PT 4 : The rise in tax litigation and corporate risk management strategies = Augmentation des contentieux fiscaux et des stratégies de gestion du risque d'entreprise

Introduction

My part deals with the increase in tax disputes and how French and Italian companies manage the risks that result from them.

To set the context: in recent years, the number of tax disputes has increased. Governments are cracking down on tax fraud and evasion, using new technologies like AI and data analytics to identify businesses that don't comply. This has forced companies to adapt their tax risk management, as non-compliance can result in heavy fines or damage to their reputation.

I will compare how France and Italy handle tax disputes and the strategies implemented by companies to protect themselves.

This brings us to the key question: « How does the increase in tax disputes in France and Italy affect the way companies manage risk and decide to comply ? »

To answer this question, we will first examine the reasons for this increase in tax disputes, then how companies in each country manage these risks, and finally discuss the impact of these disputes and the future.

I. The surge in tax disputes

In France, tax disputes are on the rise as tax audits have become much more detailed. Authorities are now using AI and big data to detect tax inconsistencies more quickly and accurately. This means that companies are inspected more frequently and, when problems are detected, litigation ensues.

In addition, France has introduced more stringent anti-abuse rules, making it easier for tax authorities to challenge corporate tax practices. With tougher penalties for tax evasion, companies are more closely monitored than ever before.

In Italy, the situation is a little different. The government is taking tax evasion more seriously, especially in areas where tax evasion is common. Large companies and high net worth individuals are more closely monitored by tax inspectors, which leads to an increase in litigation.

VAT fraud is one of the main areas of tax litigation in Italy. The Italian tax administration carefully monitors compliance with VAT rules, and the 2024 tax reform clarified VAT rules, which led to more tax adjustments and legal battles.

Another major cause of tax litigation in Italy is the "redditometro" system, which compares a person's reported income to spending patterns such as luxury purchases or travel. If a person's expenses are significantly higher than their reported income, the tax authorities assume that there is an anomaly and make adjustments. This often leads to legal disputes, with many people considering the system intrusive or unfair. Even after the 2019 reforms, it remains a major source of litigation.

II. Corporate risk management strategies : France VS Italy

Companies in both countries are increasingly aware that tax risks are not only financial, but also affect their reputation. In Italy, tax disputes often end up in court, which can be problematic in terms of public relations, especially if the media gets involved.

France has implemented a “tax rating” system, inspired by the Italian “Cooperative Compliance” program. This system allows large companies to assess their tax transparency and build better relationships with tax authorities. A good rating reduces the risk of tax audits, while a bad rating risks increased government oversight and reputational damage.

Companies also try to avoid trouble by requesting tax rulings in advance, allowing authorities to confirm the processing of certain transactions. France has also introduced more stringent tax transparency laws, such as the The Anti-Fraud Act, which encourages businesses to comply more rigorously.

In Italy, companies use the system of «interpello fiscale», similar to the French tax rulings, which allows them to ask for clarification from the tax authorities on certain issues. A tax compliance program also helps companies demonstrate compliance, reducing the risk of litigation.

Both countries allow companies to negotiate their tax disputes with the authorities :

In France, companies can settle their tax disputes through tax transactions, thus avoiding lengthy legal battles.

In Italy, companies can also negotiate transactions, but if the authorities find serious violations, criminal proceedings can still be initiated. Thus, even if a company pays its tax bill, it can be subject to criminal prosecution. Tax arbitration is also a common means of resolving disputes in Italy.

In France, many companies are strengthening their internal tax teams and working closely with legal experts to anticipate risks. They also use AI and data analytics to monitor tax law developments and ensure compliance. In the face of increasing tax litigation, many companies are taking a more cautious approach and avoiding aggressive tax strategies that could lead to legal problems.

They also use external tax consultants to carry out audits and identify potential risks before the authorities. There is a growing trend towards tax transparency: companies are implementing clear tax governance policies and complying with new European regulations such as DAC6 and BEPS, encouraging businesses to proactively manage tax risks.

In Italy, the tax system is complex and many companies use external legal advisors to ensure compliance. Italian companies are also more aware of the reputational risks associated with public tax litigation, so they often prefer to settle disputes quickly rather than take them to court.

Italian tax compliance programs also require large companies to perform self-assessments, allowing them to resolve problems before they are noticed by the authorities.

III. Business impact and future trends

France and Italy align with European tax standards, focusing on digital reporting and transparency. France is implementing the OECD’s BEPS 2.0 project, strengthening anti-abuse measures and increasing corporate transparency through initiatives such as the *VAT in the Digital*

Age (ViDA) proposal and the *EU Digital Services Tax*. These measures aim to improve tax compliance and reduce fraud but will also increase the regulatory burden on businesses, requiring them to invest in advanced reporting systems and automatic tools.

As well, Italy is strengthening its fight against tax evasion by tightening the rules and developing the use of digital tools such as electronic invoicing.

Ultimately, businesses in both countries will need to continuously adapt to these changing regulations, balancing risk management strategies with the need for greater transparency and compliance.

Now I'll pass it over to Chloé