## NOTE ON COUNTRY-SPECIFIC ANALYSIS: ITALY

Through the collaboration of members of the Inclusive Framework on BEPS, Anonymised and Aggregated Country-by-Country Report (CbCR) statistics have been published. Further information about these data can be found in the Corporate Tax Statistics publication. While these CbCR statistics represent an important new source of data on the global tax and economic activities of multinational enterprises (MNEs), they are subject to a number of data limitations. These limitations are detailed in the disclaimer accompanying the dataset.

A number of jurisdictions have carried out analysis on their CbCR data to investigate the potential impact of some of the limitations for their country data. This document contains analysis carried out by Massimo Bucci and Paolo Acciari from the Italian Ministry of Economy and Finance .

This document does not represent the views of the OECD, the Inclusive Framework or their respective memberships. This document is provided on the OECD website for the information of CbCR-data users and its publication does not imply any endorsement or approval of its contents by the OECD, the Inclusive Framework or their respective memberships.

# Anonymized and aggregated statistics from CbCR data
# Additional documentation on the estimation of intracompany dividends
# *Italy*
(FY 2019 – 2021)

## Data Sources and matching

Table 1 of the CbCR reports information on the financial variables of the multinational enterprise (MNE) in each tax jurisdiction in which it has constituent entities. Information in Table 1 is reported on a tax jurisdiction basis – forming the so-called «subgroup» - meaning that if a given MNE has 2 or more entities in a jurisdiction, financial information reported in Table 1 of the CbCR (e.g. profit(loss)) refers to all the MNE's entities present in that tax jurisdiction.

Table 2 of the CbCR reports information on the full list of entities of the MNE for each tax jurisdiction. In Table 2, the reporting entity needs to indicate the Tax Identification Number (TIN), the name and the tax jurisdiction of its entities, together with information on the nature of the activities carried out by that specific entity in the tax jurisdiction.

Within the CbCR, no information on financial figures of the single entities is therefore reported (unless for those tax jurisdictions where the MNE has only 1 entity).

To investigate the possible extent of intracompany dividends included in the CbCR profit(loss) figure, the profit(loss) figure reported in Table 1 of the CbCR has been compared with the profit(loss) figure reported in the Italian corporate tax return (IRES).

The merging of the CbCR data with the tax return data has been carried out only for the entities forming the Italian subgroup of MNEs having their Ultimate Parent Entity (UPE) in Italy and reporting CBC701 as their CBC role (in other words, Italian entities of Italian MNEs), since domestic tax return data is clearly only available for such entities.

The variable used for the merging is the Tax Identification Number (TIN) of the entity. This information is not always indicated in the CbCR by the reporting entity. Where not indicated, the TIN of the entity has been obtained from the Orbis-BvD database by searching for the name of the entity.

Once the list of TIN of entities in Italy of Italian MNEs has been obtained, the Italian CIT returns of such entities have been analysed in order to identify their profit(loss) figure and their dividends figure.

### Reconstruction of sub-group figures

Tax return data of each Italian entity within each MNE were summed up in order to obtain tax return figures at the subgroup level, where the only relevant subgroup is Italy, so to make tax returns figures comparable with CbCR figures. Since only the financial statement profit(loss) after tax return is reported in the Italian tax return, the tax return profit(loss) before taxes value has been derived by summing up to net profit the value of indeductible or unpaid taxes (included the presumptive CIT liability from financial statement) reported in tax return as a positive adjustment to taxable income. This adjustment has been performed for 2019, 2020 and 2021 financial year data.

## Estimation of intracompany dividends

The first step to investigate the possible inclusion of dividends in the CbCR Profit (Loss) variable has been to compare the tax return profit(loss) figure with the CbCR profit(loss) figure.

To make sure that the comparison between the CbCR figure and the tax returns figure was not spoiled by the different number of entities considered within each MNE, the analysis focussed on MNEs for which at least 90% of entities where matched with the tax returns data.

To identify which MNEs report profit(loss) gross of dividends, the following measures were calculated:

a. the absolute difference between the CbCR profit(loss) and the tax return profit (loss) gross of dividends, as it stands in the tax return
b. the absolute difference between the CbCR profit(loss) and the tax return profit (loss) net of dividends, calculated by netting the tax return figure of the amount of dividends
c. the ratio of dividends from the tax return to profit(loss) in the tax return

If the difference a) was smaller than the difference b), meaning that the CbCR profit(loss) figure is more in line with the tax returns gross figure than with the tax returns net figure, the amount of dividends included in the CbCR was estimated by applying ratio c) to the CbCR profit(loss) figure. Otherwise the profit(loss) amount in CbCR has been considered as net of dividends.

Once the adjusted CbCR profit(loss) figure is obtained, the ratio between the adjusted and the original CbCR profit(loss) has been calculated and observations below the 5$^{th}$ percentile and above the 95$^{th}$ percentile were dropped.

Table 1 shows the number of MNEs included in the analysis for each financial year.

