

TeMA

Journal of
Land Use, Mobility and Environment

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CITIES, ENERGY AND MOBILITY

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Journal of
Land Use, Mobility and Environment

CITIES, ENERGY AND MOBILITY

3 (2015)

Published by

Laboratory of Land Use Mobility and Environment
DICEA - Department of Civil, Architectural and Environmental Engineering
University of Naples "Federico II"

TeMA is realized by CAB - Center for Libraries at "Federico II" University of Naples using Open Journal System

Editor-in-chief: Rocco Papa
print ISSN 1970-9889 | on line ISSN 1970-9870
Licence: Cancelleria del Tribunale di Napoli, n° 6 of 29/01/2008

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Cover image is from <https://www.pexels.com/photo/london-telephone-booth-long-exposure-lights-6618/>

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TeMA

Journal of
Land Use, Mobility and Environment

TeMA 3 (2015) 331-346
print ISSN 1970-9889, e- ISSN 1970-9870
DOI: 10.6092/1970-9870/3033

review paper received 7 August 2015, accepted 23 November 2015
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www.tema.unina.it

How to cite item in APA format:

Rusci, S. (2015). Council tax policies and territorial governance. Analysis and outlook of a difficult relationship. *Tema. Journal of Land Use, Mobility and Environment*, 8 (3), 331-346. doi: <http://dx.doi.org/10.6092/1970-9870/3033>



COUNCIL TAX POLICIES AND TERRITORIAL GOVERNANCE ANALYSIS AND OUTLOOK OF A DIFFICULT RELATIONSHIP

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ABSTRACT

In recent years, the dependency of local public finance from various forms of taxation related to urban development and real estate has become increasingly evident in Italy. Nevertheless, to date no organic relationship seems to have been established between fiscal policies, on the one hand, and urban planning, on the other.

This article examines the ties linking the two areas, focusing on different types of taxes and discussing the aspects that have come to influence the area of planning, with special regard to territorial competition, urban equalization, building rights and land consumption mitigation measures.

KEYWORDS:

taxation, urban planning, fiscal federalism

TeMA

有关土地使用、交通和环境的杂志

TeMA 3 (2015) 331-346
print ISSN 1970-9889, e- ISSN 1970-9870
DOI: 10.6092/1970-9870/3033

review paper received 7 August 2015, accepted 23 November 2015
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www.tema.unina.it

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议会税政策与地方治理： 一种艰难关系的分析与展望

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ABSTRACT

近些年在意大利，地方公共财政已经变得越来越依赖与城市开发和房地产相关的各形税收。但到目前为止，财政政策与城市规划之间似乎并没有建立有机联系。

本人将研究连接着两个领域的纽带，聚焦于不同类型的税收，讨论会影响规划的各个方面，并特别涉及区域竞争、城市均衡、建筑权利和土地消耗缓解措施。

KEYWORDS:

税收, 城市规划, 财政联邦主义

1 INTRODUCTION

In the last twenty years, the introduction of new local taxes, ICI and IMU in particular, has made clear the link between tax and urban policies. This link is anything but new: tax reform was an alternative to failed urban reforms already in the Sixties (Sullo, 1964), not to mention Constitutional Court decisions on pre-emptive expropriation of buildable land (Sandulli; Spasiano; Stella Richter, 2007).

In those year, taxes were seen as an instrument for the reuptake of urban income, or for the mitigation of big disparities as a consequence of land transformation. The link between the two policies is nowadays far more complex and integrated with planning instruments, because taxes on urban transformation are increasingly high and because urban planning legislation is getting more and more complex, what surely has an impact on the whole planning process.

On the other hand, the economic framework since 2007 is having an impact both on real estate market and on urban planning, with unexpected phenomena still waiting for in-depth studies (Cutini, Rusci 2015).

In such a context, governing the territory in a broad sense (i.e. with regard to the economic dimension that makes governance possible) pose the risk for fiscal and economic policies to subordinate planning choices to budget needs. This is what has already happened in the past, in times of expanding market, thanks to the possibility to partly use urban fees for local expense financing, thus converting urban expansion into a fuel for public policies. Such a phenomenon is true even today, in an abnormally long recession, with the aim to raise funds in order to comply with budget obligations deriving from European policies.

Once again it seems that in Italy territory governance still remains linked to expansive and transformative dynamics, instead of conquering its own strategical and political dimension. This leads to operating tools more oriented towards projects and space than towards programs and systems.

In a phase when urban expansion and resources for urban planning and public works cannot be taken for granted, these are the reason why territory governance risks being out of game, replaced by more specialized disciplines, pertaining to the economic and legal field, which are less able to read and organically envisage the complexity of a territory.

