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Less Assistance, More Work?

Territorial and distributional effects of Italian fiscal policies in 2022–2026

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Research questions and approach

Evaluating the main tax-benefit reforms adopted by the current government

1 **Policy scope**

Reform of **Personal Income Tax** (IRPEF).
Reform of **minimum income guarantee.**

2 **Method**

Static **tax-benefit microsimulation** using **MicroReg**, the model developed by IRPET.

3 **Outcomes**

Distributional effects by taxpayer, households income groups and labour-market composition.

4 **Territory**

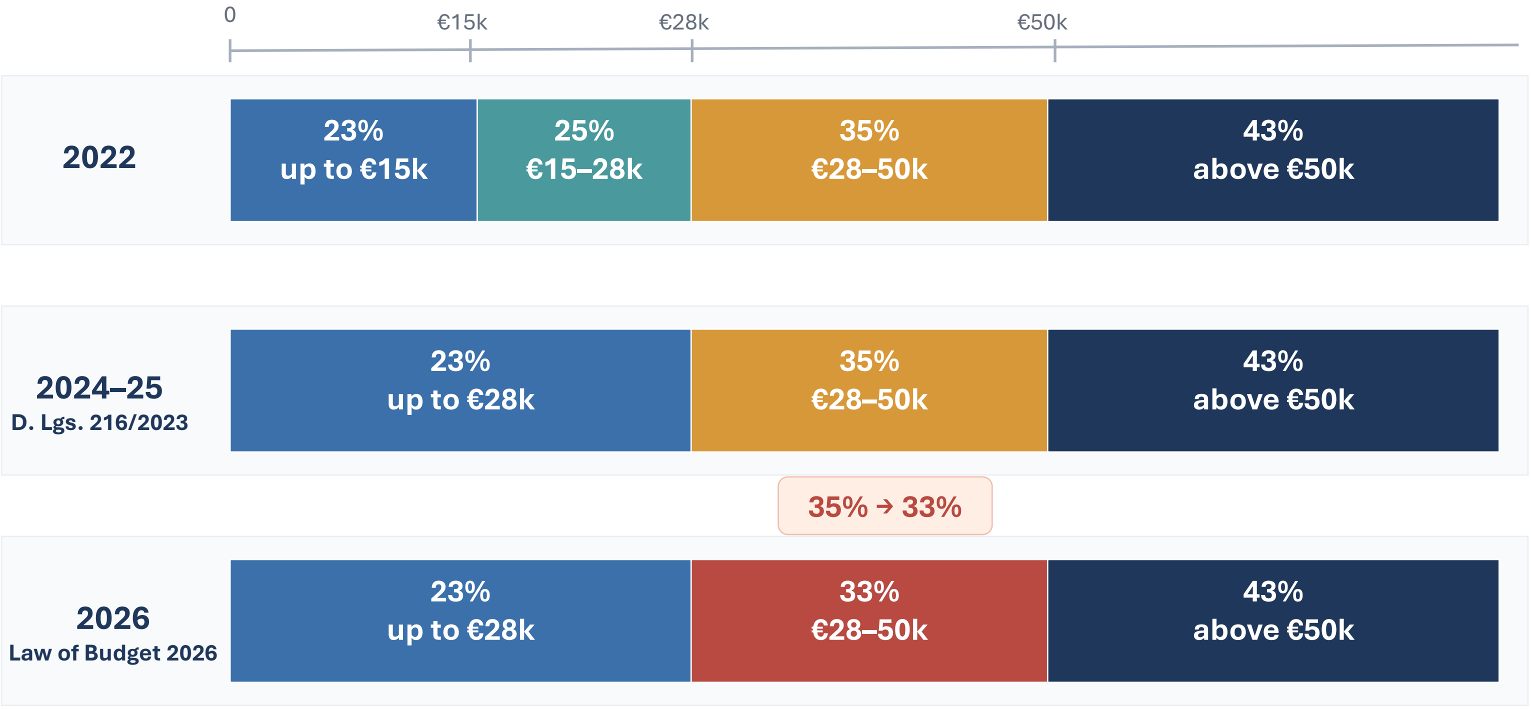
Effects by **three macro-areas**, with a focus on the interaction between poverty and tax capacity.

Fiscal rules — **MicroReg** — Families — Distribution — Territory

Recent IRPEF changes

The 2022–2026 reform through tax rates and income brackets

Tax rates and income brackets: what changes



Other IRPEF changes

Expense tax credits

Rules on tax credits become more selective for high-income taxpayers.

2024 Cap € 260 for taxpayers above €50k.

2025 Cap for taxpayers above €75k, varying by income and dependent children.

2026 Additional €440 reduction for taxpayers above €200k.

Extension of no tax area for employees

From contribution relief to IRPEF relief

How the temporary payroll-contribution cut is absorbed into IRPEF from 2025

2022–2024: temporary payroll-contribution relief	
2022 (Law of Budget 2022; D.L. 115/2022)	Up to €35k: 0.8% Jan–Jun, 2% Jul–Dec.
2023 Budget Law (Law of Budget 2023)	3% up to €25k; 2% for €25k–35k.
Jul–Dec 2023 (DL 4/05/2023 n. 48)	7% up to €25k; 6% for €25k–35k.
2024 (Law of Budget 2024)	7% up to €25k; 6% for €25k–35k.

