



# Italian Tax Authorities Challenge Internet Corporations' Business Models

By Prof Dr Roberto M. Cagnazzo

The Italian Tax Authorities have accused Google, Amazon and Facebook of tax avoidance. According to the Authorities, these internet giants have set up hidden permanent establishments in Italy and escape the payment of the taxes due in the country.

Internet firms utilise a tax avoidance scheme to operate in Italy and to shift a large portion of their profits to low or no tax jurisdictions in order to reduce their overall tax burden. It consists of setting up two corporations: the first one in Italy that provides commercial/marketing services within the group and the second one in Ireland that sells advertising on the internet to the final customers in Italy. The Italian subsidiary, with its low profits, is subject to ordinary taxation in Italy. The Irish subsidiary, with its highly profitable business, is subject to a significant lower effective taxation due to use of the "Double Irish with a Dutch Sandwich" scheme (a combination of Irish and Dutch companies to shift profits to low or no tax jurisdictions).

According to the law, a permanent establishment may exist in a country by virtue of the activities carried out. Since the personnel of the Italian company

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**Studio Tributario Cagnazzo** is a "boutique" firm mainly focused on providing integrated tax advice and assistance all over Italy to corporations, banks, multinational groups and high-net-worth individuals on a wide range of domestic and international tax and corporate issues. The company provides its clients with specialist knowledge for strategic advice that ranges from

corporate tax systems to extraordinary financial transactions, such as domestic and cross-border reorganisations, IPOs, take-over bids, and M&A.

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managed all the agreements with the Italian customers, even if the agreements were formally signed in Ireland, the Authorities accused the companies of having a hidden permanent establish-

ment in Italy and asked them to pay taxes on the profits shifted to Ireland. The internet firms have agreed to pay heavy fines in Italy to settle these long-running investigations.