Beside that, urban planning policies are traditionally pro-cyclic ones: the trend is to strengthen obligations and charges during stagnation, and to deregulate and de-tax when economy is growing (Curti, 2004). Such a trend reduces the capability of urban planning to identify new strategies for emerging problems. As an example, let's simply think of the many measures which were adopted to contain land consumption (e. g., Tuscany's Regional Law n. 65 of 2014), or to capture land capital gain: the paradox is that such measures were substantially missing during the big urban and economic expansion in the Nineties.

It is therefore interesting to study the influence that all the different elements pertaining to various disciplines are having on territory governance, with a clear impact in terms of land planning and policies. In this article we analyse from an urban planning viewpoint the consequences of new fiscal instruments on planning, paying special attention not only to problems, but also to unexpressed potential in management tools: urban equalization above all, transfer of development rights, and land consumption mitigation measures.

2 TAXATION AND TERRITORIAL GOVERNANCE

Local government taxation is obviously most directly impacting on territorial governance and can be divided into two broad categories: levies relating to urban development, i.e. the various forms of building fees (urban taxation); levies on real estate, basically IMU and ICI (property taxation). A third form of contribution has come into being recently, a non-strictly fiscal one: urban equalization, which - as we shall see - shares some traits in common with more traditional levy instruments.

The adoption of fiscal federalism at council level, together with a progressive – and programmed – weakening of transfers from the State, has led to a very strong link between council budgets and real

estate: in 2012, IMU alone accounted for 30.69% of total municipal income (source: ISTAT, MEF – Ministry of Economy and Finance), thus establishing a direct dependence of local finance on economic cycle and real estate market (Ferri, Adobati 2011), as well as on urban growth as we shall see.

Urban planning taxation – meaning those charges for primary and secondary urban developments as defined in Law n. 10 of January 28, 1977 – represents a *una tantum* (one-time only) levy for building activities, according to the principle of *quid pro quo* in which a tax is due corresponding to the marginal benefit from private use of public good and services. Development charges plus a tax on construction costs – introduced by the aforementioned law – constitute the contribution to the making of a town. This link between tax (charges) and performance (works) was originally intended to exclusively cover the site development and land expropriation costs (art. 12 of Law 10/1977). However, this link has been weakening with the implementation of the law: since 2001, DPR (Presidential Decree) n. 380 allows for a part of those charges (varying between 50 and 75% in different years' budget laws) to cover current public expenditure. Many researchers (Ancillotti 2007; Agnoletti 2008; Pileri 2009; Curti 2004) think that eliminating such an earmarking of planning fees has led to promoting urban expansion, especially in market expansion times, with the risk of territorial policies being subject to budget needs, instead of strategy and sustainability goals (Curti 2004). The share of construction fees on total municipal income varies greatly depending on territorial specificity and market conditions and is quite limited if compared to other fiscal income. Let's take into exam the provincial capitals in Tuscany and Venetia (Tab.1).



Fig.1 Buildable area

MUNICIPALITY	TOTAL INCOME	CONSTRUCTION FEES	SHARE
Massa	100.171.819	1.524.856	1,52%
Lucca	99.261.485	2.959.762	2,98%
Pistoia	102.061.139	2.218.311	2,17%
Prato	223.577.386	8.052.736	3,60%
Pisa	146.951.385	6.927.818	4,71%
Firenze	717.942.846	6.870.868	0,96%
Livorno	185.702.887	8.266.554	4,45%
Arezzo	84.046.498	2.952.859	3,51%
Siena	106.017.175	2.141.037	2,02%
Grosseto	95.201.875	3.497.718	3,67%
		AVERAGE	2,96%
Belluno	33.485.810	395.387	1,18%
Treviso	90.640.667	2.883.175	3,8%
Vicenza	165.613.519	3.087.702	1,86%
Padova	350.199.886	6.061.571	1,73%
Venezia	724.533.007	11.282.233	1,56%
Verona	390.940.987	5.785.699	1,48%
Rovigo	51.899.953	838.564	1,62%
		AVERAGE	1,80%

Tab.1 Shares of construction fees on province capital budget in Tuscany and in Venetia, 2012.
(Author's elaboration on data from MEF)

In the case of Tuscany, the share of construction fees was on average 2.96% in 2012; as for Venetia, the average was 1.80%. Noteworthy values are the peaks in Pisa and Leghorn, with a share close to 5%.

The ratio between construction fees and new authorised volumes – i.e. land take, as a matter of fact – is biased by several variables (intended use, urban typology, implementing party), and by the impossibility of taking into account fees paid in the form of direct works by the entrepreneur. This practice is quite common in Italy, where the promoter is often the builder himself.

In Tuscany, the comparison between the three-year periods after and before the implementation of DPR 380/2001 does not show any discontinuity to be attributed to the possible use of construction fees for public expenditure financing.

