CHAPTER SIX

THE FINANCIAL SYSTEM OF THE AUTONOMOUS PROVINCE OF BOLZANO/BOZEN

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I. The General Framework of Financing Italy’s Regions with a Special Statute

Italy’s regions are divided into two distinct groups: the regions with an ordinary statute (hereinafter “ordinary regions”) and the regions with a special statute (hereinafter “special regions”). Apart from the fundamental constitutional differences, the two classes or categories of regions clearly differ also in their financing system. While the finances of the ordinary regions are settled in a uniform manner by the Italian Constitution (Title V Art. 119 and, with secondary importance, Art. 117) and by the corresponding national acts and decrees, the five special regions have a different finance system, each regulated by a distinct national act along with the rules given by the respective autonomy statutes. Although they have a specific financing system established by a specific state act, the regions with a special autonomy share certain fundamental features in terms of their financing mechanism. All of them, in fact, are based on the participation of the autonomous regions to the state’s tax revenue collected on their respective territory. Both the kind of taxes to be ceded to the region and the percentage of participation (or ‘cession’, if seen from the central state’s perspective) varies from region to region. Further minor revenues of the special regions flow as direct transfers from the central state budget to the special regions and from regional fees and taxes proper. However, no special region in Italy has achieved major powers to legislate and manage its own taxes, let alone to regulate a regional tax system on its own. The basic features of the Italian tax system are homogeneously set by the state on the whole territory of the state.

This finance system, based on the region’s participation in the state’s tax revenues collected on their territory, initially was in force only in Sicily (Presidential Decree No. 1074/1965) and later was extended also to the Aosta Valley (State Act No. 670/1981), to Sardinia (State Act No. 122/1983), to Friuli-Veneza Giulia (State Act No. 690/1984) and finally also to the region and two autonomous provinces of Trentino-South Tyrol (State Act No. 386/1989). In terms of tax revenues per head of the region’s population and in terms of the respective spending capacity of the autonomous bodies, this system has provided a level of resources clearly higher than the average spending capacity of the ordinary regions. In 2004, for example, the special regions, on average, could spend an overall sum of
4,856 EUR per head (6,256 EUR per head in the three northern special regions),
in comparison with the per head expenditure of the ordinary regions of 2,521
EUR per year. Of course, when comparing the finance systems, the revenues and
the expenditures of the two groups of regions, the differences in their powers and
responsibilities should always be duly kept in mind.¹

While the financing system of the special regions during the 1980s gradually
shifted from a derivative finance (direct transfers from the central state’s budget
linked to the general chapters of its expenditures) to a system based on a fixed
percentage of participation in the state’s tax revenues, the special regions gradually
lost the resources that stemmed from the direct transfers from the central state.
However, this form of direct transfer is still the major source of revenue of the
ordinary regions. The ‘phasing out’ of most of the direct transfers from the state’s
budget started with State Act No. 40/1989,² which concerned all special regions
but in a different manner. It caused, for example, the exclusion of the Aosta Val-
ley from the National Health Fund and the Fund for Regional Development. For
the region Trentino-South Tyrol and the two autonomous provinces, it produced
a straight reduction of the so-called ‘variable quota’. During the 1990s, all of the
special regions, following the new system of participation in the state’s regionally
collected tax revenue, lost the right to cash in the transfer sums from national
funds, as they could benefit from around 90–100% of the tax revenues collected
by the state tax offices in their territories. Nevertheless, today some special regions
still receive direct transfers from Rome for special development purposes, Sicily
and Sardinia being notable examples.

Table 1: Quota of Participation of the Special Regions in the
State’s Tax Revenues Collected on their Territory

<table>
<thead>
<tr>
<th>Kind of tax</th>
<th>Sicily</th>
<th>Aosta Valley</th>
<th>Sardinia</th>
<th>Friuli-Venezia Giulia</th>
<th>Trentino-South Tyrol and Provinces of Bolzano/Bozen and Trento</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10/10</td>
<td>9/10</td>
<td>7/10</td>
<td>4/10</td>
<td>9/10</td>
</tr>
<tr>
<td>IRPEG (corporate tax)</td>
<td>10/10</td>
<td>9/10</td>
<td>7/10</td>
<td>4/10</td>
<td>9/10</td>
</tr>
<tr>
<td>Local income tax</td>
<td>10/10</td>
<td></td>
<td></td>
<td></td>
<td>9/10</td>
</tr>
</tbody>
</table>

¹ Only a so-called territorial consolidated account of public revenues and expenditures can pro-
vide reliable information on the relative financial setting of a region and allow correct and fair com-
parisons. Such a consolidated account takes account of all revenues and expenditures at all levels of
government operating in a territory, eliminating each form of double counting.