

**Referee report on the Paper ‘Italy’s ACE Tax and Its Effect on a Firm’s Leverage’  
by Paolo Panteghini, Maria Laura Parisi and Francesca Pighetti**

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**Overview**

This paper analyses the economic effects on a firm’s leverage ratio of the introduction of the ACE-type system in Italy starting in 2012. Having described the ACE system throughout the world and specifically in the Italian legislation, the Authors propose an estimation of its expected positive effects on Italian firms’ capitalization.

**Specific remarks**

1) The introduction says that the first target of the introduction of ACE is to boost economic growth. Although the paper aims only to evaluate the effects of ACE on the capital structure of firms, considerations on its impact on potential economic growth are lacking. Are the expected effects on growth small or large? In evaluating these aspects it would also be worth estimating the revenue losses expected by the ACE-type system now implemented in Italy, compared to the previous system. At present the Authors report only estimates regarding the application of ACE to the entire equity stock.

2) Box 1: In 1998 the imputation rate was 7%; maybe it should be said. In my opinion the last part of the box should include more discussion of the effects of DIT and on the interaction between DIT and IRAP. In particular this paragraph could underline that DIT has not benefited all firms equally. Authors should then comment on the impact DIT introduction had across different industries and regions. Similar revisions should be considered for paragraph 4 regarding the ACE-type system. Then can the Authors compare the ACE-type system with the DIT-type one.

3) Footnote No. 3 states that average leverage in Italy is about 1.5. This value does not seem consistent with that discussed on page 8.

4) In my opinion, a Section on 'data' should be introduced by shifting Appendix 1 and 2 to the main text. In so doing, present Appendix 1 and 2 should be shortened.

5) At the top of page 8, could you add some summary statistics by classes of observed years? How many firms are observed for two year? How many for three years? You could also offer some descriptive statistics by size, for example. These additional statistics can be placed in the Appendix.

6) Empirical strategy should be discussed in greater details. Also the ACE benefit variable should be explained carefully by discussing the strategy described in De Mooij (2011).

7) On page 9, in order to define subgroups you used EBIT in 2008. Do results change if other criteria are used? If EBIT in 2008 is positive, then this firm enters into the subgroup of "Profit" even if, for example, it has a negative EBIT in all the other years considered. In my opinion this could be an important issue given the different tax treatment between profitable and losing-profit firms. Maybe you could try another criterion: sum up profit and loss in the period and then a firm with positive discounted net profit enters the subgroup of "Profit"; otherwise it enters the subgroup of "Loss".

8) When describing results from Table 3, you should make additional comments. For example: was the stronger relation for North-Western and Southern firms expected? Or: why do small firms reduce leverage more than medium and large ones?

### **Minor issues**

- 1) Each reference appearing in the reference list should be cited in the text. Papers by Sørensen appear in the reference list and not in the text; the same for Panteghini (2001), Panteghini (2006), Khale et al. (2005), Domar et al. (year), Bond and Devereux (1995).
- 2) Table 2 in the main text and Table A.2 are not necessary. It is sufficient that the contents of these tables be shortly described in the text.
- 3) On page 7 you say "... most of them being limited liability companies". You should be more precise.
- 4) On page 9.  $k$  from Equation (1) is not defined.
- 5) Figure 1 could perhaps start from 1997 in order to present EMTR before the DIT-type system.
- 6) Avoid using past tense instead of present tense when describing the economic effects of ACE, for example at the top of page 7.
- 7) On the title page, Keywords should include "Italy".
- 8) The first page after the title page should be page 1, not 2.
- 9) Usually the last paragraph of the introduction starts by saying: "The remainder of the paper is structured as follows" or something similar.
- 10) Footnote No. 3. EUROSTAT is not followed by the year of publication; moreover, this reference does not appear in the reference list.
- 11) Check the font size in footnote No. 9.