Italy increases 2013 and 2014 corporate income tax advance payments and imposes 2013 surcharge on financial service companies

Executive summary

On 30 November 2013, via Law Decree 133/2013, the Italian Government increased the advance income tax payment due for fiscal year 2013 and postponed the deadline for the payment of the second installment.¹

The amount of the overall advance payment due for fiscal year 2013 has been increased from 101% to 102.5% for companies in general and from 101% to 130% for banks, financial entities and insurance companies.

The payment of the second installment originally due by 2 December 2013 is now due by 10 December 2013 both for corporate income tax (IRES, generally levied at 27.5%) and regional tax on productive activities (IRAP, generally levied at 3.9% and at 5.57% for banks and other financial entities).

In addition Law Decree 133/2013 introduced an IRES surcharge of 8.5% for banks, financial entities and insurance companies which, as a result, will be subject to a 36% corporate income tax rate only for fiscal year 2013.

Detailed discussion

Background

The Italian tax system provides that IRES and IRAP are paid in advance through two installments due in the course of the relevant year. The overall advance payment is equal to 100% of the tax due for the previous fiscal year (historical method) or 100% of the estimated tax (forecast method). The first installment is equal to 40% and the
second to 60%. For calendar year companies the first installment is generally due by 16 June (16th day of the sixth month of the year) while the second is to be paid by 30 November (end of the eleventh month of the year). Any positive balance corresponding to the difference between the tax actually due for the relevant fiscal year and the advance payments (first and second installments) is due by the 16th day of the sixth month of the following year (16 June for calendar year companies).

**Newly introduced measures**
With Law Decree no. 76 of 28 June 2013 the Government had already provided an increase in the percentage of the advance payment due for fiscal year 2013 from 100% to 101%. With Law Decree 133/2013, the Government has further increased the 2013 overall amount of the advance payment specifically for banks, financial entities and insurance companies from 101% to 128.5%.

In addition, in order to comply with the government revenue plan, the Ministerial Decree of 30 November 2013 provided an additional 1.5% increase of the advance payment for fiscal years 2013 and 2014 for all companies.

As a result of the above measures, the overall amount of the advance payment for fiscal year 2013 is now established as follows:

- 130% of the taxes due for fiscal year 2012 for banks, financial entities and companies which perform insurance activities (130% of the taxes estimated for fiscal year 2013 if the taxpayer applies the forecast method);
- 102.5% of the taxes due for fiscal year 2012 for all the other entities (102.5% of the taxes estimated for fiscal year 2013 if the taxpayer applies the forecast method).

In determining the amount of the 2013 second installment, taxpayers have to re-determine the overall amount due for the fiscal year by deducting the amount of the first installment already paid.

For calendar year companies the above-mentioned provisions established that the 2013 second installment must be paid by 10 December 2013. Entities with a different business period must settle the payment by the 10th day of the twelfth month of their financial year. Taxpayers that have already settled the payment of the second installment based on the previous percentage set at 101% must perform an additional payment within the new deadline (no interest or penalties are due in this case).

For fiscal year 2014 the IRES and IRAP advance payments should be 101.5% for all companies.

The 8.5% IRES surcharge introduced for banks, financial entities and insurance companies only applies for fiscal year 2013. However, the surcharge should not apply on the amount of the taxable base represented by non-deductible write-downs of receivables.

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**Endnotes**

1. Law Decree no. 133/2013 (Decree 133/2013) of 30 November 2013 (published the same day in the *Official Gazette* no. 281) and Ministerial Decree of 30 November 2013 (published in the *Official Gazette* no. 282 of 2 December 2013).

2. As 30 November 2013 was a Saturday, the 2013 second instalment deadline originally shifted to Monday 2 December 2013.

3. This initial increase of the advance payment was provided in order to counterbalance the lower revenues triggered by the postponement to 1 October 2013 of the increase of the standard VAT rate from 21% to 22% originally set for 1 July 2013.

4. This additional increase is aimed at recovering the lower revenues triggered by the partial elimination of the second advance payment of the real estate tax called IMU.
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EYG No. CM4021

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