From 2025: built into IRPEF	
Below €20,000	Tax bonus for employees • 7.1% up to €8.5k • 5.3% for €8.5k–15k • 4.8% for €15k–20k
€20,000–€40,000	**Additional tax credit of €1,000 until €32k, then gradually to zero.**
Above €40,000	**No specific replacement measure.**

From RdC to AdI and SFL

How the minimum-income scheme was split into social protection and labour activation

Before: Reddito di cittadinanza (RdC)	
Access	ISEE below €9,360; income threshold based on the equivalence scale.
Targeting	**Not limited to specific family types**.
Benefit	Income integration, with additional rent support where relevant.
Duration & path	18 months, renewable after one-month suspension; social/labour inclusion paths.

From 2024: two instruments	
AdI Assegno di inclusione	For poor households **with at least one minor, disabled person, over-60 or disadvantaged member in certified care programmes**. ISEE < €9,360 • 18 months, renewable after 1 month for 12 months • rent support possible **Equivalence scale excludes most adults under 60** without care responsibilities **Residence requirement** eased **from 10 to 5 years**
SFL Supporto formazione e lavoro	For **people aged 18–59** in poor households who are not eligible for AdI, or activable AdI members excluded from the equivalence scale. **ISEE < €6,000** • €350/month linked to training or active labour policies • 12 months, **no renewal** • no rent support

MicroReg model

A static tax-benefit microsimulation tool developed by IRPET

Input data
EU-SILC microdata updated to 2025

Missing data estimation
Gross income; cadastral values

Policy simulation
Taxes, transfers, VAT; in-kind for Tuscany

Distributional outputs
Income, poverty, Gini, territory

Simulated policies

Direct taxes	PIT, regional income tax, property taxes
Cash transfers	Minimum income, family allowance
Indirect taxes	VAT
In-kind transfers	Education, health, long-term care (Tuscany only)

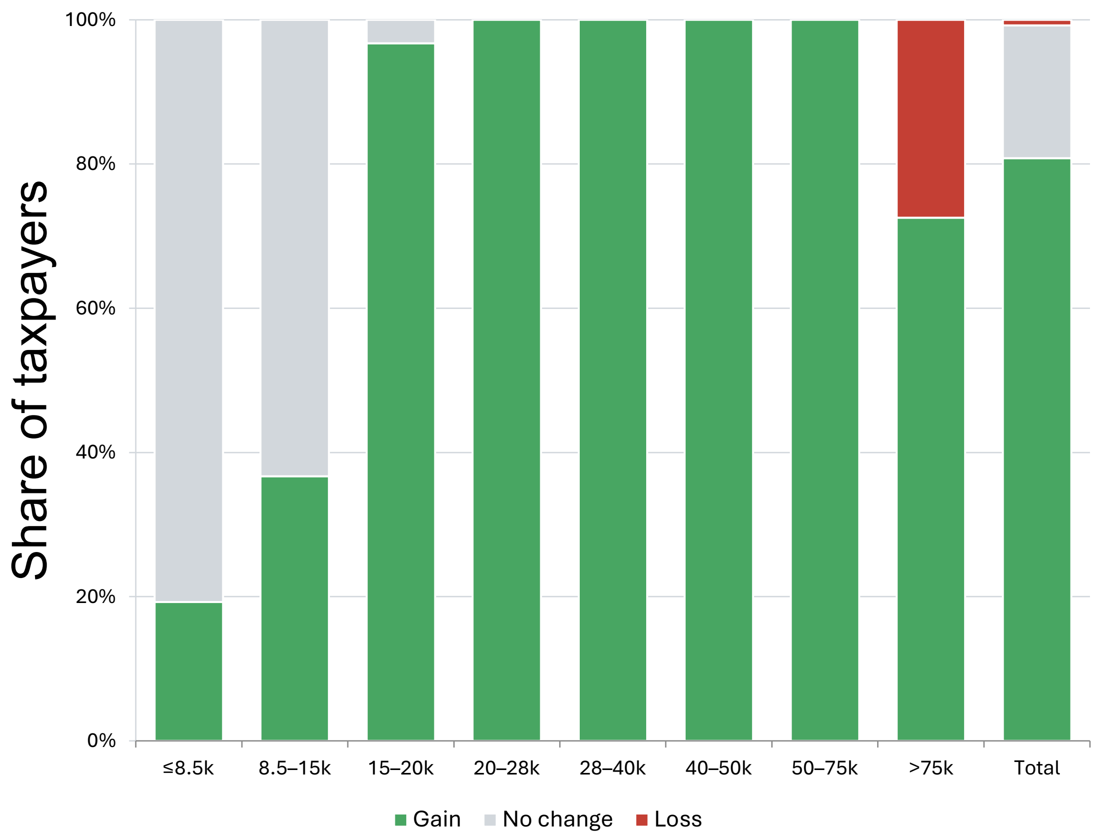
Calibration and validation

Sample weights are calibrated to make gross income estimates closer to Ministry of Finance aggregates, including the tax gap.

