



Italy: Urgent economic growth measures ('Decreto Crescita')

Tax Alert

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Reintroduction of the extra depreciation regime for tangible assets (article 1)

The Decree reintroduces the extra depreciation regime for certain tangible assets.

The benefit consists in a 30% increase in the cost, relevant for tax purposes only, of investments made in new tangible assets purchased from 1 April 2019 to 31 December 2019 (the deadline is extended to 30 June 2020 if at least 20% of the cost is paid in advance by the end of 2019).

The total cap on the eligible investments is EUR2.5 million. Investments in certain assets, such as vehicles and real estate, are excluded from the benefit.

Lower corporate income tax rate when profits are reinvested (article 2)

The Decree substitutes the 'Mini-IRES' incentive introduced by the Budget Law 2019 (see our [Tax Alert of 11 January 2019](#)) and provides that net taxable income can benefit from a reduced corporate income tax (IRES) rate to the extent that profits are reinvested in the company and the net equity of the year exceeds that recorded in fiscal year 2018.

In such cases, taxable income is subject to the following reduced rates instead of the ordinary 24% IRES rate: 22.5% for fiscal year 2019; 21.5% for fiscal year 2020; 21% for fiscal year 2021; 20.5% for fiscal year 2022.

A carryforward mechanism is provided if a company does not take the benefit in respect of the full amount of reinvested profits. Special rules apply to companies subject to the domestic tax consolidation regime or transparency regime.

Implementing rules need to be issued by the Italian Ministry of Finance.

Increase in the deductibility of local real estate tax (IMU) for corporate income tax purposes (article 3)

Starting from fiscal year 2019, 50% of IMU will be deductible for corporate income tax (IRES) purposes (only 40% is currently deductible). From fiscal year 2020, deductibility will rise from 50% to 60% and, starting from fiscal year 2022, it will increase to 70%.

Patent Box (article 4)

The Patent Box process has been simplified, from fiscal year 2019. The current rules (please see our [Tax Alert of 15 December 2017](#) and the other Tax Alerts cited in it) require a compulsory tax ruling from the Revenue Agency in order to benefit from the regime. Given the highly technical skills needed to process the applications filed by taxpayers, the average time taken to decide cases has been longer than expected and certainly not compatible with the dynamics of R&D investments. As an alternative to seeking a tax ruling, taxpayers will now be allowed to access the Patent Box relief by calculating the benefit themselves. This new option can also be exercised by taxpayers who have already filed a tax ruling application with the Revenue Agency, provided that (i) the tax ruling process has not yet been completed, and (ii) the applicant notifies the Revenue Agency that it is withdrawing its application.

Taxpayers opting to calculate the benefit themselves must split the percentage of qualifying income excluded from the tax base into three equal annual instalments, starting from the fiscal year in which they exercise the option. In the event of a subsequent tax assessment, penalties for an unfaithful tax return will not be applied if taxpayers can present documentation compliant with the implementing measures to be issued by the Revenue Agency.

Tax benefit for business combinations (article 11)

To encourage business combinations, the Decree revives the so-called 'Business Combinations Bonus' ('*Bonus Aggregazioni*'), previously introduced by the Budget Law 2007. This will allow the book values of certain items (goodwill and tangible/intangible assets) to be stepped up in a merger, demerger or contribution, without any tax on the first EUR5 million of the increase. The incentive will be available for transactions concluded between the date on which the Decree comes into force and 31 December 2022.

The benefit is subject to certain conditions.

- The company resulting from a business combination must be a joint-stock company resident in Italy.
- Companies involved in a business combination must not belong to the same corporate group, or own more than 20% of the other, or be controlled, even indirectly, by the same company.
- Each of the companies must have been operating for at least two years.
- The company resulting from the business combination must not enter into further special transactions or sell the stepped-up assets in the first four fiscal years after the transaction; otherwise it will lose the benefit.

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