Thus, whereas a direct influence of charge revenue on planning choices is difficult to ascertain, it is clear that a policy of urban development containment would be contrary to the needs of local governments in terms of budget resources.

In areas where urban development pressure is traditionally higher, a policy for dramatic reduction of land take – though desirable – would lead municipal budgets to default. If we take a look at the municipalities on the coast of Tuscany (tab. 2), a Region which has recently adopted very strict legislation preventing the use of agricultural land for urban development (L.R. 65/2014), average share of construction fees in municipal budgets exceeds 5%, topping well over 10% in Forte dei Marmi, Montignoso, Castagneto Carducci and Capalbio. As elsewhere in Italy, this shows the need of an integrated management of territorial governance and tax policy: otherwise, good measures of landscape safeguard risk succumbing to the need of safeguarding budgets.

MUNICIPALITY	TOTAL INCOME	CONSTRUCTION FEES	SHARE
Capalbio	5.708.595	614.691	10,77%
Orbetello	32.139.241	505.043	1,57%
Monte Argentario	22.975.938	1.426.834	6,21%
Magliano in Toscana	5.513.043	290.378	5,27%
Grosseto	95.201.875	3.497.718	3,67%
Castiglione della Pescaia	24.521.657	1.670.609	6,81%
Scarlino	9.664.598	262.970	2,72%
Follonica	30.770.633	1.558.866	5,07%
Piombino	45.291.707	984.624	2,17%
San Vincenzo	16.232.596	981.368	6,05%
Castagneto Carducci	11.227.306	1.156.158	10,30%
Bibbona	7.640.488	450.000	5,89%
Cecina	28.718.587	1.907.530	6,64%
Rosignano Marittimo	50.642.492	1.507.215	2,98%
Livorno	185.702.887	8.715.718	4,69%
Pisa	146.951.385	6.927.818	4,71%
San Giuliano Terme	35.278.817	1.261.401	3,58%
Vecchiano	9.235.785	373.360	4,04%
Viareggio	174.881.761	1.894.146	1,08%
Camaiore	47.588.999	2.862.402	6,01%
Pietrasanta	54.964.418	1.713.615	3,12%
Forte dei Marmi	33.056.332	4.403.346	13,32%
Montignoso	10.712.525	1.286.427	12,01%
Massa	100.171.819	1.514.856	1,51%
Carrara	88.690.554	1.600.022	1,80%
		AVERAGE	5,28%

Tab. 2 Share of concession fees in budget of coastal municipalities of Tuscany, 2012. (Author's elaboration on data from MEF)

Non "one-off" taxes, i.e. levies on a tax base corresponding to property stock on the municipality territory, show a completely different picture. In contrast with planning fees, income deriving from this kind of taxation is determined a priori, as linked to the quality of existing building stock in the single municipality. Its tax base is therefore less mobile and more uniformly distributed on the territory. This allows a more precise fine-tuning of tax policies, both in terms of income and investment programming.

The percentage share of property taxation on total municipal income has greatly increased in the last years, owing to a combination of higher taxes and lower State transfers. Taking into exam the same sample of towns, here are the results (tab. 3).

MUNICIPALITY	TOTAL INCOME	TOTAL TAX ON PROPERTY	SHARE
Massa	100.171.819	22.261.970	22,22%
Lucca	99.261.485	26.700.000	26,90%
Pistoia	102.061.139	22.144.619	21,70%
Prato	223.577.386	40.951.000	18,32%

Pisa	146.951.385	35.742.552	24,32%
Firenze	717.942.846	176.545.092	24,59%
Livorno	185.702.887	54.785.232	29,50%
Arezzo	84.046.498	24.507.920	29,16%
Siena	106.017.175	26.100.001	24,62%
Grosseto	95.201.875	23.393.660	24,57%
		AVERAGE	24,59%
Belluno	33.485.810	8.305.246	24,80%
Treviso	90.640.667	21.504.590	23,73%
Vicenza	165.613.519	35.863.516	21,65%
Padova	350.199.886	110.722.267	31,62%
Venezia	724.533.007	105.863.849	14,61%
Verona	390.940.987	94.171.011	24,09%
Rovigo	51.899.953	14.840.612	28,59%
		AVERAGE	24,16%

Tab. 3 Shares of property taxes on province capital budget in Tuscany and in Venetia. 2012. (Author's elaboration on data from MEF)

Average share of property income on total municipal income is 24.59% in Tuscany and slightly lower in Venetia, topping at around 30% in towns like Padua, Leghorn and Arezzo.

