

The effects of tax provisions on enterprises

- This note analyzes the effects of the main provisions on enterprise income taxation adopted in Italy since 2011: the new treatment of losses, the deductibility of the labour component of the IRAP and the allowance of a notional return on equity (the so called ACE, 'Aiuto alla Crescita Economica'). The analysis is carried out on the population of Italian companies by means of the new micro simulation model ISTAT-Matis (Model for the Analysis of Taxation and Incentives on Corporations) over the period 2011-2014.
- For 2014 it is estimated that the impact of the new treatment of losses will be limited. The IRAP deduction and the ACE will reduce the tax burden on corporate profits for more than half of the firms (57,3%). About one third of them will benefit from both provisions. The percentage of beneficiaries is higher for industrial firms and medium, large-sized firms, groups of firms and those based in the North.
- The introduction of these measures will involve a tax cut of 9,8% corresponding to 2,6 billion euros in 2014. The main contribution to tax debt reduction is coming from ACE (5,4%). Companies with turnover between 500 thousand and 10 million euros, those operating in the construction sector and those based in the South and in the North-east areas will be the main beneficiaries.
- The effective tax rate on before-tax-profits drops from 28,5% to 26,1% (median values), a value lower than the legal tax rate. The reduction of the effective tax rates is higher for medium-sized firms, those operating in the industrial sector, firms based in the northern regions and fiscal groups. Considering in addition the profits component of the IRAP, the median effective tax rate grows to 31,3%.
- The ACE mechanism, considered separately from the other provisions, helps the most profitable and dynamic firms, ensuring an increasing reduction of tax burden over time. In 2014, the effective tax rate for beneficiaries will decrease by more than two percentage points, to 26,2%, the same value estimated for non-beneficiary firms.

For information

Econometric studies and economic forecasts

Antonella Caiumi
ph. +39 06 4673 3610
acaiumi@istat.it

Lorenzo Di Biagio
ph. +39 06 4673 3605
lorenzo.dibiagio@istat.it