

The effects of tax provisions on enterprises

This note analyzes the effects of the main provisions on corporate income taxation adopted in Italy in the 2015-2016 biennium: the complete elimination of the labour cost for permanent contracts from the IRAP (the Italian regional tax on productive activity), the depreciations for new capital goods (the so called 'maxi-ammortamento', super-depreciations) and the strengthening of the allowance of a notional return on equity (the so called 'Aiuto alla Crescita Economica', ACE allowance).

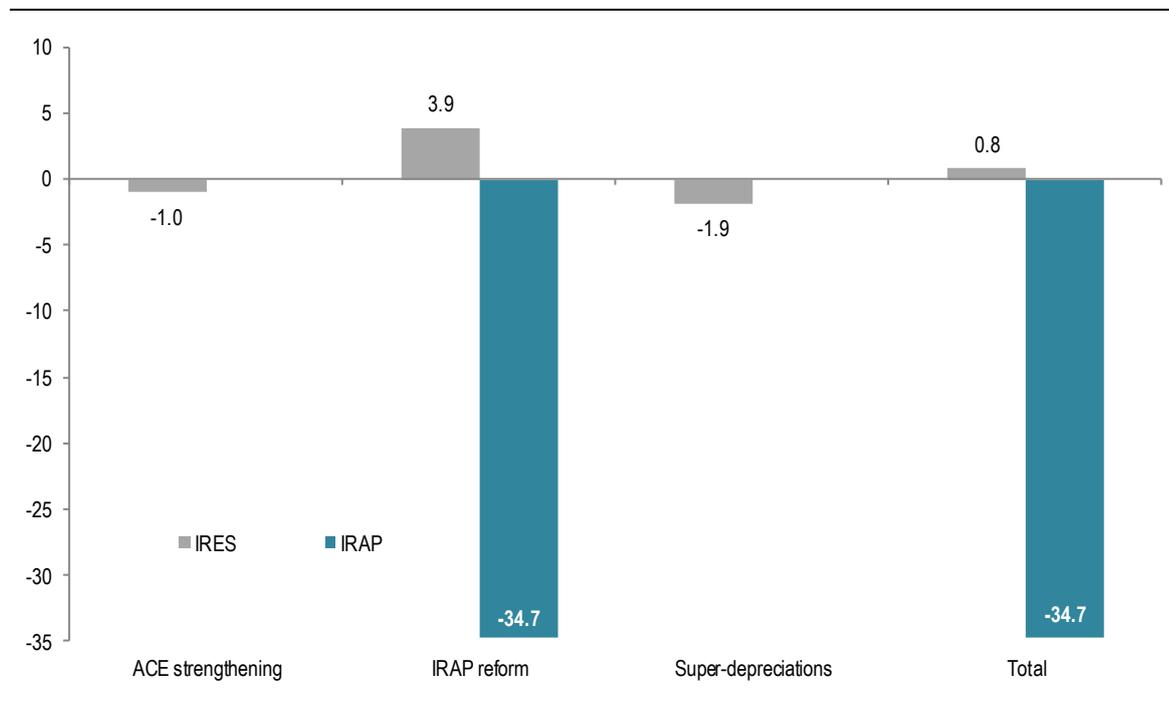
For 2016 it is estimated that the impact of the IRAP reform will reduce the tax burden for about 40% of companies. The allowance for new capital goods will affect almost 25% of IRES taxpayers (where IRES is the Italian corporate income tax). For both provisions, the percentage of beneficiaries will increase with the company size and it will be higher for industrial firms, in particular for high-tech sectors.

The cut of the labor component of the IRAP will amount to 35% of IRAP tax revenues in 2016. As a consequence of the lower deduction of the IRAP against the IRES taxable base, the IRES tax debt will rise by 3.9%. This increase will be only partially offset by tax savings stemming from the super-depreciations and the strengthening of the ACE. All the provisions will involve a tax cut of 11% of corporate taxes, IRES and IRAP, corresponding to 3.5 billion euros in 2016.

In 2016 the effective IRES tax rate on before-tax-profits will increase from 25.5% to 26.6% (median values), a value lower than the legal tax rate (27.5%). Considering in addition the profits component of the IRAP, the median effective tax rate will grow to 31%.

The historical gap in the tax treatment of debt finance versus equity is removed with the strengthening of the ACE. The ACE mechanism, considered separately from the other provisions, ensures an increased reduction of the corporate tax burden over time. In 2016, the effective tax rates for beneficiaries will decrease by more than 3 percentage points, to 26%, a value lower than the one estimated for non-beneficiaries.

FIGURE 1. THE EFFECTS OF THE MAIN PROVISIONS ON IRES AND IRAP WITH RESPECT TO THE FISCAL LEGISLATION IN FORCE IN 2014. Tax year 2016, percentage points



For more detailed information please refer to the Italian version

Contact persons:

Antonella Caiumi (acaiumi@istat.it)

phone +39 06 4673.6139

Lorenzo Di Biagio (lorenzo.dibiagio@istat.it)

phone +39 06 4673.6120

Division for data analysis and social, environmental, economic research

Istat – Italian National Institute of Statistics

Via Tuscolana, 1766 – 00173 Rome - Italy