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In Italy, through a 'corporate' evolution, the tax authorities use balance sheet ratios to assess the possibility of tax debt accrual. Remarkable development but...

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Abstract
Financial ratios have always been widely used within companies to understand the company's financial situation. These ratios have also been used and are still used today by organisations outside companies when the need arises to understand a company's financial performance. Let's consider using ratios by banks, lenders, and companies to evaluate potential customers, etc.
In Italy, for some years now, the tax authorities have also been using such tools to assess the possibility of granting an instalment to a taxpayer who finds himself in temporary difficulty in meeting his tax debt. This is a development by the tax authorities, but, as used in Italy, this instrument poses theoretical problems that perhaps the legislature has not weighed up sufficiently. In this article, we will address what the law provides for this issue and the inconsistencies in using a financial index to assess the instalment of tax debt.

Keywords: Ratios, ratios and taxes, ratios and taxation, quick ratio and tax debt accrual in Italy

Introduction

The quick ratio as a discriminating element for the granting of tax debt instalments: The position of Equitalia, i.e. the agency responsible for tax collection [1, 2]

At the beginning of the 20th century, credit institutions were the first entities to use balance sheet ratios as valuable information to grant credit. Although collateral and personal guarantees continued to be the discriminating element in obtaining a bank loan, in the early years of the last century, the indicators determined based on balance sheet results began to take on significance, albeit limited, in decision-making.
Like every element of human action, ratios have been. Still, they are the subject of constant evolution that had led to the structuring, over time, of an assortment of ratios unknown in the period when these analysis tools were first used.
The constant evolution that has taken place in this field and the need to supplement the indices with other technical-accounting tools, however, do not undermine the role and usefulness of this 'classic' mode of analysis since every management operation, even if carried out for non-profit purposes, impacts, in the short or medium/long term, on the economic-financial-equity accounting items.

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[1] In Italy, the Agenzia delle Entrate and Equitalia are two companies that both work for the Ministry of Finance. The two companies, however, have distinct tasks and powers. The Agenzia delle Entrate operates upstream of the tax debt control process by carrying out tax audits. Equitalia, on the other hand, deals with the actual collection of taxes.
[2] To facilitate reading, I have decided not to include in the text, except in exceptional cases, the names of the scholars who have dealt with the subject under analysis. I have opted not to indicate all the terms of the scholars in the text because this would have meant a continuous interruption of the reading of the complete sentence in which I express my thought. References are placed at the end of the article

Therefore, comparing balance sheet values is an indispensable step in any investigation of the company's situation.
As in every field of human endeavour, the methodologies for analysing the company's income and financial situation are, of necessity, the subject of continuous theoretical and technical-operational progress.
Ratios belong to the group of essential analysis tools whose intrinsic 'lacunae' require the development of complementary in-depth analyses that, although necessary, cannot replace the ratios themselves.
Ratios are, therefore, perfectible instruments of analysis that, while requiring additional and supplementary information, represent fundamental means of deepening the economic-financial-equity situation of companies.
For many years, ratios have been used as business analysis tools by many organisations that need to acquire information on companies. Ratios are therefore increasingly used not only within the company by management but also by organisations outside the company that wishes to understand what the company situation is like. Think, for example, of lenders, banks, and companies assessing the status of potential customers, etc.
In Italy, for the first time in a few years, even the tax authorities have been using these tools to assess whether or not to grant tax debt instalments.
Equitalia (i.e. the Italian organisation in charge of collecting taxes), in a conceptually unexceptionable manner, has sought to introduce the principles summarised above concerning financial ratios into the issue of granting tax debt instalment. This facility was regulated for the first time by Article 19 of Presidential Decree 602/73, which provided that.
"1. Upon request of the taxpayer, the collection agent may grant, in cases of temporary objective difficulty of the same, the division of the payment of the amounts entered on the tax roll up to a maximum of seventy-two monthly instalments.
1-bis. In the case of a proven worsening of the situation referred to in paragraph 1, the moratorium granted may be extended once only, for a further period and up to seventy-two months, provided that no forfeiture has occurred.
1-ter. The debtor may request that the instalment plan referred to in paragraphs 1 and 1-bis provide, instead of regular, variable instalments of increasing amounts for each year.
1-quarter. Having received the request for an instalment, the collection agent may register the mortgage referred to in Article 77 only in the case of failure to grant the request or forfeiture under paragraph 3. However, mortgages were already written when the instalment facility is granted shall remain unaffected.
1-quinquies. The instalment facility provided for in paragraphs 1 and 1-bis, where the debtor finds himself, for reasons beyond his control, in a difficult and proven situation of difficulty linked to the economic crisis, may be increased up to one hundred and twenty monthly instalments. To grant such an increased instalment facility, a proven and difficult situation of difficulty is one in which the following conditions are jointly met.

