

Full Detailed Summary: Italy vs SATA Sud S.p.A.

April 2026 | Supreme Court | Case No 10456/2026

1. Background and Parties

SATA Sud S.p.A. (subsequently merged into SATA S.p.A.) was an Italian company operating as part of a corporate group. The group was headed by its parent company **F.C. s.r.l.**, which provided various intra-group services to SATA Sud under a formal service agreement.

2. The Transaction in Dispute

For the **2007 tax year**, SATA Sud deducted consultancy costs amounting to **€211,804.28** charged by its parent company F.C. s.r.l. under an intra-group service agreement.

The agreement was structured as follows:

- **Fee structure:** A flat rate of **1.75% per month** of the taxable amount of actual sales
- **Services covered:**
 - Consultancy
 - Organisational support
 - Banking relations
 - Contract verification and planning

3. Revenue Agency's Position

The **Italian Revenue Agency** issued an assessment notice disallowing the deduction and recovering additional **IRAP (Regional Tax on Productive Activities)**. The Agency's grounds were:

- The invoices issued by F.C. s.r.l. contained only **generic descriptions** of the transactions
- There were **no documentary references** to specific services actually rendered
- The **relevance, reality and reasonableness** of the expenditure had not been demonstrated
- The **usefulness of the services** received had not been proven
- The burden of proof rested with SATA Sud to establish:
 - Actual provision of the invoiced services
 - Consistency and proportionality with declared revenues
 - Certainty or determinability of costs in relation to the contractually agreed flat-rate percentage

4. Provincial Tax Commission

SATA Sud challenged the assessment before the **Provincial Tax Commission**, which **upheld the appeal in favour of SATA Sud**, finding that the costs were:

- Relevant
- Certain
- Reasonable

5. Regional Tax Commission (Molise)

The Revenue Agency appealed to the **Molise Regional Tax Commission**, which **dismissed the appeal**, again ruling in favour of SATA Sud on the following grounds:

- SATA Sud had demonstrated that the consultancy services were **actually provided**
- SATA Sud **lacked qualified human resources** necessary to carry out those activities itself, justifying the outsourcing to the parent company
- The expenditure was **not inconsistent**
- The nature of the services was such that **paper documentation could not necessarily be foreseen or provided**
- The existence of a **contract predating the invoices** and their **correct recording** was sufficient evidence

6. Supreme Court Proceedings

The Revenue Agency escalated the matter to the **Italian Supreme Court**, which took a fundamentally different view from the lower courts.

7. Supreme Court Judgment

The Supreme Court **upheld the Revenue Agency's appeal**, quashed the Regional Tax Commission's judgment, and remanded the case for re-examination.

Legal Principles Established

a) Principle of Relevance of Deductible Costs The Court clarified that under **Article 109 of the TUIR** (Italian Consolidated Income Tax Act), the principle of relevance of deductible costs derives from the concept of business income. This requires that costs must be:

- Directly related to the conduct of business activity
- Proven by the taxpayer, on whom the burden of proof rests

b) Insufficiency of a Framework Contract Alone The Court held that the mere formal indication of a fixed percentage of costs in a framework contract valid for several financial years was **not sufficient** to establish deductibility. Specifically:

- A flat-rate percentage in a multi-year contract does not automatically prove costs incurred in a specific tax period
- The existence of signed consultancy contracts alone is insufficient
- The absence of qualified staff at SATA Sud, while relevant context, does not by itself justify the deduction

c) Requirement for Period-Specific Proof The taxpayer was required to prove the **specific costs incurred** in relation to the **transactions actually carried out during the relevant tax period**. This means:

- Evidence must be tied to the actual tax year in question
- Costs must be demonstrably linked to specific services rendered in that period
- General or multi-year documentation cannot substitute for period-specific evidence

d) Alternative Sources of Proof The Court acknowledged that proof of correspondence between services and underlying benefits **can be provided from sources other than invoices**, including evidence gathered

during court proceedings. However, such alternative evidence must still address the determinacy of costs in relation to actual sales made periodically.

e) Failure of the Regional Commission The Supreme Court found that the Regional Tax Commission had **failed to properly assess** whether the costs were determinate in relation to actual sales made periodically during the tax year — a critical factual question that had not been adequately examined.

8. Outcome

The case was **referred back to the Molise Regional Tax Court of Appeal** for a fresh factual assessment, specifically to evaluate the evidence gathered during the proceedings in light of the legal principles established by the Supreme Court.

9. Key Takeaways

Issue	Court's Position
Burden of proof	Rests entirely with the taxpayer
Generic invoices	Insufficient to support deduction
Framework contract alone	Not sufficient evidence
Absence of in-house staff	Relevant but not determinative
Period-specific evidence	Mandatory requirement
Alternative proof sources	Permitted but must address actual costs

10. Significance

This case reinforces the strict evidentiary standard required for intra-group service deductions in Italy. Taxpayers must go beyond formal contracts and invoices to provide **concrete, transaction-specific, period-linked documentation** demonstrating that services were actually rendered and that costs are proportionate to actual business activity in the relevant tax year. It serves as an important reminder that the substance of intra-group arrangements must be thoroughly documented at the time services are rendered, not reconstructed retrospectively.