The Imposta Comunale sugli Immobili – ICI, similar to property tax in the UK and the USA – was introduced in Italy in 1992 as an extraordinary measure made permanent in 1993 by Decree n. 504 of 1992, as an answer to public finance crisis. After a long set of integrations and modification, it was eventually replaced in 2012 by IMU (Imposta Municipale Unica, Single Municipal Tax), by summing up the old ICI with income tax on property. Tax base for IMU has remained the same as for ICI, but with a much higher levy since the multiplier on cadastral rent raised from 100 to 160, as tax rates also were increased: tax rate was 0,4% for ICI, but for IMU it may vary between 0,46 and 1.06%.

As tax base is made up by cadastral rent, the resulting income for a single municipality depends on the nature of its real estate stock: type of property (cadastral category) and reference market value (cadastral rent) are very important in this respect. Bonuses and exonerations exist for primary residence, whereas on other intended uses taxation is heavier and generates much more tax income (fig. 2).

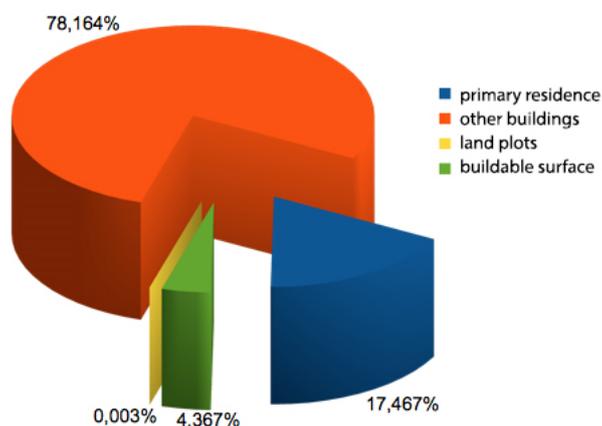


Fig. 2 IMU income distribution by cadastral category (Source: Ministero dell'Economia e delle Finanze - MEF)

This means that tax income of a single municipality is heavily influenced by the presence on its territory of intended uses other than primary residence (tertiary, production, commercial): the municipalities with more production and commerce on their territory will get higher revenue from property tax than, say, others with the same population, same provided services but less presence of those functions.

Since commercial and productive activities are more mobile and highly sensitive to tax differences (S.Piperno, S.Piazza, G. Pola 2006), local governments may have an interest in reducing tax rates in order to attract tax-paying activities, with possible tax competition phenomena.

Big shopping centres, for instance, receive customers from wider areas but contribute solely to the budget of their own municipality, even in case of a small one. They have thus a very variable impact on council finance: if we take some of Tuscany's malls (tab 4), the percentage goes from 0.33% for Centro Commerciale Aurelia Antica to higher values for bigger shopping centers (the so-called "outlets"): Val di Chiana (4,24%), or Barberino del Mugello (4,10%).

	CENTRO COMM. "I GIGLI"	BARBERINO DESIGNER OUTLET	VALDICHIANA OUTLET VILLAGE	CENTRO COMM. AURELIA ANTICA
municipality	Campi Bisenzio (FI)	Barberino di Mugello (FI)	Foiano della Chiana (AR)	Grosseto (GR)
population	45.279	10.840	9.552	81.536
total budget income	36.464.211	11.993.246	7.978.644	95.201.875
total tax income	23.577.578	7.666.010	3.578.463	60.911.333
cadastral rent	186.095,06	513.546,74	224.406,89	281.299,66
IMU rate	1,06%	1,06%	0,99%	1,06%
IMU due	113.918,09	314.367,64	151.626,13	203.506,24
share on tax income	0,48%	4,10%	4,24%	0,33%
share on total income	0,31%	2,62%	1,90%	0,21%

Tab. 4 Share of shopping malls on municipal tax income. (Author's elaboration on data from MEF)

In the above cases, municipalities decided to apply maximum rate to commercial activities, i.e. 1,06%, with the sole exception of Foiano della Chiana, meaning that there is no tax advantage. However, the relationship between highly contributing function and their location may trigger forms of territorial competition by which municipalities take the role of undertakings perfectly able to compete on the same territory (S.Piperno, S.Piazza, G. Pola 2006). It goes without saying that such competition does not necessarily lead to ideal location choices from a territorial point of view.

Even in term of tax legislation, this configures a distortion of fiscal federalism principles. Attribution to local governments of those taxes having a mobile tax base (e.g., construction fees) and an unequal geographical distribution is therefore not advisable, since this could engender phenomena of tax competition, horizontal treatment disparity and tax migration (Lattarulo 2012; Giarda 2002).

The strong link between municipal budget and nature of real estate stock even seems resilient to intermunicipal or wider area planning; on the contrary, it favours choices increasing fiscal independence of a given municipality.

In France, where this phenomenon is particularly evident, tax powers were transferred to supra-municipal bodies by the introduction of *taxe professionnelle unique*; a choice which seems quite difficult in Italy after the abolition of Provinces.

