

Allowance for corporate equity (Ace)

AT A GLANCE

ALLOWANCE FOR CORPORATE EQUITY (ACE)

Aim: promote the recapitalization of undertakings and mitigate the different tax treatment between companies funded with debt and others funded with equity

Qualifying equity increases: equity contributions and retained earnings

Benefits: deduction from corporate income taxable base, corresponding to the net increase in the “new equity” multiplied by a fixed rate (2.3% for FY 2017 and 2.7% for FY 2018 and thereafter)

What is it

The Allowance for Corporate Equity (ACE, also known as Notional Interest Deduction – NID) is a tax incentive introduced to promote the recapitalization of undertakings and to mitigate the different tax treatment applied to companies funded with debt and others funded with equity. The qualifying equity increases may be inclusive of equity contributions, retained earnings (with the exception of profits allocated to a non-disposable reserve), shareholders credits' waiver.

Who can use it

- Resident companies
- Individual resident entrepreneurs
- Resident partnerships

- Other commercial resident entities
- Permanent establishments in Italy of non-resident companies

Benefits

The Ace benefit entails a notional deduction from corporate income taxable base; the deduction corresponds to the net increase in the “new equity” employed in the entity (meaning the equity generated after 2010), multiplied by a rate yearly determined annually (which is 4.75% for FY 2016, 2.3% for FY 2017 and 2.7% for FY 2018 and thereafter).

Under Italian legislation, unused ACE basis may be:

- carried forward in future fiscal years;
- transferred to the fiscal unit, wherever the company is part of a tax group;
- transformed into a tax credit to be offset against Regional Tax on Production Activities payments, made in five installments of the same amount.