



## **ACE - Aid to Economic Growth**

The ACE (Aid to Economic Growth) was introduced for the first time with Article 1 of Decree-Law No. 201 of 6 December 2011, with the intention of responding to the need "to boost the country's economic development and provide an aid to growth through a reduction in taxation on income deriving from financing with risk capital, as well as to reduce the imbalance in tax treatment between companies that finance themselves with debt and companies that finance themselves with equity, and thus strengthen the capital structure of companies".

The rules on Aid to Economic Growth were repealed by the 2019 Budget Law and reinstated by Article 1, paragraph 287, of Law 160/2019 (the 2020 Budget Law).

The relief under discussion consists of a deduction from the total net income declared, determined pursuant to Article 75 Tuir, equal to the notional return defined by applying ministerial rates to the increase in equity compared to the capital existing as of 31 December 2010.

The rates have also followed a fluctuating trend over the years, starting from a rate of 3% for the three-year period 2011-2013, reaching 4.75% for the financial year ending 31 December 2015, and reducing to 1.30% in 2020.

Article 19 of the Support Decree 2 (Decree-Law No. 73 of 25 May 2021) introduces a novelty on the subject of ACE. The innovation, valid for the tax period following the one in progress on 31 December 2020, refers not only to the increase in the rate, which is raised to 15%, making this incentive very attractive to SMEs, but also to the possibility, in the event of inability, to benefit from this facility in the form of a tax credit. As expressly provided for in paragraph 6 of the article in question, such tax credit can be used as compensation, pursuant to Legislative Decree 241/1997, for the payment of taxes and social security contributions or can be claimed back. Alternatively, the tax credit can 'be transferred, with the option of subsequent assignment of the credit to other parties, and is used by the transferee in the same way as the transferor'.

After submitting the appropriate notice to the Revenue Agency (the terms and procedures of which have yet to be established), the tax credit can be used from the day after the day on which the increase in equity is recorded, whether in the form of payment of the cash contribution, the waiver by the shareholders of their claims against the company, or the allocation of the result for the year to a reserve.

Paragraph 4 of Article 19 of the Decree-Law under review, however, imposes a minimum period of permanence of the increase in equity capital which generated the tax credit, i.e. if such variation is totally or partially reabsorbed in the two financial years following 31 December 2021, the tax credit must be returned in proportion to the lower amount. Thus, as of 31 December 2023, the tax credit will become permanently acquired.

The intention of the reintroduction and enhancement of the ACE is to favour the capitalisation of companies, encouraging the entry of private savings into the business system, especially in response to the situation of uncertainty caused by the pandemic. It is hoped that this regulatory intervention will not turn out to be a one-off solution required by the emergency situation. In fact,

this measure should be stabilised, avoiding continuous regulatory changes, in order to stimulate adequate self-financing policies in the medium to long term, and strengthened in terms of notional yield.

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