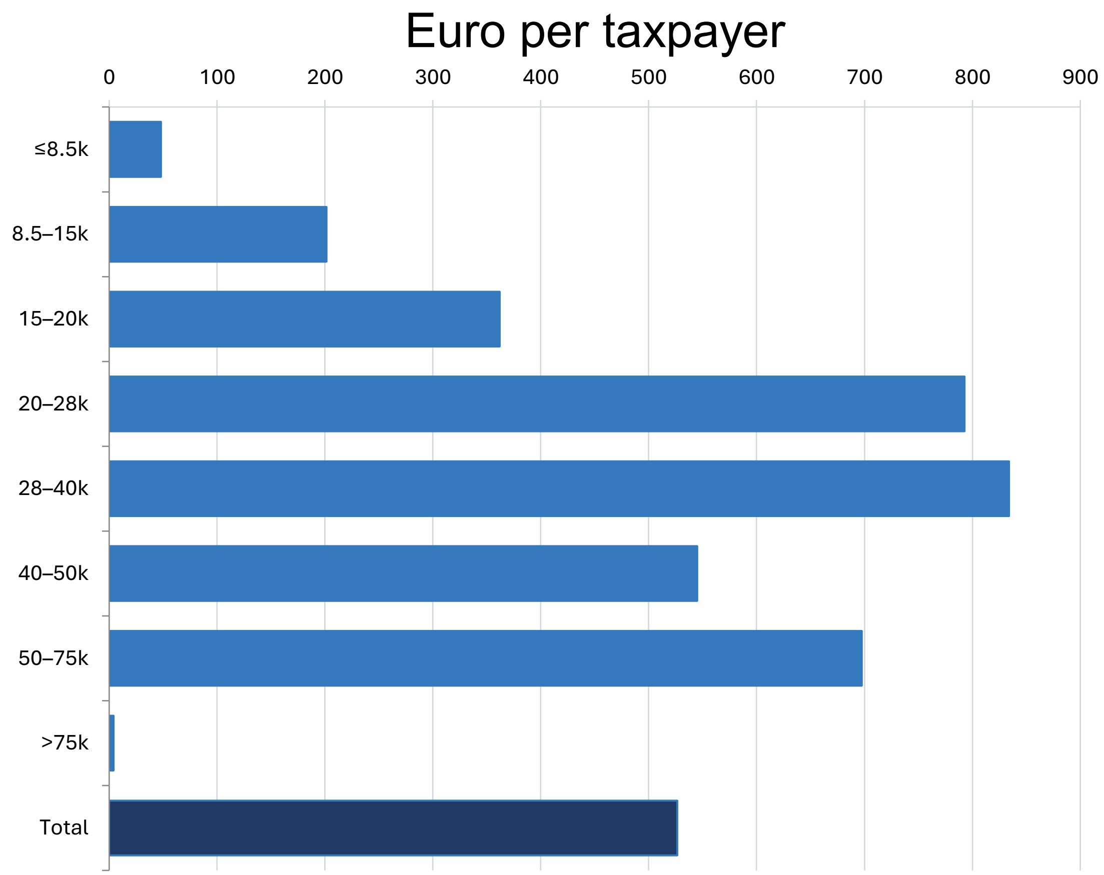
Distributional effects of IRPEF changes by taxpayer income classes

Who benefits from the reform and by how much.