It is clear that the location of highly contributing structures goes beyond commercial and urban planning policies; policy making cannot ignore the influence of these structures on budget reality. In the past this kind of influence did not lead – at least in Tuscany – to tax competition policies, but in a future in which tax resources are bound to remain scarce it would be wise to identify instruments allowing control and integrated management of such aspects.

Beyond these two contribution modes, a third one came to be added in recent times: this is urban equalization, in a variety of possible forms in highly diversified regional models.

Urban equalization does not strictly belong to tax instruments; still, it has an impact on the public city through private sector involvement. Like planning fees, urban equalization is a one-time contribution for a development plan. Charges imposed by urban equalization vary on the basis of different local provisions and formulas: from monetary contributions (value equalization) to the more common transfer of areas or building rights (volume equalization) (Stanghellini 2013).

The classical goal of urban equalization is twofold: equality of treatment for individuals and bodies intervening in urban transformation, on one hand, and an efficient allocation of the resources it generates, on the other (Micelli 2011). In such way, urban rent can be redistributed among all owners of involved areas and a quota of this yield can revert to public sector. The different equalization formulas, which nowadays are well tested, originate from the diverse modulation of those aims.

Forfeiture and compensability of urban constraints, along with the ever growing difficulty for public finance to sustain expropriation costs at market value, have converted equalization into the normal and preferred method for acquiring public areas, a method that experienced a very quick diffusion and implementation in recent years.

Back to its two main aims, urban equalization has a double action: between individual owners of the areas to be transformed (horizontal equalization), so as to redistribute development right in an uniform way; and between individuals and public sector – vertical equalization –, by giving back to society part of urban rent through the transfer of public areas.

In the case of “horizontal” equalization we are dealing with a tool that is quite in line with the provisions of Law 1150 of 1942, whose Article 23 states that development quotas shall be distributed in accordance with land plot value, regardless of permitted uses on the areas. This form of equalization is not socially redistributive and has no influence on fiscal capability of municipalities, because the grand total remains unchanged. On the other hand, “vertical” equalization redistributes part of the yield through the transfer of areas or development rights. Vertical equalization can thus be compared to tax levy, albeit a non monetary one, as based on the *quid pro quo* principle.

It should be mentioned that, owing to its dependence on economic expansion, urban equalization in both varieties – compensative and redistributive – is highly vulnerable to market recession: if no new areas are to be transformed and economic yield remains unchanged, the *quid pro quo* between individuals and public authority cannot take place (Micelli 2011).

Urban equalization is sometimes coupled with various form of monetary equalization in order to guarantee better balance between private and public sector, or with aim-oriented forms of contribution for the execution of public works, or again with fees on added value to be used in different budget posts.

Without denying the difficulty of determining such added values – all the more in the turbulent market of a crisis time -, this latter kind of equalization seems most interesting nowadays, as it is less dependent on economic expansion and can be used in urban renewal programs. Last but not least, it can be used as an incentive or disincentive in particular urban strategies or interventions.



Fig. 3 Urban landscape

In more recent times, equalization has assumed an important role in redistributing costs and benefits of structures at an intermunicipal level. This form of equalization, called territorial equalization, does not happen between public and private sector, but between public bodies of same or different level.

As we have seen in the case of shopping malls, the presence of structures capable of capturing users from a wider area is determining for municipal finance, with possible phenomena of territorial and tax competition with no regard to efficient and sustainable spatial planning. These big structures use large-scale infrastructures, but they only contribute to their own municipality, thus completely distorting the fiscal federalism principles.

Just as urban equalization, territorial equalization as well has a double goal: firstly, it aims to equality through a correct distribution of the costs and benefits of a given structure on the territory; secondly, territorial equalization has a more economic objective, i.e. a better allocation of resources by taking advantage of all possible scale economies and agglomeration forms. Territorial equalization should therefore intervene in a very wide spectrum of disciplines: environmental, economic and financial, but also social and institutional ones (Piperno, Piazza, Pola, 2006), in order to assure coherence among different levels of governance.

Examples of territorial equalization remain very limited and mostly confined to the tax field, generally mimicking the French *taxe professionnelle unique* (TPU) by which administrations put in common those resources deriving from the productive structures they share; or even the US experience of tax base sharing (TBS), in which it is tax base what is shared. In Italy, the first example of such legislation is Emilia Romagna's Regional Law n. 2/2000, allowing the creation of mutual funds between local authorities to be financed by planning fees and tax revenue from shared structures. A similar provision was recently adopted by Tuscany (Regional Law n. 65/2014), prescribing territorial equalization for all plans on undeveloped land situated outside already developed areas. Also in this case a mutual fond is foreseen. In other Italian Regions (Venetia, Lombardy, Umbria) less explicit reference is made to equalization, which is left to negotiation and agreements between administrations (Mazzeo, Pinto 2011). Challenges in implementing

such measures derive both from the difficulty of estimating monetary compensation for environmental impact, and from the difficulty of identifying the managers of the shared resources. This latter difficulty became greater with the abolition of provinces. It is easy to demonstrate that the implementation of planning at wider area scale requires the contextual assumption of tax sharing instruments, in order to balance tax revenue and to avoid the risk of planning choices based on too high tax income expectations (Stanghellini 1999). The ultimate goal is thus to prevent forms of tax competition that would undermine institutional cooperation.

