

Large-Case Audit Program Introduced

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In its fight against tax evasion, Italy has introduced a program to audit the income tax and VAT returns of large corporations within the end of the year following the year of filing.

The tax surveillance legislation was introduced under article 27 of Decreto Legge (Law Decree) 185/08 of November 29, 2008. The program is effective for returns filed for 2008. For the purpose of the audit program, large corporations are those reporting at least €300 million in sales. However, that amount will be gradually reduced to €100 million by the end of 2011.

Cases will be identified based on the risk associated with the taxpayer's industry, the nature of a transaction, and the taxpayer itself, taking into account the taxpayer's prior dealings with the tax authorities.

Audit procedures in large-case examinations are generally responses to the scale of large corporate organizations and the complex issues that result from large corporate enterprises that often conduct international operations in several foreign countries. The extent of the audit procedures under the Italian program is unclear. However, it is unlikely that the audits will be as extensive as examinations conducted under similar programs in other countries.

For example, large Italian corporations subject to the new provisions should not expect to undergo the same level of scrutiny as their U.S. counterparts under the coordinated industry case program (CIC). After all, the IRS initiatives developed from several previous IRS strategies and have evolved for almost half a century. Under CIC (and its predecessor, the coordinated examination program), the largest U.S. corporations are audited every year. A team of revenue agents and specialist revenue agents (such as engineer revenue agents, economists, international examiners, computer audit specialists, excise tax revenue agents, and employment tax revenue agents), under the direction of a case manager and in accordance with a written plan, conduct multiyear audits of the returns of the taxpayer and its controlled entities. The audits are so far-reaching that most of the targeted U.S. corporations provide the IRS exam team with permanent office space in proximity to the company's tax department.

In any event, the new Italian initiative will require large corporate taxpayers and their advisers to be better prepared for audits. ◆

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