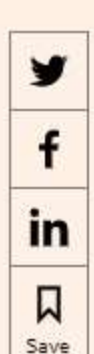


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Italy's tax credit experiment puts Meloni government in a bind

Protesters take to the streets as restrictions on pandemic-era 'Superbonus' scheme cause liquidity crunch in construction sector



Amy Kazmin in Rome 9 HOURS AGO



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Italy's pandemic-era tax credit scheme for home renovations has created a political and fiscal mess for Giorgia Meloni's government, with construction company owners taking to the streets to protest an acute liquidity crunch.

The controversial "Superbonus" programme, introduced by the populist [Five Star Movement](#)-led government in 2020, encouraged property owners to upgrade the energy efficiency of their homes with transferable tax credits to cover the costs of the work.

But after spurring a [home improvement boom](#), the scheme was tightened by consecutive governments amid concerns about fraud and the growing cost to the public exchequer. The restrictions have left thousands of small construction businesses with €20bn of frozen tax credits stuck on their books.

This week, business owners sitting on piles of unwanted tax credits marched in Rome and Genoa to express their frustration at the Meloni government's failure to find a quick solution to their woes.

"It's an emergency," said Angelica Donati, president of the youth wing of Italy's National Builders' Association. "We need to save companies that legitimately believed in this measure . . . and are now at risk of failing because they have all these credits in their fiscal drawers that they can't get rid of."

The builders' association estimates that up to 32,000 small construction companies are at risk of going bust unless the government makes good on a pledge to help them unload their accumulated tax credits.

"We have been stuck for a year," said Antonio Pagliuca, who has €1.7mn of frozen tax credits on his company's books and a working capital crunch. "A lot of companies are in difficulty: those who dedicated themselves to Superbonus projects are in dire straits."

Fuelled by the 'Superbonus', [large-scale renovations](#) were the fastest-growing sector in Italian construction, but this category is projected to decline in 2023

Investment, net of ownership transfer costs (€bn)



Source: ANCE analysis of Istat data

FINANCIAL TIMES

When launched, the Superbonus gave property owners tax credits worth 110 per cent of the cost of energy-related home improvements such as installing insulation or double-glazed windows and replacing ageing boilers. These transferable credits were often used to pay contractors, which in turn used them to pay supplies or sold them to financial institutions.

The scheme helped drive Italy's economic rebound from the Covid shock. After falling 6.2 per cent in 2020, construction investment grew 20 per cent in 2021 and 12 per cent in 2022, as property owners seized the opportunity for costly improvements at public expense.

Just 2,800 buildings a year underwent such renovations before the Superbonus, but afterwards more than 360,000 homes were upgraded.

"We had a lot of requests from citizens who without this measure could have never thought of renovating their homes," said Emanuela Contessa, co-owner of CEA Construction. Her company's revenues shot up to €3.7mn in 2021, compared with €2.5mn in 2019.

But the market for the tax credits — likened by some economists to a stealth parallel currency — broke down last year when Mario Draghi's government limited how many times the credits could be traded.



Construction workers of Glytecm Italia work on scaffolding on residential building sites in Rome © Alessia Pierdomenico/Bloomberg

Meloni's government last month imposed even [tighter restrictions](#), lowering the tax credit rate to 90 per cent and declaring newly generated tax credits non-transferable.

"The Superbonus was conceived with acceptable intentions but it was so badly written and so badly enforced that it generated huge problems that we have inherited today," Meloni said in a social media video, after the changes.

"The person who invented the scheme campaigned saying, thanks to him you renovated your house for free . . . But what the state does is never free: the money it spends is taxpayer money . . . it affects state finances," she said.

While the finance ministry called the new curbs an "indispensable prerequisite for the protection of public finances for 2023", it promised to address the "serious financial liquidity problem" of companies with frozen credits from the past.

"The most important issue now is how to let the companies survive — not to make profits — but survive," said economist Pierluigi Testa, president of Trinità dei Monti, a Rome-based think-tank.

Even before the liquidity crisis, climate change experts had complained that the relatively modest energy efficiency gains required by the scheme were not commensurate with the huge public expense.

"We have thrown a lot of money at the building sector but emissions have remained at the same level," said Luca Bergamaschi, co-founder of ECCO, an Italian climate think-tank. "It used a lot of public money for inefficient technology — and most of the money went to rich people."

Authorities estimate the Superbonus has so far cost about €110bn, or about 6 per cent of gross domestic product. Italy recently raised its [budget deficit](#) estimates for the last three years — after the EU required it account for tax credits when they are generated, rather than when utilised.

But economists warn that the final Superbonus bill could rise as companies complete accounts for 2022, and works continue, albeit at a more limited scale, in 2023. "They don't know the real magnitude of the phenomenon," Testa said.

Every four in 10 euros is spent on large-scale renovations

Investment in construction (%), 2022



FINANCIAL TIMES

Source: Ance

Companies have been left with a bitter legacy. After the initial boost, Contessa is struggling with €1mn of tax credits on her books, a collapse in demand for home improvements and skittish suppliers requiring that building materials be paid for up front.

Though she had received tentative offers to buy her tax credits at a 20 to 30 per cent discount, she has been wary of absorbing such losses. "For almost two years we have carried out works, bought the materials, paid the workers, but we have not gotten paid yet," she said.

Pagliuca said the sector's distress was visible in suspended works all over his home province of Caserta. His own company, which saw its revenues jump from €3mn to €6mn between 2019 and 2021, hopes to refocus on local public works, as it did before the Superbonus programme.

But he expects many small firms to shut in the coming months, leaving a legacy of unfinished works, disgruntled clients and unpaid bills. "They can no longer carry on," Pagliuca said. "The absurdity is that it is the Italian government that put companies in trouble . . . It's horrendous."

Additional reporting by Giuliana Ricozzi in Rome