Distribution of taxpayers by reform effect and total income class



Average tax reduction per taxpayer by total income class



Reduction in tax revenues amounting to **€21 billion**

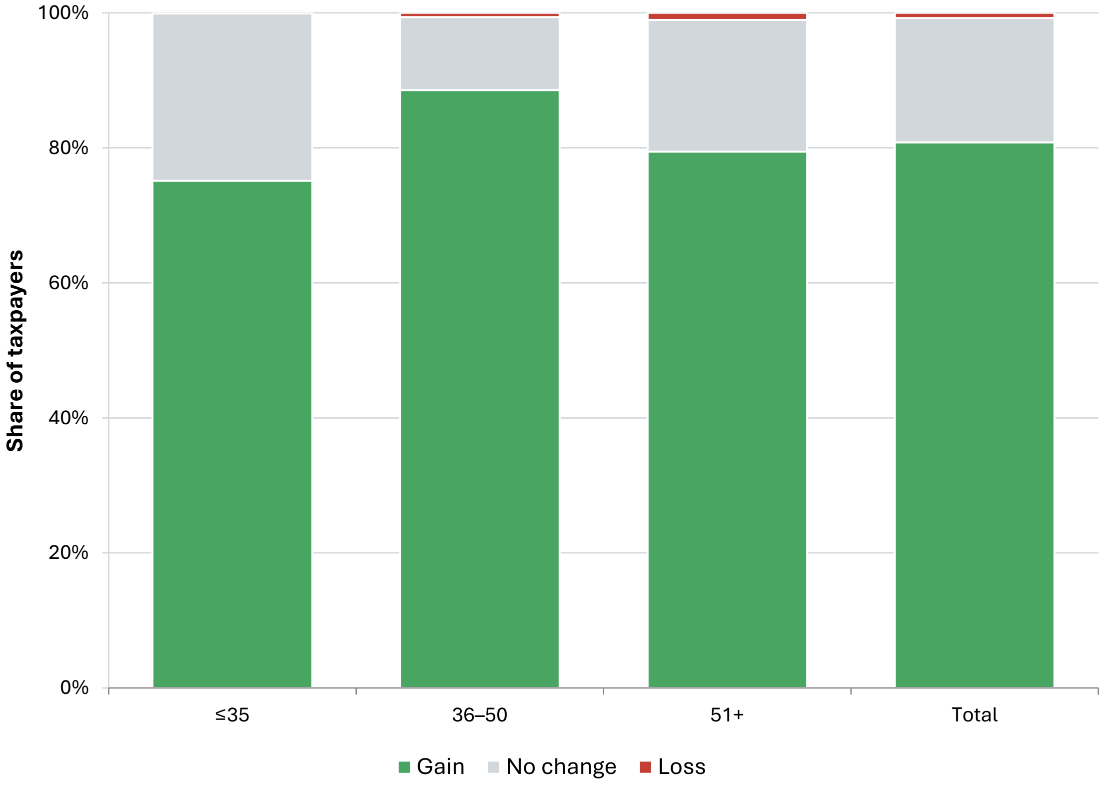
More than 80% of taxpayers **benefit** from the reform

Source: MicroReg simulations.

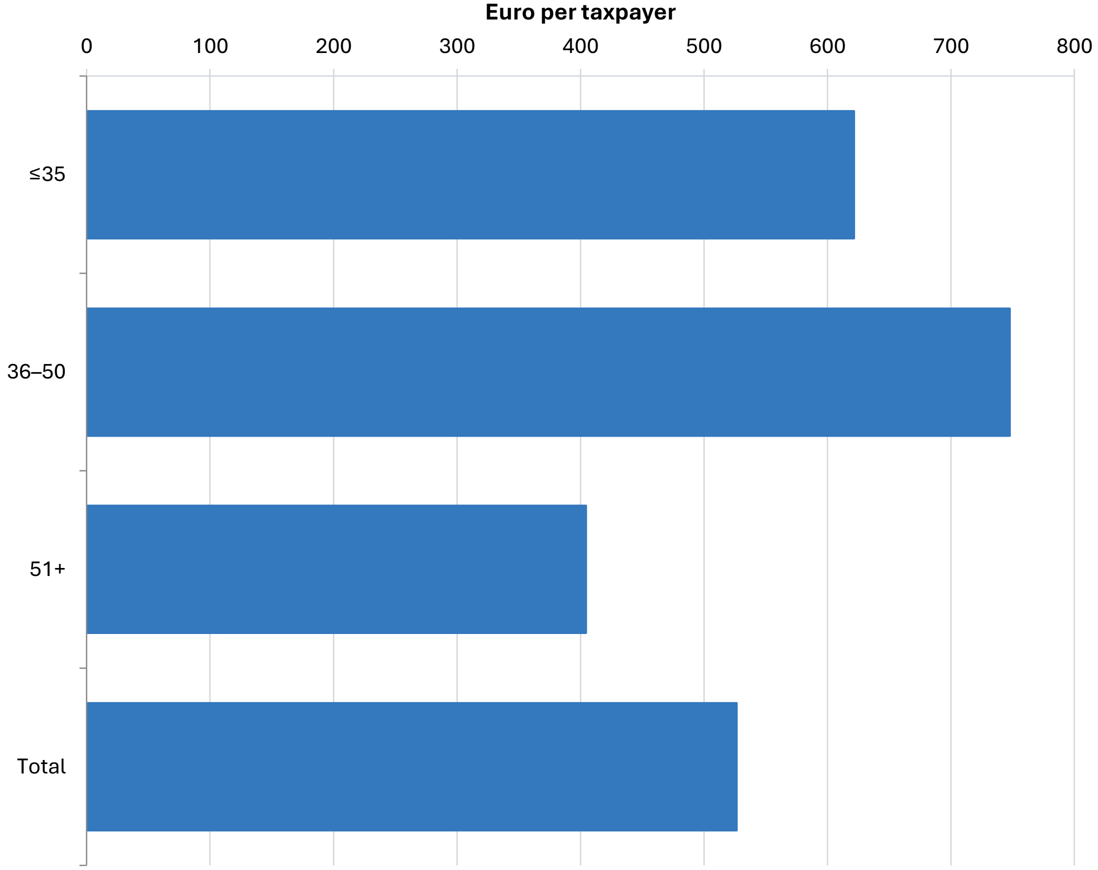
Distributional effects of IRPEF changes by taxpayer age classes

Who benefits from the reform and by how much.

