, **in 2018 there were approximately 2.8 million vehicles (two- and four-wheelers) on the road that did not pay their annual insurance premium.**

Looking ahead to **2020**, during the COVID-19 crisis the government introduced some new measures, such as the **suspension of third-party motor liability**, contained in an amendment to the Cura Italia decree, while some companies applied discounts on their initiative. In the meantime, however, **insurers have collected premiums for which they will pay lower claims than initially expected (based on policy prices).**

According to data reported by IVASS, the reduction in traffic during the most severe phases of the pandemic would have generated **"average savings of between 36% and 41% per policy" for policyholders.**

Again, according to IVASS data, referring to the **first quarter of 2020**, premiums from non-life motor liability insurance fell by 5.4%, while those from ancillary policies (Commercial Motor Vehicles) rose by 0.7%. An initial estimate of lost revenue in **the first**

[13] Insurance Supervisory Authority

three months of the year - which is not exhaustive, as the total closure period continued until 18th May - **is at least 5% higher, at approximately 200 million euro.**

A new feature recently introduced regarding third-party motor liability is the so-called **family third party motor liability**, which came into force on 16th February with the introduction of the tax decree. It allows for the most favorable rating class of one of the family members to be applied to all vehicles in the same household. Also, in the event of renewal, albeit with a penalty in the event of an accident[14]. A survey[15] of more than 87,000 quotes showed that, on average, the maximum saving achieved when insuring a car with family third-party liability was 58%. However, the lockdown that began in March, less than a month after regulations were introduced, has impacted its effects by restricting the number of policyholders who can take advantage of it during its initial phase.

Finally, **parking and fines** (*item 9*) were worth **5.38 billion euro** in 2019, **an increase of 1.5% compared with 2018**. This increase is mostly **due to higher fines as of 1st January 2019 because of biennial inflation adjustments**[16], which ranged from a few euros for minor offences to tens of euros for more serious ones. **On average, fines to motorists caught in the act of violating traffic regulations increased by 2.2%.** Regarding **parking**, income is estimated to remain broadly stable, i.e., slightly up due to the rise in the number of vehicles on the road. In fact, the ISTAT NIC index for car parks showed a stable price trend in 2019: +0,1%.

With reference to fines, we remind you that Law no. 98/2013, which changed the so-called "Doing" Decree no. 69/2013, introduced the possibility of a 30% reduction in the total amount of the fine for payments made within 5 days of the issue of the notice or the deferred notification of the fine. It seems that this type of "discount", in fact, has only benefited motorists who already pay, without making the others more virtuous: in recent years, despite the increase in the number of fines imposed[17] and, in some cases, also the amount of penalties[18], there has been a loss of revenue since 2013.

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[14] The law converting the "Decreto Milleproroghe" (Thousand-Extensions Decree) has introduced a malus system that penalises in the event of an accident: if the beneficiary of the family contract with a different type of vehicle (for example, in the case of a child who uses the category of the parent's car to insure his or her scooter) causes an accident with damage exceeding €5,000, he or she could find themselves subject to an increase of up to five classes of merit when renewing their policy. The increase would only be triggered by damage of a certain amount and would be at the discretion of the insurance company.

[15] Survey by Facile.it

[16] According to the Highway Code (Article 195, paragraph 3): "The amount of the fines are updated every two years on the full amount, based on ISTAT's assessment of the variation in consumer price index for blue- and white-collar households (national average) over the previous two years".

[17] A study by the CGIA of Mestre shows an increase of +81% in road fines over the last 10 years, together with a rising percentage of drivers delaying payments: in 2016 it dropped from 52% to 39% thanks in part to the scrapping of files.

[18] From 1st January 2017, as laid down in the Interministerial Decree of 20/12/2016, the increase in consumer price index for households sanctioned by ISTAT results in an increase of +0.1% in administrative penalties under the Highway Code, which has resulted in an increase of only +0.1% for penalties over 500 euro.

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To get an idea of the amount received as a result of fines, we would like to quote a study by ImpresaLavoro, carried out based on Istat and Siope[19] data, that over the last two years (2017-2018) Italian municipalities have collected **2.95 billion euro of extra-tax revenue from households for fines, penalties and surcharges**.

Finally, it should be remembered that the **Highway Code states that at least 50% of the proceeds of fines collected from local authorities is to be used to improve road safety**, investing 25% in road maintenance, 12.5% in signage and 12.5% in roadside checks.

We recall, in closing, that according to the Fiscal Decree published on October 2019, from **January 2020 courses held in driving schools** will no longer be treated as those held in schools and will therefore be **subject to 22% VAT**, with an obvious increase in course costs for students[20].

With reference to **forecasts for the current year**, the long lockdown period, and other measures to contain the virus, such as the use of smart working, has significantly reduced the number of vehicles on our roads. Together with the current crisis and the sluggish recovery in tourism, **parking use**, both free and paid, has been significantly reduced. Inevitably, therefore, the **estimated revenue for 2020 will fall sharply compared to the positive trend recorded in 2019.**

With regard to breaches of the Highway Code, (amounts referred to in article 202, paragraph 2 of Legislative Decree no. 285 of 30th April 1992) noted during the Coronavirus emergency, a provision contained in article 108 (paragraph 2) of the "Cura Italia" decree (Decree Law no. 18/2020) and implemented on an exceptional and transitional basis, allows for the **possibility of paying the relative penalties with a reduction of 30% within 30 days from the date of notification or dispute of the violation (occurring between 17th March and 31st May 2020), instead of the standard 5 days.**

Since the lockdown period exceeded two months and there is no concrete data on which to base assumptions, we can **estimate a net loss of tax revenue for the two months in question of approximately 900 million euro.**

[19] Information system of the Ministry of Finance on the activities of public bodies.

[20] This issue originated in changes to the tax regime established on an Inland Revenue resolution in March 2019, based on a March 2019 ruling by the Court of Justice of the European Union, which had also decreed that VAT recovery covered the previous 5 open tax years (since 2014). Fortunately, the October 2019 Fiscal Decree at least sanctioned the non-retroactivity of the rule, so those who took driving school exams in the last 5 years did not have to supplement the difference in unpaid VAT.

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ANFIA – Italian Association of the Automotive Industry
Founded in March 1912, over the plus one hundred years, ANFIA's mission has always been to represent the best interests of its associate members and to ensure effective communication between Italian motor vehicle industries on the one hand and Public Administration and Italian political bodies on the other, concerning all technical, economic, fiscal, legal, statistical and quality-related issues referring to the automotive sector. The Association is structured in three product-based Groups, each one chaired by a President. Components: motor vehicle parts and components manufacturers; Car Coachbuilders and Designers: companies working in the sector of design, engineering and style of motor vehicles and parts and components for the automotive industry; Motor vehicles: motor vehicles manufacturers in general, including trucks, trailers, camper vans and unique means of transport.

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The Automotive Production Chain in Italy
5,529 companies
274,000 employees (direct and indirect), more than 7% of the employees in the Italian manufacturing sector
105.9 billion Euros of turnover, which means 11% of the Italian manufacturing sector turnover and 6.2% of the Italian GDP
76.3 billion Euros of tax levy of motorization