3 TAXATION OF AVAILABLE AREAS FOR CONSTRUCTION

Bearing in mind the goals of this article, building land represents an interesting element, for several reasons: first, it constitutes an intersection point between urban planning and tax and finance disciplines; besides, there is a link between planning and expansion resulting in areas for construction as an end product.; furthermore, building land is the economic factor around which urban rent is formed, thus representing the most important economic factor in the building development process. In past times, urban rent formation was the object of a lively ideological debate about taxing land added value. This debate, though, did not lead to real reforms and had the sole effect of introducing INVIM, a new tax on property revaluation (Decree n. 643 of 1972), finally abolished in 1992 and replaced by ICI, nowadays IMU.

In comparison to building taxation, whose tax base is defined by a revaluation of cadastral rent (Laws n. 662 of 1996 and 214 of 2011), taxation on building plots posed several challenges regarding both the conditions for the application of tax and the definition of tax base. The condition for such taxation depends, first of all, on the definition itself of building land for tax purposes. Such a definition was established for the first time with the introduction of ICI (art 2.1/b of Decree n. 504 of 1992): building area is defined as the “area usable for construction in accordance with general urban planning instruments, or on the basis of actual possibilities of construction...”. This definition gave rise to several interpretation problems: for instance, there was disagreement on the prerequisite for taxing, successively identified as: the need for immediate use and thus the approval of implementing acts (Court of Cassation, decision n. 21644/2004); the regional approval of the general instrument (Court of Cassation, decision n. 16751/2004); the simple inclusion of that area in the general instrument even if not yet approved (Court of Cassation, decision n. 19750/2004). In the view of such uncertainty, it was initially clarified that a given area is to be considered as buildable “when it may be used for construction on the basis of the general urban planning instrument, even if the corresponding implementing act are still pending of approval” (art. 11/M.16 of Law n. 248/2005). Subsequently, Decree Law n. 223/2006 came to add that an area is buildable on the basis of the general instrument, regardless of approval of said instrument and its implementing plans: this means that, for tax purposes, an area is to be considered buildable following the mere adoption of the strategic instrument.

Both legislating bodies and Court of Cassation (decision n. 25506 of 2006) did state that added value from urban development has its origin in the very moment when for a given area a transformation is foreseen even in a distant future.

Aside from legal interpretations, the consequence of such decisions led to a mismatch between the definitions of “buildable” in use in urban planning, on one hand, and in tax policies, on the other. As a matter of fact, if the mere adoption of a general instrument is sufficient for an area to be considered buildable and thus taxable, you need definitive approval of that general instrument, plus of operational and implementing ones, in order to have building rights confirmed on that very area. If we consider building rights as a productive cycle starting when first expenditure is made, this mismatch leads to longer timing because taxes are due sooner.

In the case of Tuscany, where a distinction between general and operational planning is made, the time lapse between start of taxation and approval of implementing plan is on average five years (fig. 4)

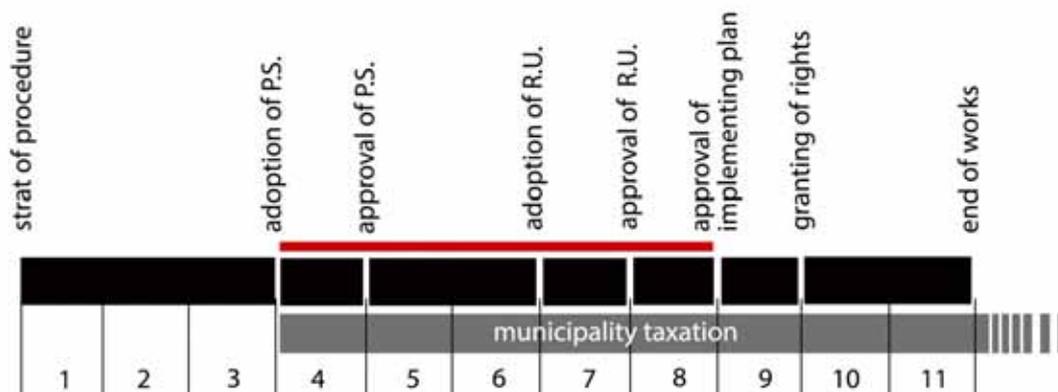


Fig. 4 Duration of planning process in Tuscany (Source: IRPET and Osservatorio permanente della Pubblica Amministrazione)

From a mere fiscal viewpoint, revenue levied in this time lapse, assuming a base rate of 0.76%, amounts to 3.80% of total value of the area, reaching 5.30% in case of maximum tax rate (a widely applied 1.06%). This is enough to erode a significant part of added value originated from the prevision of building on that land, and the erosion can become even bigger in case of further delay.

