

# Earnings Dynamics and the Role of the Personal Income Tax: The Case of Italy

*Authors: C. Pollastri, S. Boscolo, L. Toffoli*  
(Italian Parliamentary Budget Office)

**Discussion:** A. Tomasi  
(Banca d'Italia)

*3<sup>rd</sup> Banca d'Italia Workshop on Microsimulation Modelling*  
Rome, July 4<sup>th</sup>, 2025

# The Italian context

- Earnings Dynamics: stagnation in Italy for 30 years
- Debate has become increasingly prominent again, largely driven by inflation and the erosion of household purchasing power
- PIT is the key driver of redistribution, supported by recent reforms.

More

# General comment

## Paper helps

- evaluate (gross and net) earnings dynamics by full time/part time workers; by sector and by gender
- measure and decompose of the redistributive effect with RS index, year-by-year

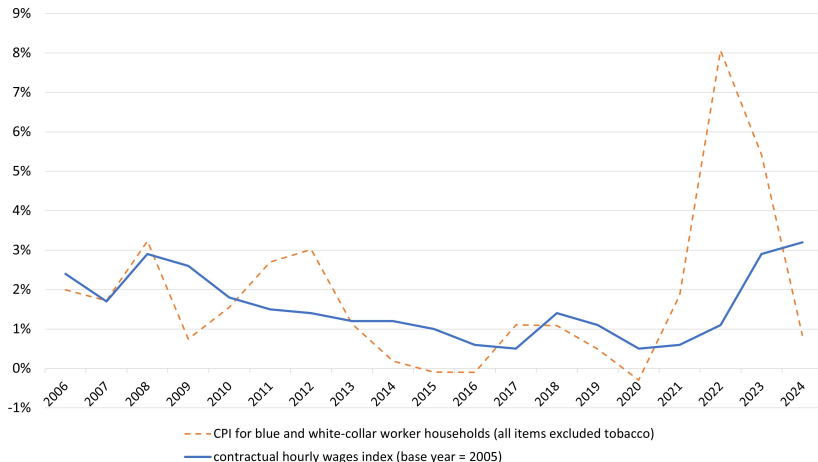
## Main findings in a nutshell

- PIT reduced the growth differentials of earnings (from -9.6% to -6.2%)
- Lower-income workers faced weaker earnings growth but benefited more from tax policies.
- Fiscal changes supported the shift toward part-time work by easing the tax burden and protecting vulnerable groups, contributing to a reduction in net income inequality during a period of weak income growth.

# Suggestions I

Fiscal drag: theoretical fiscal drag vs "effective" fiscal drag?

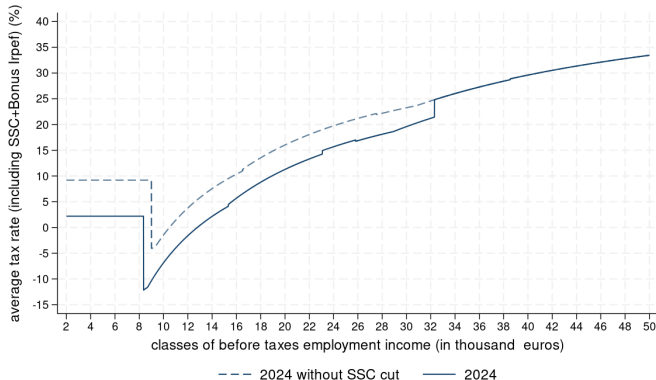
$$\Delta RS_{0,1} = \begin{cases} \text{POLICY EFFECT:} & RS[t_1(y_1)] - RS[t_0(y_1)] + \\ \text{FISCAL DRAG EFFECT:} & RS[t_0(y_0\pi_1)] - RS[t_0(y_0)] + \\ \text{OTHER EFFECTS:} & RS[t_0(y_1)] - RS[t_0(y_0\pi_1)] \end{cases}$$



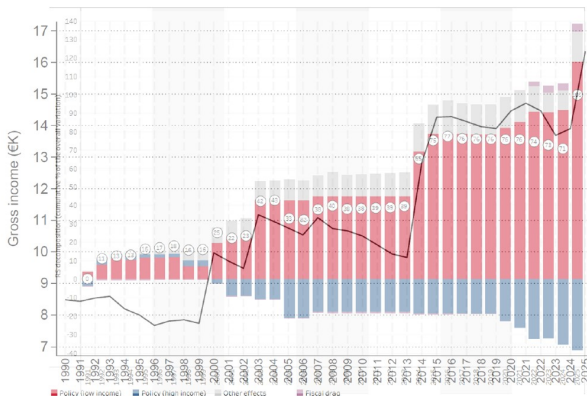
# Suggestions II

Does the analysis include the reduction in SSC introduced in 2023/2024?

- The impact on net income is not negligible



# Suggestions III

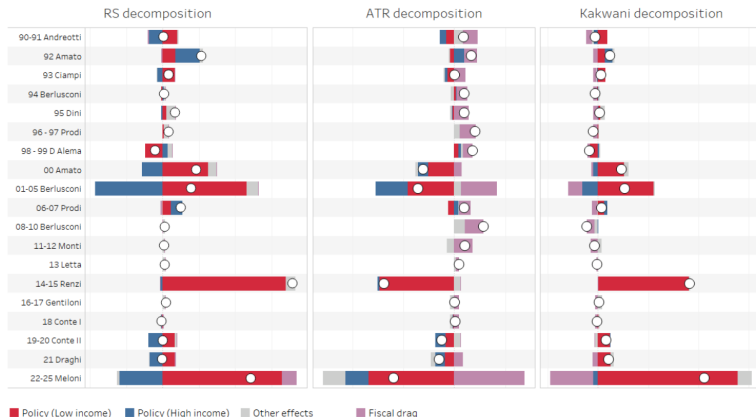


- Is it possible to disentangle the policy effects by type of PIT reform (i.e., changes in tax rates, employee specific tax credit, or the Irpef bonus)?
- What is the variation in RS assuming a tax parameter change of X euros?

# Suggestions IV

- For each Government term, it would be interesting to add the impact on public finances

## RS, ATR and K decomposition Cumulative effects by Government



# Some reflections

- Base erosion/tax avoidance: introduction of flat tax rate (*"regime forfettario"*) for self-employed
- PIT reforms can affect individuals' behavior (especially in the long run)



Congratulations on a great paper and  
thank you for the attention!

# How PIT changes in last decades

Some papers about PIT history/changes and redistribution

- Barbetta et al. (2018)
- Curci et al. (2020)
- Baldini (2021)
- Pellegrino and Panteghini (2020)
- Di Caro (2017) and Di Caro (2020)

[back](#)