Distribution of taxpayers by reform effect and age class



Average tax reduction per taxpayer by age class



Tax relief is largest for taxpayers aged 36–50 (€748).

In every age class, more than 75% of taxpayers benefit from the reform.

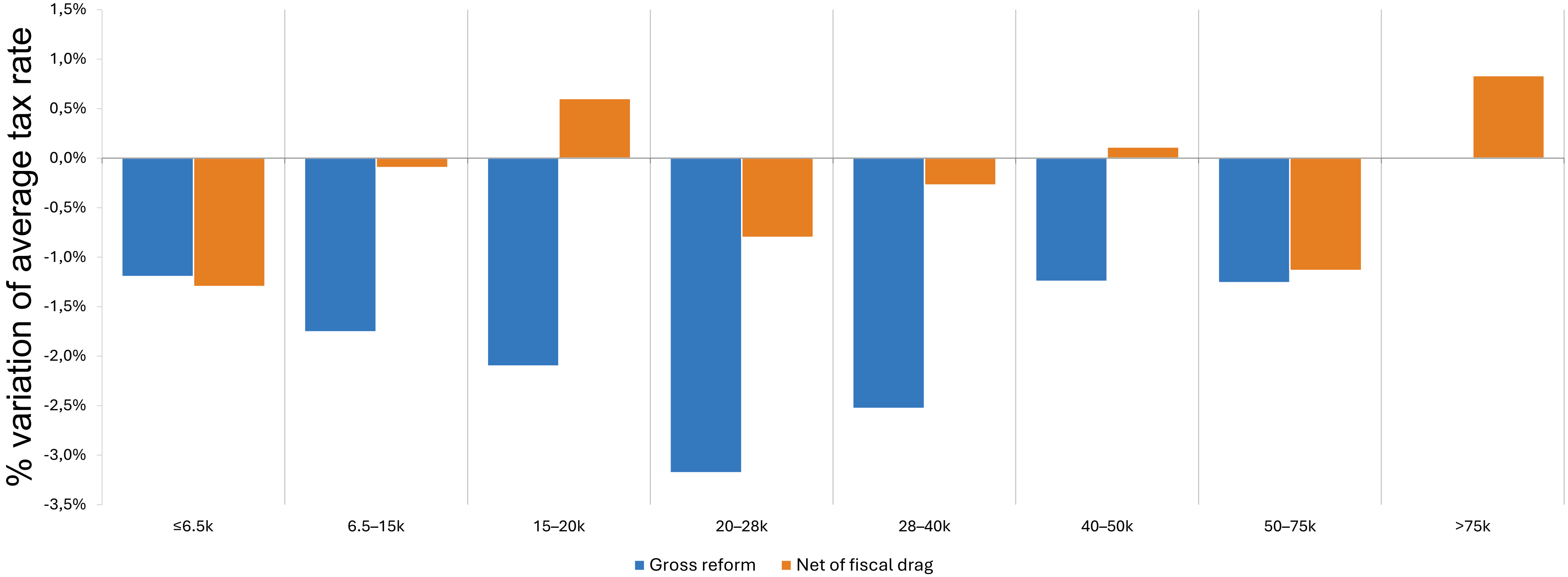
Source: MicroReg simulations.

The role of fiscal drag

The gross reform and the reform net of fiscal drag.

Gross reform
Statutory tax change **before accounting for fiscal drag**

Net of fiscal drag
Observed effect once the lack of indexation is accounted for.



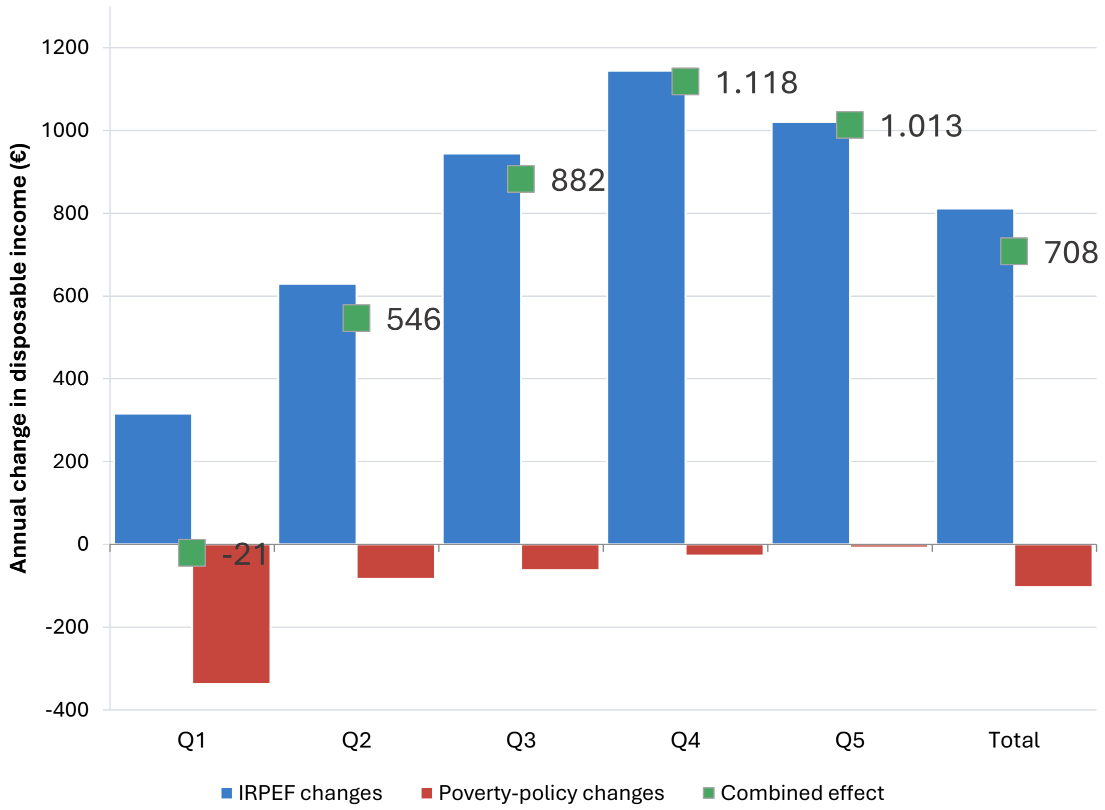
Without fiscal drag, the average tax rate falls by around 2 p.p. on average.

