

Transfer pricing in Italy: rules, documentation and audits

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IN SHORT

Transfer pricing concerns the prices and terms of transactions between group enterprises resident in different countries, including permanent establishments: under Italian law they must match those that independent enterprises would have agreed in comparable circumstances (art. 110(7) TUIR). Adequate documentation under the Italian Revenue Agency's measure of 23 November 2020, handed over during the audit and reported in the tax return, rules out the inaccurate-return penalty if prices are adjusted; the additional tax and interest remain due.

What transfer pricing is

When an Italian company sells goods, provides services, licenses trademarks or lends money to a foreign affiliate (or receives them), the price is not negotiated between independent parties. Tax authorities therefore check that it does not shift profits from one country to another.

The Italian rule is art. 110(7) of the Income Tax Code (TUIR), as rewritten in 2017 (Decree-Law 50/2017): income arising from transactions with non-resident enterprises that control, are controlled by, or are under common control with the Italian enterprise is determined on the basis of the conditions and prices that independent parties would have agreed at

arm's length in comparable circumstances. The rule applies to cross-border transactions; as a general rule it does not apply to transactions between Italian companies.

The Ministry of Economy and Finance Decree of 14 May 2018 sets out the implementing guidelines. From 1 January 2027 these rules move into the new consolidated acts on income tax (Legislative Decree 117 of 19 June 2026), tax penalties (Legislative Decree 173 of 5 November 2024) and tax compliance and assessment (Legislative Decree 141 of 5 August 2026), with new article numbers. References in this guide follow the numbering in force until 31 December 2026.

OECD principles

The international reference is the OECD Transfer Pricing Guidelines, which the 2018 Decree and the 2020 measure refer to as periodically updated (the latest consolidated edition is from 2022). The key points are:

- **comparability and functional analysis:** the transaction is accurately delineated (contract, functions, assets, risks, economic circumstances) and the analysis identifies which group company performs the key functions and controls the risks;
- **methods:** comparable uncontrolled price (CUP), resale price, cost plus, transactional net margin method (TNMM) and profit split. The most appropriate method is selected; where methods are equally reliable, the traditional methods (CUP, resale price, cost plus) are preferred to TNMM and profit split and, among all of them, CUP; if the company has selected the method correctly, the tax authorities' review must be based on that method (art. 4(3) and (6) of the 2018 Decree);
- **arm's length range:** under the 2018 Decree (art. 6) a transaction is at arm's length if its financial indicator falls within the range of values derived from comparable transactions; if it falls outside, the tax authorities adjust it to bring it back within the range, unless the company proves that the transaction is nonetheless at arm's length. The Decree does not specify the point in the range to which the adjustment is made;
- **low value-adding services:** a simplified approach (costs plus a 5% mark-up) is available if the company documents it.

Italian documentation: Masterfile and local file

Documentation is not mandatory, but it is the only way to obtain protection from the inaccurate-return penalty. The Italian Revenue Agency's measure of 23 November 2020 (prot. 360494) requires two documents:

- **Masterfile:** the group overview (structure, business, intangibles, financing, transfer pricing policy);
- **Documentazione nazionale** (local file): the Italian company, its intra-group transactions, the comparability analysis and the chosen method.

Main formal requirements:

- written in Italian; the Masterfile may be submitted in English;
- signed by the legal representative (or a delegate) with an electronic signature and time stamp by the filing date of the corporate income tax return;
- possession of the documentation is reported in the tax return;
- prepared for each tax year and kept until the assessment period expires;
- delivered to the tax authorities within 20 days of request; any additional information within 7 working days (or a longer period compatible with the audit).

Small and medium-sized enterprises (turnover up to €50 million, not part of a larger controlling or controlled group) may skip updating the comparables search for the two following tax years, if it is based on public sources and circumstances do not change significantly.

