

Expected changes to Italian taxation and focus on tax audits

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The 2009-2013 Economic and Financial Planning Document provides a general flavour of the changes expected over the few next years.

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For certain taxpayers, particularly banks, some of the changes may be expensive. However, a number of opportunities may exist for foreign alternative investors.

The banking and insurance community will be hit by two main changes:

- The first restriction introduces a limitation for banks on interest expense deductions, now limited to 97% (96% from January 2009) of the total interest amount.
- The second introduces limitations on the ability to deduct losses or provisions for bad debts: 0.3% of the amount of the outstanding receivables (previously 0.4%), with the excess deductible over eighteen years (previously nine years).

Additional tax revenues should come from the energy and oil industries, with a 5.5% add-on to the ordinary corporate income tax rate for large corporations carrying on energy and oil related activities.

Conversely, it is expected that green and alternative energy investments will benefit from incentives over the next years.

Additionally, the plan focuses on strengthening the Italian nuclear energy industry, with possible opportunities for foreign investors willing to finance this initiative.

The introduction of innovation funds, the privatisation of state corporations, the introduction of tax exemptions and concessions to support start-ups and the measures to sustain the Milan Expo 2015 may also attract foreign investors' attention.

Meritocracy, innovation and transparency are key words of the proposed reform of the public administration. There is an expectation that the international tax ruling procedures will be significantly improved, providing foreign investors with more clarity around the Italian tax environment.

The new plan aims to enhance the effectiveness of audits carried out by the fiscal authorities. The tax authorities are now more experienced in a number of areas such as cross-border reorganisations, transfer pricing, attribution of profits to permanent establishments and structured finance transactions. For foreign investors this is a call to review their current Italian operations.

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