Taking into account fiscal drag, the average tax rate falls by around 0.2 p.p. on average.

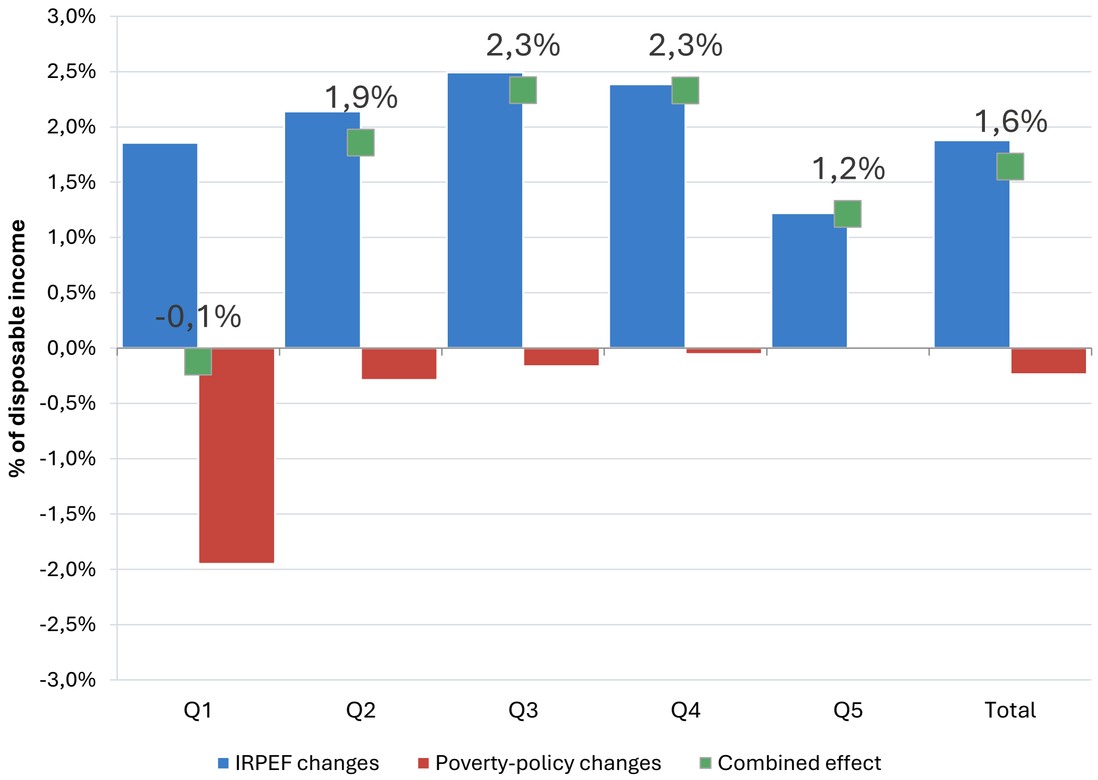
Source: MicroReg simulations.

Joint effect of tax and minimum-income reforms

Average annual effect by equivalised disposable-income quintile



Relative effect by equivalised disposable-income quintile



Resources allocated to anti-poverty measures fall nationally **from about €7.1 billion to €4.4 billion.**

The number of households receiving an anti-poverty cash transfer falls **from about 1.3 million to 772,000.**

Source: MicroReg simulations.

Absolute poverty and inequality

Absolute poverty incidence

7.4%	IRPEF 2022
7.1%	IRPEF 2026
6.4%	IRPEF 2022 + AdI
6.3%	IRPEF 2022 + RdC
6.1%	IRPEF 2026 + AdI

Gini index

0.3567	IRPEF 2022
0.3558	IRPEF 2026
0.3522	IRPEF 2022 + AdI
0.3506	IRPEF 2022 + RdC
0.3514	IRPEF 2026 + AdI

The aggregate improvement does not remove the distributional issue within the first quintile.

