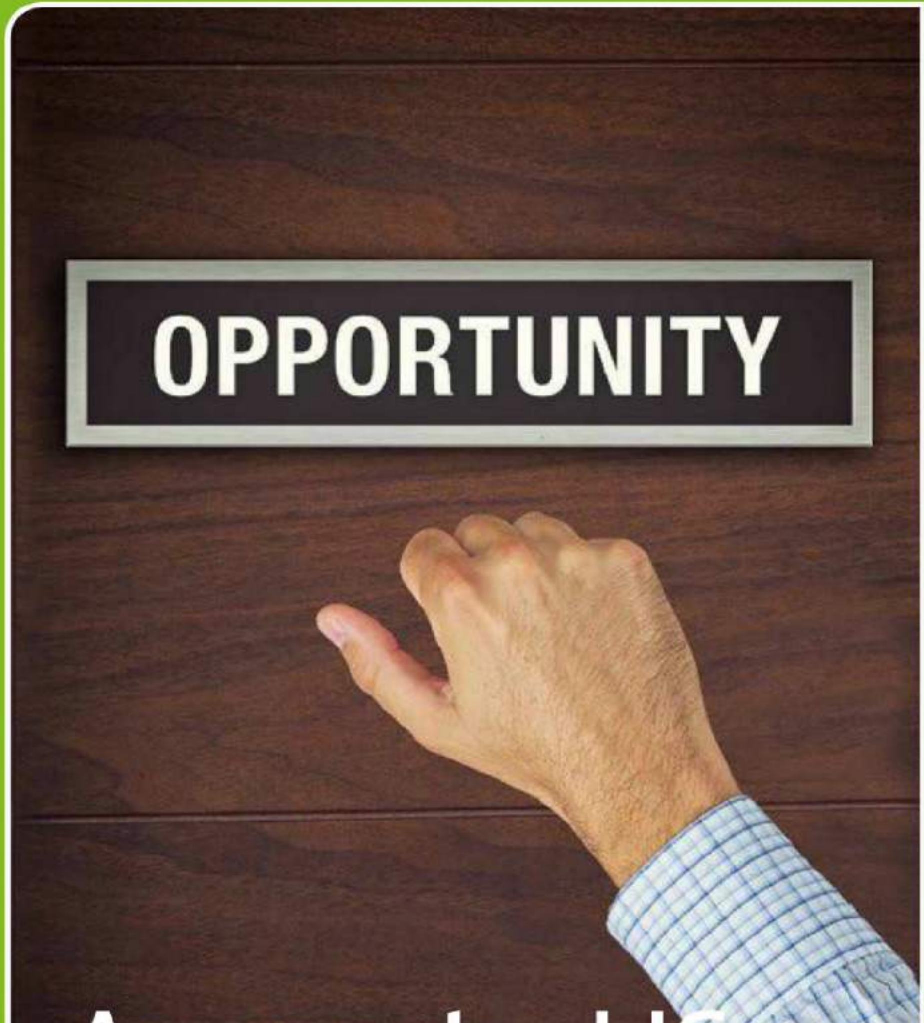
Indirect Taxes
NEWS



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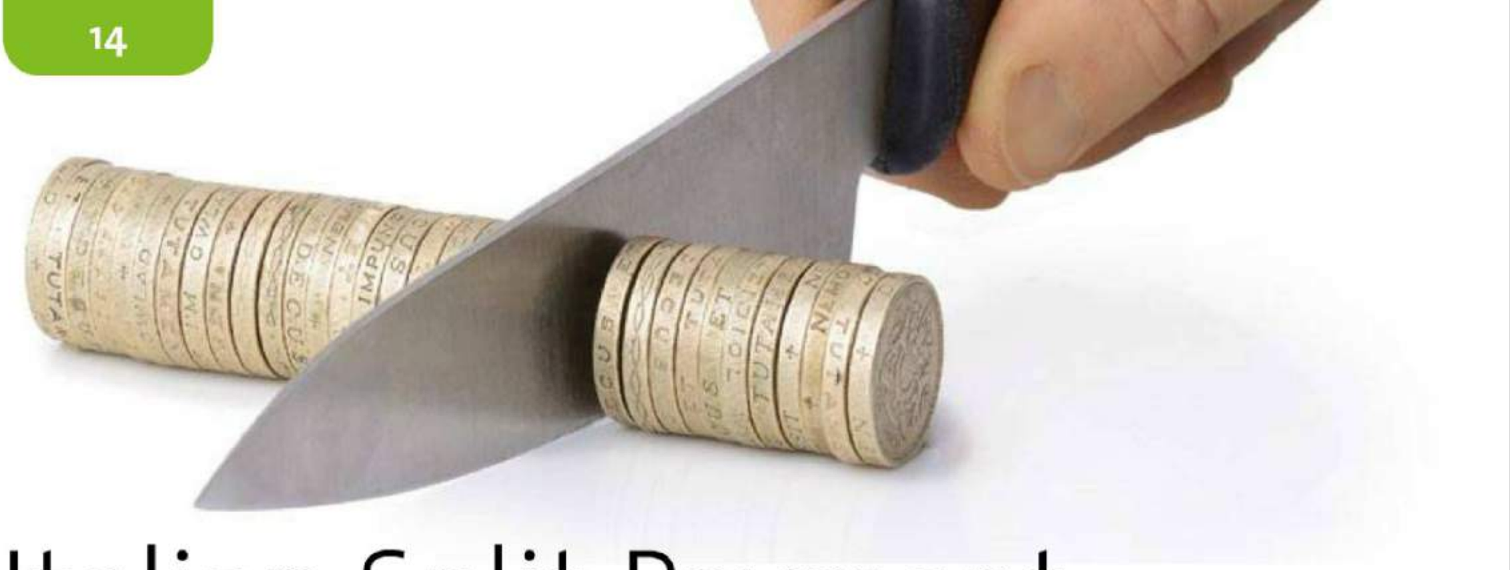

Italian Split Payment Mechanism: An Increase of VAT Credit Positions

By Francesco Milano

From 1 July 2017 the Italian Split Payment Mechanism, whereby VAT charged on VAT invoices issued to a public administration is paid directly to the tax office by the public administration receiving the invoice, has been extended to other transactions.

In particular, the Split Payment Mechanism also applies to transactions involving the issuance of invoices in respect of:

- subsidiaries of the Presidency of the Council of Ministers and Ministries;
- subsidiaries of regions, provinces, metropolitan cities, municipalities or associations of municipalities;
- subsidiaries of previous companies;
- companies listed in the FTSE MIB index of the Italian Stock Exchange

The reason behind the adoption of the mechanism is to limit VAT fraud and abuse. The adoption of this mechanism is subject to a "special measure of derogation issued by the Council of the European Union" authorising Italy to adopt the new mechanism to discontinue payments from 1 July 2017 to 30 June 2020.

The main consequence of this intervention will be an increase in VAT receivables for those who are required to issue invoices with Split Payment Mechanism, which may result in cash-flow problems, considering in particular the difficulties and long timelines required in Italy for reimbursement of VAT. These problems may also be exacerbated because of new restrictions introduced to mix the compensation of a VAT credit with other tax debts.

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Francesco Milano is a chartered accountant and has years of experience in VAT and international tax advising foreign companies with subsidiaries and branches Italy. He is also a member of the Study Commission for ICT in Business Administration of the Institute of Chartered Accountants of Milan.

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