With such a definition of building land for tax purposes, time becomes an essential issue not only in terms of interest due on capital, but also – and above all – because of land rent eroding possible added value from the transformation. In economic terms, building land loses its value as shelter investment in favour of production. In a not so distant past things were different: numbers were different, and the impact of interest payments was sensibly lower than a yield whose obtainment was certain. Besides, the flowing of time didn't trigger extra costs: before 1993, transformation into building land didn't involve a change of tax regime.

This loss of value in time, plus uncertainty about land rent because of market changes, has been triggering unexpected phenomena: in Tuscany, out of a sample of municipalities (54% of regional total surface), 63% had received requests from individuals asking for revocation of building rights in areas which were already in planning instruments (Cutini; Rusci 2015).

In some cases (Altopascio, Arezzo, Bientina) this phenomenon took such proportions that public administrations have worked out specific instruments for facing revocation requests ("varianti in riduzione", variations for reduction). This phenomenon is unusual in Italy, a country where planning policies of the past fifty years were driven by a rush to transform land into building plots.

In order to mitigate distortions linked to advance tax paying, some local governments identified corrective factors taking into account specific conditions of a given area, thus reducing levy on land still awaiting development. From one side, this reduces the injustice of taxing plots which de facto do not constitute building land; from the other, a new factor of discretion and complexity is introduced in the determination of taxable values, thus giving rise to a great debate, currently still out of the courts.

IMU inherited from ICI the provision according to which the taxable value of a building plot equals its market value at January, 1st of fiscal year (art. 5 of Law 214/2011), in spite of the fact that common statistical or benchmarking data are missing. Tax determination is left to estimates, which, by their very nature, are influenced by evaluator's discretion and market fluctuation. For these reasons, local bodies were given power to autonomously determine reference values (Law Decree n. 446/1997), partly renouncing to their ability to conduct inspections if the owner accepts the estimate. Such estimate should ascertain market value keeping into account all implicit and explicit factors established by Law Decree n. 504 of 1992: geographical situation, urban parameters, intended use, charges and market prices for similar property. However, when examining municipalities' decisions, estimates often do not match market value: this is partly because defining and adapting estimates to every single transformation is objectively difficult, partly because there is

a tendency to underestimate so as to avoid possible litigation. On the other extreme, cases are given in which pre-crisis estimates are much higher than market value.

In the absence of comparable statistical data, resorting to market value is inevitable for building plots. Nevertheless, it is self-evident that such a practice involves a very volatile tax base owing to market opacity (Morano 2014) and strong fluctuations, with high costs for both estimation and inspection. Proposed solutions (Morano 2014; Ciuna 2010) are based on the definition of uniform and codified estimation methods, with the risk those methods could not match real estate quotations.

4 CONCLUSIONS

For over twenty years now, local taxation and urban planning have been regarded as two strongly interconnected areas that do not dialogue. "Taxation and new urban planning legislation" was the title of a paper presented in 1995 at the 21st Congress of Istituto Nazionale di Urbanistica – INU (Stanghellini 1999). Since then, some proposals were turned into operational measures: such is the case of equalization, ICI-IMU and tax benefits (for principal residence and for renovations); other proposals still await implementation (e.g., cadastre reform).

This debate led to overcome the idea that, in decision making, urban planning must be subordinate to local taxation or vice-versa. Nevertheless, new forms of synergy and coordination between the two areas are still to be identified.

The widespread idea that urban planning taxation remains perfectible (Lattarulo 2012) is justified by the absence in Italy of a coordination between fiscal, productive and territorial policies. To scholars, it is clear that the impact of local tax policies (which often aim to respond to short-term budget contingencies) ends up having a determining and lasting influence on space planning, especially in terms of site choice and investment forms preferred by entrepreneurs.

Our analysis casts light on two important elements, bound to be crucial in the next future. On the one hand, the relationship between urban planning and local taxation: spatial and functional choices in planning have an increasingly strong influence on municipalities' fiscal capacity, and guidelines and options in the area of taxation decide the destiny of urban planning provisions. The second element, on the other hand, is the link between local taxation and real estate market as established by fiscal federalism: both revenue from planning fees and income from property taxation (IMU) are subject to real estate market fluctuations, just as local expenditure cycles depend on real estate cycles (Curti 2004).