Source: MicroReg simulations.

Household composition and labour-market position matter

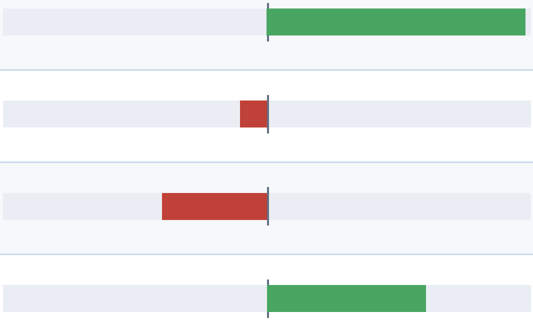
Annual change in household disposable income by component (euro)

By age composition

Household type	IRPEF	Poverty policy	Net
Majority <18 or >65	+537	-10	+527
Majority 18–64	+1054	-185	+869

By labour-market position

Household type	IRPEF	Poverty	Net	Net effect
All employees	+1218	-140	+1078	
All self-employed	+103	-214	-111	
All unemployed	+169	-604	-435	
Mixed households	+736	-74	+662	



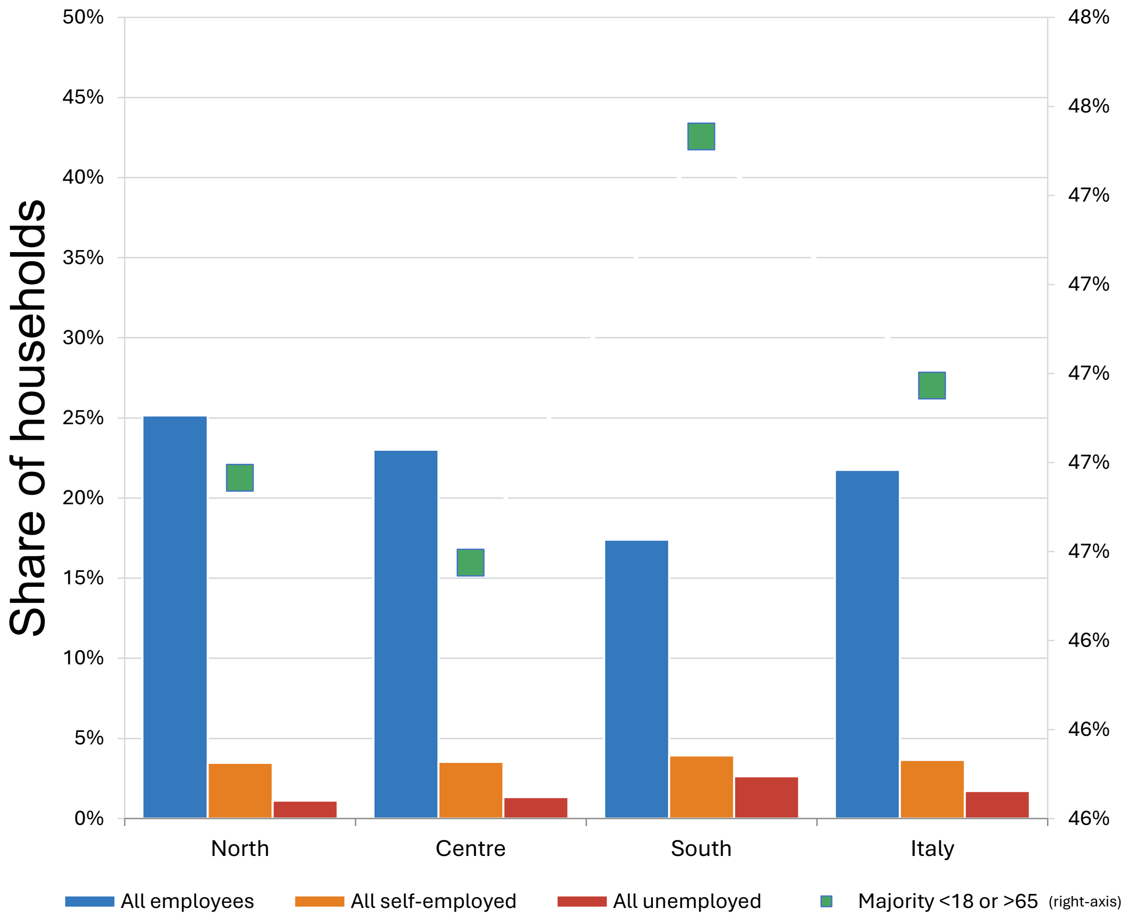
Tax relief benefits households with employees most; poverty-policy changes penalize households with unemployment or weak labour-market attachment.

Source: MicroReg simulations.

