

## The 2017 Italian Finance Law makes provision for a new tax on business profits (IRI).

IRI is an "optional" tax applicable to sole traders, individual entrepreneurs, and partnerships. It replaces the normal income (IRPEF) that applies at scale rates up to 43%. The new IRI applies at the same rate as corporate income tax (IRES) i.e. 24% from fiscal year 2017 onward.

The idea behind the new regime is to harmonize the tax on business profits system through a uniform tax treatment between sole traders and partnerships (subject to IRPEF - progressive tax) on the one hand and companies on the other, to avoid the potential tax distortion involved in the choice of trading vehicle.

The new regime is optional, and applies for five tax years including the tax year in which the option is exercised. Under the regime profits will be taxed on a cash basis. This will provide a further measure of relief for small and medium sized businesses compared to companies (who are taxed on an accruals basis), especially those whose clients are slow to settle their invoices.

The reduced tax rate only applies to funds that are left in the business. Funds taken out of the business will be subject to a top-up income tax at rates going from 27% to 43%, as well as municipal and regional taxes.

Even if the option does not need to be exercised until the filing of the 2017 tax return i.e. end of September 2018 (barring any last minute changes of deadline), it will be a good idea to examine in advance the impact that the IRI option might have.

At Taxing.it we can perform an analysis to determine the equilibrium point, i.e. the amount of profit that can be withdrawn from the business to arrive at identical tax regardless of which regime is applied and the best possible taxation option so as to decide on the amount that can be withdrawn from the business to guarantee the maximum saving possible applying the IRI regime. It is also important to analyse costs to ensure that maximum relief is available.