Corporate Effective Taxation in Italy using a new microsimulation model: Istat–MATIS

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Abstract

In this paper we present a new microsimulation model (Istat–MATIS) founded on corporate tax return data and we provide a comprehensive analysis on the implications of recent corporate tax reforms on the effective tax burden distribution for Italian corporations. Our database covers the whole popula- tion of limited-liability firms thus allowing for conclusions on the revenue impact of tax changes. We consider the new treatment of losses, the extended deduction of IRAP from IRES and the newly im- plemented 'Aiuto alla Crescita Economica' (ACE, Aid to Economic Growth). In year 2014 we reckon that the impact of the new treatment of losses is low, while the IRAP deduction and the ACE reduce the tax burden on corporate profits for over half of the companies (57.3%). Among these, about one third benefits of both provisions. The new ACE lowers the average corporate tax rate at an increasing extent. The percentage of beneficiaries increases with firm size, however the tax cut is higher for small-medium sized firms than for larger companies. The analysis shows that corporations with high profitability, low financial ratio and low capital intensity are favored by the current tax system. In contrast, the effective tax burden on corporations with high financial ratio is comparably higher.

Keywords: Tax treatment of losses; Allowance for corporate equity; Corporate taxation; Mi- crosimulation