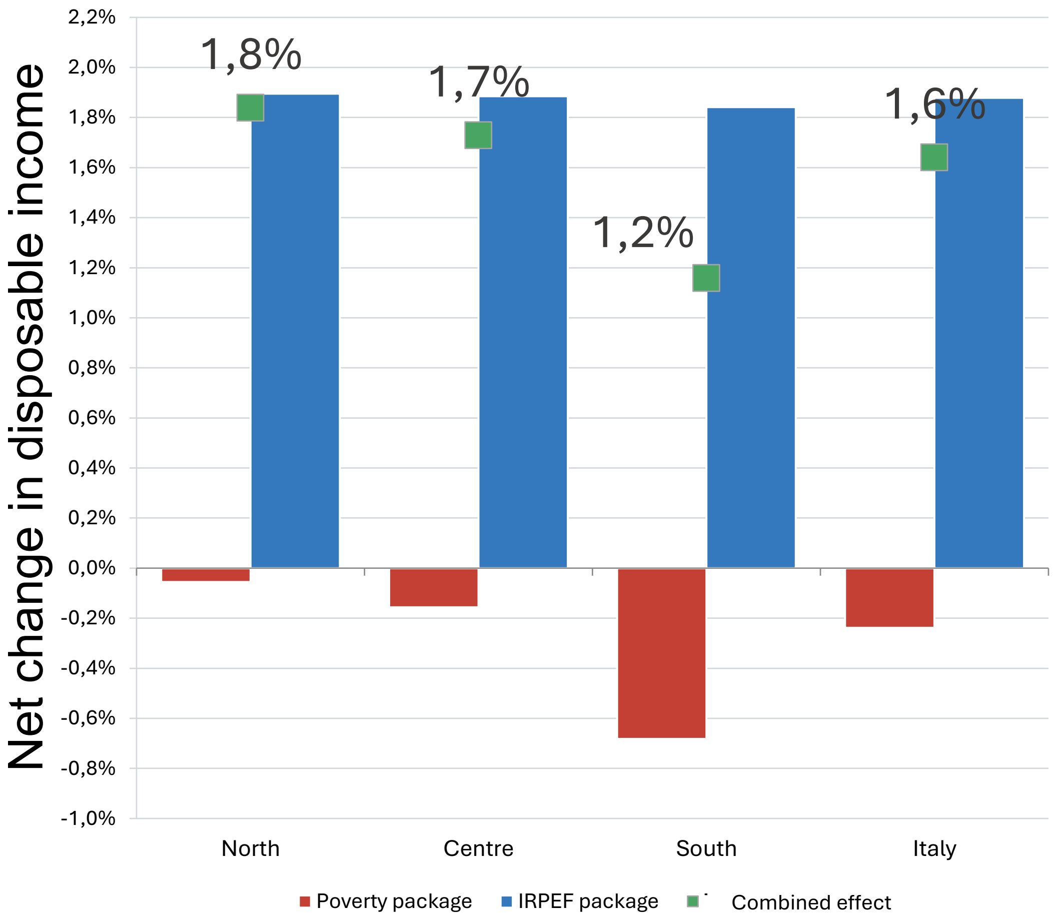
Territorial context

Territorial composition and territorial outcomes.

Household composition by macro-area



Average effect of the reform package by macro-area



Source: MicroReg simulations.

Territorial effects: the social gradient changes by macro-area

Average combined effect of the reform package by macro-area and equivalised disposable-income quintile

	Q1	Q2	Q3	Q4	Q5	Total
North	+2.1%	+2.1%	+2.4%	+2.4%	+1.2%	+1.8%
Centre	+0.6%	+1.7%	+2.4%	+2.4%	+1.2%	+1.7%
South	-1.3%	+1.7%	+2.0%	+2.1%	+1.2%	+1.2%
Italy	-0.1%	+1.9%	+2.3%	+2.3%	+1.2%	+1.6%

Loss — Higher gain

Key message

The only negative territorial-social cell is the first quintile in the South: tax relief does not offset the cut in minimum-income transfers.

Why South Q1 loses

In the first quintile, the poverty-policy effect is around −3.0%, while the IRPEF package adds only +1.7%.

South Q1 decomposition

Source: MicroReg simulations.

Conclusions

Less assistance, more work: what the simulated reforms imply

1. **The fiscal package is broadly expansionary**

   IRPEF changes and the employee tax relief **increase disposable income for most taxpayers** and **households**.

2. **The gain is not uniformly redistributive**

   Benefits are stronger in the **middle and upper-middle of the distribution**, while the poorest households gain little or lose when transfers are considered.

3. **The poverty reform is the main source of losses**

   The move from RdC to AdI/SFL **reduces the scope of minimum-income support**.

4. **Territory matters through tax capacity**

   In the South, **especially in the first quintile**, **lower taxable income limits the capacity of IRPEF relief to compensate for transfer cuts.**

5. **Fiscal drag weakens the apparent tax cut**

   Once inflation and the lack of indexation are considered, much of the gross tax benefit is eroded.

Policy lesson: tax relief and anti-poverty transfers are not perfect substitutes, especially when poverty is concentrated where taxable capacity is lower.