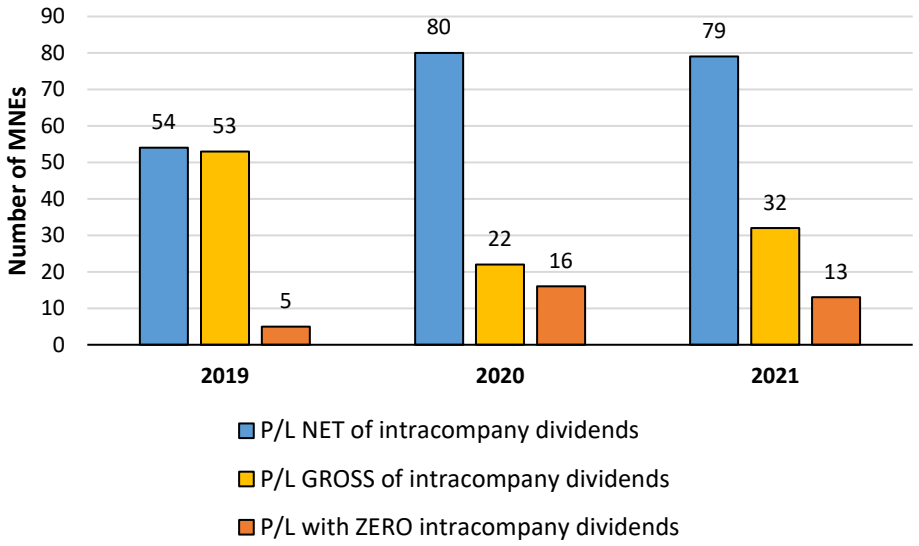
**TABLE 1. SELECTION OF MNES FOR THE INTRACOMPANY DIVIDENDS ANALYSIS ( FY 2019-2021).**

| STEP | 2019 | 2020 | 2021 |
|---|---|---|---|
| Number of MNEs in Table 1 of CbCR | 144 | 143 | 147 |
| Number of MNEs in Table 1 of CbCR with Italian subgroup | 140 | 143 | 147 |
| Number of MNEs in Table 1 matched with tax return (TR) | 138 | 142 | 147 |
| Number of MNEs for which all entities in CbCR Table 2 have been matched with TR | 91 | 101 | 108 |
| Number of MNEs for which more than 90% but less than 100% entities in CbCR Table 2 has been matched with TR | 26 | 28 | 28 |
| **Final number of MNEs available for the analysis** | **112** | **118** | **124** |

## Summary statistics

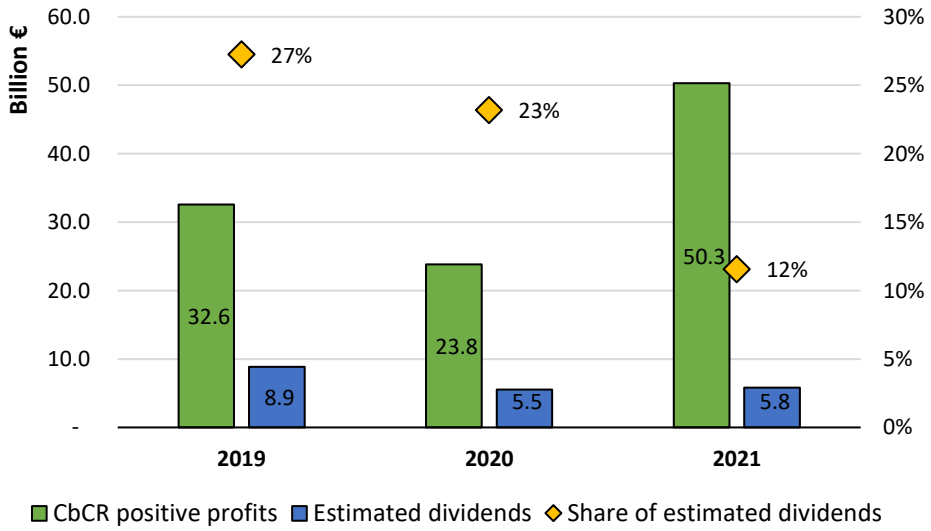
The number of MNEs estimated to include intracompany dividends in CbCR P/L variable declines from 53 in 2019 to 22 in 2020[1] and 32 in 2021. Considering also MNEs for which no dividends are estimated to be included, the share of MNEs with zero or net dividends profits in CbCR is respectively 53% in 2019, 81% in 2020 and 74% in 2021 (Figure 1). It should be noted that clear guidance to exclude dividends from the profit variable is in place only as of financial year 2020.

**FIGURE 1. INCLUSION OF INTRACOMPANY DIVIDENDS IN CBCR PROFIT(LOSS) VARIABLE**




The total amount of intracompany dividends estimated to be included in the CbCR profit figure is equal to € 8,876 million in 2019, 5,518 million in 2020 and 5,822 million in 2021. Also, the share of estimated dividends compared to CbCR positive profits has been declining over the three years considered, from 27% in 2019 to 23% and 12% in 2020 and 2021 respectively. To some extent, an improvement in the quality of data reporting could potentially explain the reduction of intracompany dividends included in CbCR profit variable, especially in 2021.

**FIGURE 2. TOTAL AMOUNT OF ESTIMATED DIVIDENDS COMPARED TO CBCR POSITIVE PROFITS**




[1] Please note that the CbCR profit(loss) variable for 2020 could be heavily affected by the consequences of the Covid-19 pandemic, which brought down profits (or increased losses) dramatically for some MNEs.

The arithmetic mean and the median percentage of intracompany dividends estimated to be included in the CbCR profit(loss) figure at the subgroup level are 31% and 32% respectively in 2021, 45% and 43% in 2020, 45% and 36% in 2019. For the purposes of calculating the mean and the median percentage of intracompany dividends, among those subgroups for which dividends are considered to be included in the CbCR variable, only those reporting positive profits were considered in the calculation.