National and world tax consolidation

Companies belonging to the same group may opt for the consolidation of their company income. National tax consolidation is an optional system arranged for a three-year period, to which company groups may have access. To exercise the option, the law provides for the controlling company to participate directly or indirectly in an amount exceeding 50% of the share capital and profits of the subsidiary for the year. The system consists of the consolidation of the taxable income, calculated separately by each company, which is totalled algebraically, irrespective of the percentages of participation of the different companies. For this purpose, the holding company must:

- Submit the consolidated earnings declaration, calculating the overall global income based on the algebraic sum of the overall net income declared by each of the companies participating in the system, without making any consolidation adjustment;
- Proceed with payment of the group taxation (IRES). Any excess interest payable and non-deductible assimilated costs formed by a subject who takes part in the consolidated balance sheet can be deducted from the group’s overall income if and within the limits in which the other participating subjects submit a declaration of large-scale gross earning for the same taxation period that is not fully used for deduction. These rules can be applied with reference to excesses carried forward, excluding any formed prior to entering the national consolidated balance sheet. The option is exercised by forwarding a suitable notification to the inland revenue. Companies belonging to the group and using reductions in the rate of IRES may not exercise the option.

The following requirements must also be met:
- Residence in the State of all companies participating in the “fiscal unit”;
- Identity of tax period;
- Election of domicile by each subsidiary with the controlling company.

World tax consolidation

World tax consolidation is an optional system with a five-year period, based on which a controlling company resident in Italy may consolidate the income made by all non-resident subsidiaries proportionately, for which the control requirement exists as defined by the law based on the percentage of participation held in the subsidiaries. The following requirements must be met:

- Residence of the controlling company in Italy;
- Same tax period, unless not permitted by foreign legislation;
- Inspection of the balance sheets of the controlling and subsidiary companies;
- Compulsory consolidation of all foreign subsidiary companies;
- Certification by non-resident subsidiaries of their consent to the audit of the balance sheet and undertaking to provide any collaboration required to establish the tax assessment basis and to comply with the requests of the inland revenue.

A suitable appeal should be made to the inland revenue to check the existence of the requirements needed for valid exercise of the option.