



Italy: New Italian VAT measures introduced by Law Decree no. 50 of 24 April 2017

Tax Alert

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Reduced term for input VAT recovery

The Decree reduces the period within which the right to recover input VAT can be exercised.

Based on the previous rules, input VAT could be recovered at the latest with the annual VAT return for the second year after the one in which the VAT became payable (i.e. when the tax point was triggered).

According to the new rules, input VAT will have to be recovered at the latest by the deadline to submit the annual VAT return for the same year in which the VAT became payable (i.e. when the tax point was triggered).

Therefore:

- input VAT incurred in 2017 that, according to the previous rules, could be recovered by 30 April 2020, will need to be recovered (according to the new rules introduced by the Decree) by 30 April 2018.

The Decree does not clarify whether the new rules on input VAT recovery apply retrospectively.

If this was the case, input VAT incurred in 2015 and 2016, on purchase invoices not posted in the input VAT ledger before 24 April 2017 (when the Decree entered into force), would not be recoverable.

This aspect will hopefully be clarified soon.

Split Payment Extension

As from 1 July 2017, the split payment regime will be extended to supplies of goods and services rendered to additional categories of Italian public bodies, to their subsidiaries, and also to the corporations listed at the FTSE MIB Italian stock exchange (Borsa Italiana).

The split payment will also apply to services supplied by self-employed persons (e.g. professionals) to the relevant categories of clients.

The split payment - first introduced in Italy on 1 January 2015 - should remain in force until 31 December 2017.

However, the Italian government has asked the European Commission for the postponement of its application until 31 December 2020.

Future VAT rates increase

The Decree provides for a gradual increase in VAT rates, as follows:

- The reduced 10% VAT rate will increase:
 - from 10% to 11,5% from 1 January 2018;
 - from 11,5% to 12% from 1 January 2019;
 - from 12% to 13% from 1 January 2020.
- The standard VAT rate will increase:
 - from 22% to 25% from 1 January 2018;
 - from 25% to 25,4% from 1 January 2019;
 - from 25,4% to 24,9% from 1 January 2020;
 - from 24,9% to 25% from 1 January 2021.

These VAT rate increases will not apply if certain budgetary targets are met.

Off-set of input VAT against other tax payables

The Decree provides that, for the VAT receivables to be off-set against other tax payables (e.g. CIT, WHTs, social contributions etc.), for an amount higher than €5,000, the VAT return must be validated by the audit firm, the board of statutory auditors or authorised tax lawyers, and the payment form (Modello F24) should be filed electronically with the Italian tax authorities.

Before the Decree became effective, the amount of the VAT receivable that could be off-set without being validated (and without the need to file the Modello F24 electronically) was €15,000.

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