

Issued by Italian Minister of Economy and Finance

Guidelines for the Application of the Transfer Pricing Provisions

By Roberto M. Cagnazzo

On May 2018, the Italian Minister of Economy and Finance (MEF) issued a Decree containing the domestic guidelines on transfer pricing provisions and the arm's length principle. The guidelines are part of the process of adapting the Italian tax law and practice to the principles outlined in the OECD BEPS Project and already

incorporated in the Guidelines 2017.

The Decree introduces the domestic definition of 'associated enterprises' and specifies that 'participation in management, control and capital' is the majority holding (more than 50%) in the capital, voting rights or profits of another company or the dominant influence over the commercial/financial decisions of another company.

The Decree provides that the

valuation of a controlled transaction must be done with the most appropriate method according to the circumstances: in particular, it establishes the preference of the traditional transaction methods (i.e. CUP, RPM and CPM) over the transactional profit ones (i.e. TNMM and PSM).

The greatest novelty concerns the introduction of two specific provisions concerning the so-called low-value



adding services (Art. 7) and the appropriate documentation (Art. 8). In particular, the Decree introduces the simplified approach provided for low-value added services by the OECD Guidelines, according to which the taxpayer is entitled to determine the transfer price by aggregating all direct and indirect costs and adding a profit margin of 5%.

The Decree represents an important step in the alignment of the domestic tax law with the international best practices and recommendations on transfer pricing and with the results of the OECD's BEPS Project. The said principles will be subject to further interventions by the legislator and tax administration to better clarify their scope and concrete application procedures, with the aim of increasing certainty in a field that in recent years has represented, and will represent in the future, one of the main areas of debate between multinational groups and tax authorities.

GGI member firm
Studio Tributario Cagnazzo
 Tax, Auditing & Accounting, M&A,
 Corporate Finance
 Torino, Italy
 T: +39 011 580 8352
 W: www.cagnazzo.com
Roberto M. Cagnazzo
 E: roberto.cagnazzo@cagnazzo.com



Roberto M. Cagnazzo

Studio Tributario Cagnazzo is a 'boutique' firm mainly focused on providing integrated tax advice and assistance all over Italy to resident and non-resident corporations, banks, multinational groups and high-net-worth individuals on a wide range of domestic and international tax and corporate issues. The Firm 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, takeover bids and M&A.

Roberto M. Cagnazzo, Founder and Partner, is a Chartered Accountant and Statutory Auditor with considerable expertise in domestic and international taxation acquired as Head of Tax in some

of the leading listed Italian multinational groups and as Professor of Tax Law and International Tax Law at the University of Torino.

