

Tax Consulting in Italy

3 “golden” rules

1. Income tax rate is really important?
2. The role of "TIME"
3. A matter of Management?

Just a few minutes to talk about some practical ideas I have developed all along years of practice in consulting SME in Italy.

I have the feelings that in most case you have experimented the same feelings in your country and I would like to talk about that.

My hope and my target is not to say something “new” but summarize something that is “common experience”.

Income tax rate is really important? (1)

1. Newly established companies, new investments, economic activities in times of economic and financial crisis, have no profit, because their P&L show a loss or because such activities are part of groups - formal or informal - and profit - if any - is located somewhere else.

In these cases our main concern has to be not the level of income tax rate but the definition and quantification of taxable income and the focus has to be not on IRES or IRPEF (main Italian income taxes) but regional taxes and social charges which are due also in case of losses.

Special attention must be paid to the quality of relationships with tax officers and authorities because the tendency is to "standardization" of the taxable profit.

Income tax rate is really important? (2)

2. The economic activities who have revenues up to € 5 million c.a. are taxed (de facto and not per law) not on actual net income but on theoretic income calculated through statistic indexes (in Italian “studi di settore”). Taxable profit is not – as it should be – the result of actual and factual entrepreneurial activity but an abstraction based on parametric calculation. So the focus is not actual results but the “picture”, not the tax rate but the composition of the P&L.

Income tax rate is really important? (3)

All in one I emphasize the fact that very often the efficiency of the tax structure is not measured by the level of the average tax rate on the taxable income.

It is not useful to bear terrible headache to cut one or five points the tax rate when de facto is less relevant than the composition and structure of P&L.

The role of “TIME” (1)

We have the instinct to “self-picture” all tax problems and relevant tax “options” and suggestions and choices as if on a plate, as if everything was going to happen contemporary, in the same time: economic activity, calculation of taxable profit or whatever, payment of taxes, consideration by tax authorities, tax assessment amending individual declaration, litigation, tax arbitration and so on.

This is not the case

Many years (sometime decades) flow while all these activities are performed and during the flow of time things change

The role of “TIME” (2)

Changes	
Law	next favorable law could be used for our client
Management of our client	adopt solutions which are “in re” correct and not only solution who match CFO’s perspectives or wishes
Officers of tax authorities	never “adjust” tax policies or strategies to people
Instructions given to local offices by central government	we have to react immediately to new laws and rules whereas tax officers usually work on old stuff
Punitive or crime law	“amnesty” come once in a while

The role of “TIME” (3)

All in one in case in which you have to choice to accelerate or delay the “closing” of a tax matter I suggest to behave as follows:

- Your client is in good shape, the business is “going”: close the deal at a reasonable cost as soon as possible.
- Your client is not in good shape: wait and delay with all legal tool

A matter of Management? (1)

Along the past years the organizational needs of “tax consulting activity” have taken over, have become more important, than the intellectual aspects of the activity.

- Competition (not chartered entities, trade union etc.) implies low budget activities
- Obligation of electronic delivery of everything and digital storage (declaration etc.)
- Web and technological infrastructure needs
- New obligation arising from new laws are “manpower absorbing”
- Segment specialization implies more people, i.e. more rooms, i.e. more etc.

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