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ITALIAN TAX UPDATE N. 2/2015

Changes in Italian Accounting Law

With Legislative Decree n. 139/2015 dated August 18, 2015, Italy has implemented the EU Directive n. 34/2013, reducing the differences between Italian GAAP and the IFRS. The changes in accounting rules affect the measurement of certain assets and liabilities and the presentation and disclosure of separate and consolidated statutory financial statements.

Even though the new provisions apply for fiscal years starting on or after January 1, 2016, they also affect the 2015 accounting information to be presented in the 2016 FS for comparative purposes.

Furthermore, the changes also affect the calculation of taxable income for IRAP regional income tax purposes, which is based on adjusted EBIT resulting from *current* presentation of financial statements.

This means that businesses need to reconsider their procedures for preparing and presenting the annual statutory accounts, and possibly adjust their chart of accounts.

Please find below a high level overview of the most relevant changes.

A. BALANCE SHEET

1. Substance over form

In general, financial information is reported based on substance rather than form. A notable exception is represented by leases, which are still accounted for as off-balance sheet transactions, with disclosure in the notes of the effects of the leases on a lessee's financial statements.

2. Investments in own shares

Investments in own shares are no longer presented as assets, but are deducted from the net equity as a negative reserve.

3. Research and advertising expenses

Research and advertising expenses can no longer be capitalised. Any net book value carried over from previous years must be recognized as a cost in fiscal year 2016.

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4. Development costs

Development costs must be amortised over their estimated useful life or, if this cannot be estimated, over five years.

5. Goodwill

Goodwill must be amortised over its estimated useful life or, if this cannot be estimated, over a maximum of ten years.

Full disclosure of the amortisation method must be provided in the notes.

Amortisation of goodwill carried over from previous years remains unchanged.

6. Amortised cost

Amortised cost is the measurement basis for investments in securities and long term receivables and payables.

Accounting treatment of these items carried over from previous years remains unchanged.

7. Derivative financial instruments

These must be measured at fair value and presented separately in the assets/liabilities.

8. Fair value

The concepts of «financial instrument», «derivative financial instrument», «fair value», «related party» and «generally accepted measurement model and technique» have the meaning indicated in the IFRSs endorsed by the EU.

9. Loans to directors and supervisory officers

These must be reported separately in the balance sheet and full disclosure must be provided in the notes.

10. Intercompany transactions

Investments in less than 20% of the share capital in entities of the same group must be reported separately as fixed or current assests.

Receivables/payables from/to entities of the same group which are not participated by or owners of the Italian company for 20% or more must be reported separately.

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Previously, only receivable/payables from/to parents or subsidiaries owning/owned for 20% or more did require a separate presentation.

11. Cash flow hedging reserve

A specific net equity reserve must be recognized in connection with the hedged expected future cash flows.

12. Memorandum accounts

Memorandum accounts must no longer be presented in the balance sheet. A disclosure of the underlying transaction must be reported in the notes instead.

B. INCOME STATEMENT

1. Intercompany transactions

Costs and revenues arising from transactions with entities of the same group which are not participated by or owners of the Italian company for 20% or more must be recognized separately. Previously, only costs and revenues arising from transactions with direct parents or subsidiaries did require separate presentation.

2. Changes in value of financial liabilities

These items must be presented separately as financial charges. Previously, separate recognition was only required for changes in value of financial assets.

Changes in value of derivative financial instruments must also be reported separately.

3. Extraordinary income and charges

These items must no longer be presented separately. Disclosure is required in the notes about income and charges which are extraordinary in respect of their amount or nature.

Since extraordinary income and charges are not taxable/deductible for IRAP regional tax purposes, they must still be identified, and possibly accounted for separately, in order to make the appropriate adjustments in the tax return.

C. CASH FLOW STATEMENT

Cash flow must be presented in a separate statement and no longer in the notes.

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Smaller companies which present the accounts in the simplified version are not required to prepare the cash flow statement.

D. NOTES TO THE ACCOUNTS

The following additional information must be disclosed in the notes:

a) warrants and options issued
b) nature and effects of relevant facts occurred after year end
c) name and registered address of the highest consolidating entity, and place where the consolidated accounts are available
d) name and registered address of the lowest consolidating entity, and place where the consolidated accounts are available
e) proposal of allocation of net profit or loss
f) disclosure on assets and liabilities measured at fair value, including basis for measurement
g) changes in value of assets and liabilities measured at fair value
h) changes in fair value reserves.

E. MATERIALITY

Requirements of presentation, measurement and disclosure of transactions do not apply when their effects on a true and fair view of the entity's assets, liabilities, financial position and profit or loss are not material.

The criteria used for identifying non-material transactions must be disclosed in the notes.

F. ABBREVIATED ACCOUNTS

Entities not exceeding two of the following limits for two consecutive fiscal years are allowed to present abbreviated accounts:

Revenues:	€ 8,8M
Assets:	€ 4.4M
Employees:	No. 50

Such entities have the option of measuring the value of securities at cost, of receivables at the expected collectible amount and of payables at face value.

They are not required to prepare the cash flow statement and the directors' report.

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G. MICRO-ENTITIES

Businesses not exceeding two of the following limits for two consecutive fiscal years are regarded as micro-entities:

Revenues:	€ 350K
Assets:	€ 175K
Employees:	No. 5

Such entities are allowed to present abbreviated accounts and are not required to prepare the cash flow statement, the notes and the directors' report.

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