Penalty protection (art. 1(6) Legislative Decree 471/1997)

If transfer prices are adjusted, the penalty for an inaccurate tax return (art. 1(2) Legislative Decree 471/1997) does not apply when the taxpayer hands over, during the audit, documentation that meets the measure and allows the authorities to verify that prices are at arm's length. The additional tax and interest remain due.

For violations committed from 1 September 2024 the penalty is 70% of the additional tax, with a minimum of €150 (Legislative Decree 87/2024); for earlier violations it ranges from 90% to 180%. If possession of the documentation is not reported in the tax return, the protection does not apply, unless the late-filing remedy (remissione in bonis) is used: the disclosure can be made late if the documentation, signed and time-stamped, was ready within 90 days of the ordinary filing deadline (Revenue Agency Circular 15/E of 26 November 2021).

Protection may be denied if the documentation is incomplete overall, lacks the time-stamped signature or is untrue. Partial omissions that do not hinder the analysis, or a method different from the one preferred by the auditors, do not by themselves make it inadequate.

When it matters for a group

Transfer pricing is relevant, for example, when an Italian company sells to foreign group distributors or buys from foreign affiliates; when the parent charges central services, management fees or royalties for trademarks and patents; with intra-group loans, guarantees or cash pooling; when functions or intangibles are moved abroad; when the group has companies in low-tax jurisdictions, including the United Arab Emirates.

Multinational groups with consolidated revenue of at least €750 million must also file a Country-by-Country Report (art. 1(145)-(146) Law 208/2015).

Transfer pricing audits

In an audit it is for the tax authorities to prove that the terms applied differ from arm's length (in court, art. 7(5-bis) Legislative Decree 546/1992 applies); before a notice of assessment is issued, the taxpayer is entitled to a prior adversarial procedure (art. 6-bis Law 212/2000, the Taxpayers' Statute). The discussion usually focuses on the functional analysis, the method and the comparables.

Useful tools:

- **accertamento con adesione** (settlement with the tax office);

- **advance pricing agreements (APAs)**, unilateral or bilateral (art. 31-ter Presidential Decree 600/1973);
- **mutual agreement procedures (MAPs)** under tax treaties, the EU Arbitration Convention 90/436/EEC and Directive (EU) 2017/1852 (Legislative Decree 49/2020), to remove double taxation;
- **downward adjustments** (art. 31-quater Presidential Decree 600/1973), following agreements with the other State.

Frequently asked questions

Is transfer pricing documentation mandatory in Italy?

No, there is no general obligation. If it is adequate, handed over during the audit and reported in the tax return, however, it rules out the inaccurate-return penalty if transfer prices are adjusted (the tax and interest remain due), and it supports the group's position during an audit.

Does Italian transfer pricing apply to transactions between Italian companies?

As a general rule, no: art. 110(7) TUIR covers transactions with non-resident associated enterprises. Other principles, such as the uneconomic-transaction doctrine, may apply between Italian companies.

By when must the documentation be signed?

By the filing date of the tax return for the year concerned, with an electronic signature and time stamp of the legal representative or a delegate.

What penalties apply without documentation?

The inaccurate-return penalty: 70% of the additional tax, with a minimum of €150, for violations from 1 September 2024 (90% to 180% for earlier ones), plus the tax and interest. If possession of the documentation is not reported in the tax return, the

protection does not apply even if the documentation exists, unless the late-filing remedy (remissione in bonis, Circular 15/E of 2021) is used.

Can prices be agreed in advance with the Italian tax authorities?

Yes, through an advance pricing agreement (APA) under art. 31-ter Presidential Decree 600/1973, either unilateral with the Revenue Agency or bilateral with the other State.

More answers on the topics of this guide are on the [FAQ](#).

Related questions

[What is transfer pricing and when does it concern an Italian company?](#)

[When is transfer pricing documentation needed and what does penalty protection mean?](#)

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Contact

To discuss your group's position you can request a consultation.

Contact form

Legislation cited with the article numbering in force until 31 December 2026. For information only; it does not replace advice on a specific case.