Territorial governance and local taxation appear today like two equal but opposite forces in local policy: environmental and social sustainability in local governance often seems to collide with financial sustainability and autonomy imposed by fiscal federalism.

If we take into exam the main topics for the urban planning agenda of the last ten years, contradictions in this relationship are self-evident: land consumption mitigation, wider area planning, territorial equalization seem to be antithetical to the needs of financial autonomy imposed on municipalities by fiscal federalism.

As shown, revenue from new development (urban planning fees, construction fees) in some municipalities accounts for more than 10% of total municipal income, thus becoming indispensable for covering current expenditure with a parallel loosening of permitted use. This tendency to linking urban programming to budget needs involves undeniable challenges; but it is also true that dramatic measures of land consumption containment, as those implemented by Tuscany in recent times, might lead in present conditions to the collapse of many local realities.

Even in the case of real estate taxation, which is far more consistent than urban planning fees, there is strong contradiction between territorial and fiscal policies. The amount of tax revenue is dependent on the quality and above all the function of property stock; the more its prestige and the greater the number of other types than principal residence (second houses, production, commerce), the higher tax revenue will be.

It is therefore clear that this strict link between special functions and tax revenue involves forms of tax competition, while hindering supra-municipal planning and the various modes of territorial equalization experimented today. If for urban planning one can envisage shared decision making between municipalities of a same geographic area, those same municipalities will be hardly open to share fiscal income deriving from location choices of wider structures.

Ultimately, gradual cross-linking between municipal revenue and property market variations in the last 20 years (Curti 2004) (this is especially true for planning fees) seems antithetical to stability in the provision of services.

The cadastre reform initiated with Delegated Law n. 23 of March, 11 of 2014 (at the moment the reform is blocked by Government awaiting local tax details) seemed to be an opportunity to establish a link between planning choices and local tax management, thanks to the proposals for a wider and richer property database, plus the correction of present cartography, thus enabling better data exchange between planning and collecting bodies. Many of the aforementioned structural challenges remain nevertheless unresolved: the relationship between rent and property market fluctuations, above all, with a clear contradiction between real market values, which are variable, and cadastral estimates, which are fix.

During these last twenty years, studies and proposals in the areas of taxation and urban planning – i.e. how to manage value added generated by planning – have aimed at two goals: (1) containment of public expenditure through fiscal federalism, making as far as possible provision of services conditional on fiscal capacity of a single municipality; (2) a fairer redistribution (private to private, private to society) of revenue generated by urban transformation, by identifying alternative formulas to those condemned in constitutional court decisions.

The building-up of a substantial urban rent from land regime has been amply studied and challenged by urban planners for over 50 years. It was the basis for the various forms of taxation in time (INVIM, ICI, IMU). This same urban rent fuelled (albeit minimally, owing to inadequate norms) changes in public town; with the introduction of equalization, nowadays it represents a reservoir for future local body resources.

Today, the goal of integrating tax and planning policies appears suddenly changed with the additional need to identify strategies for guaranteeing interventions in an economic context by which real estate investments and plans cannot be taken for granted: just think of the aforementioned example of building rights revocation requests.

This new framework, which apparently might suggest better environmental sustainability in the future, and which some people see as a desirable bursting of a real-estate bubble with no economic foundation, poses severe challenges to public authorities, because local finance and property market are so strongly linked. In this economic context, the first currency to be devalued is the urban planning one, i.e. money paid by private sector to municipalities to compensate for urban transformation through equalization and tax paying. In other words, local bodies are today business partners running the risk of sharing with the private sector losses caused by the market weakness.

Without denying the challenges posed by the private acquisition of urban rent, it is also true that in recent years we have seen a complete overturning of the economic context without a similar overturning in urban planning action and goals, which remain bound to nowadays marginal topics.

In the light of the above analysis, the link existing between local taxation and urban planning is an indisputable fact. What is still missing is a correct management of this very link by those bearing the responsibility of managing and planning. Potentially positive synergies remain thus unexpressed, and challenges stay unresolved.

An integration between tax instruments and spatial planning appears both useful and necessary to reactivate public policies capable of guiding investments and interventions, even in the absence of expansive dynamics, through forms of tax modulations taking into account the main criteria (such as energy, social questions,

location criteria etc); or through incentives and new tools for joint management at territorial scale. Quoting Robert Venturi, our challenge is to pursue a difficult whole through an inclusive process, instead of an easy whole through exclusion.

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IMAGE SOURCES

Cover image: Competition project – Spinea Italy S. Rusci, G. Ariganello, A. Cipriani

Fig. 1: Francesca Benelli 2015

Fig. 3: Francesca Benelli 2015

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