- Ascertained the impossibility for the taxpayer to pay the tax credit according to an ordinary instalment plan.
- The taxpayer's solvency, as assessed concerning the instalment plan available under this paragraph.

3. In the event of non-payment, during the instalment period of eight instalments, including non-consecutive instalments

- The debtor shall automatically forfeit the benefit of the instalment plan.
- The entire amount still due is immediately and automatically collectable in one instalment.
- The debt may no longer be paid in instalments.

4. The monthly instalments into which payment has been deferred according to paragraph 1 shall fall due on the day of each month indicated in the deed of acceptance of the application for deferment.
According to Article 19 of Presidential Decree No. 602/73, the necessary condition for a taxpayer to access the tax debt instalment facility was a 'temporary situation of objective difficulty'. In this regard, it is essential to point out that, following the facility introduced by Equitalia in 2013 and publicised in the press release of 8/5/2013, this temporary situation of objective difficulty is relevant only for persons with tax debts over €50,000 since in the presence of debts below that amount, the taxpayer could request the debt to be paid in instalments with a simple reasoned request, without any further formalities having to be added to it.
If this threshold was exceeded, Article 19 of Presidential Decree 620/73 remained the only regulatory reference to identify the discriminating element between companies that, because they were in difficulty, could request an instalment payment of their taxes and companies that, on the contrary, were not entitled to this facility.
The absence of any normative indication as to the technical methodologies that could be used to verify the existence of the temporary situation of objective difficulty must be interpreted as an implicit reference to the economic-business principles concerning the analysis of company accounting values.
The amount that allowed obtaining the instalment facility has been changed several times. Currently, Law No. 91 of 15 July 2022 increased to EUR 120,000, the amount above which tax debt can be obtained in instalments in the presence of particular balance sheet ratios. This change was illustrated by Italian Revenue Agency Circular No. 213 of 26 July 2022.
Following the new legislation, Article 19 of Presidential Decree 602/73 was also amended as follows:

The operative part of Art. 19 Provisions on income tax collection
The collection agent, upon the request of the taxpayer who declares to be in a temporary situation of objective difficulty, grants for each request the division of the payment of the amounts entered on the tax roll, with the exclusion of notification fees, up to a maximum of seventy-two monthly instalments. Suppose the sums entered on the tax roll, included in each request, are more than Euro 120,000. In that case, the deferment may be granted if the taxpayer documents the temporary situation of objective difficulty [5].
1-bis. In case of proven worsening of the situation referred to in paragraph 1, the moratorium granted may be extended

only once, for a further period of up to seventy-two months, provided that no forfeiture has occurred.
1-ter. The debtor may request that the instalment plan referred to in paragraphs 1 and 1-bis provide, instead of regular instalments, variable instalments of increasing amounts for each year.
1-quater. Following the presentation of the request referred to in paragraph 1 and up to the date of the possible rejection of the same appeal or of the possible forfeiture of the moratorium in accordance with paragraph 3

- The limitation and forfeiture periods shall be suspended.
- New administrative detentions and mortgages may not be entered without prejudice to those already entered on the date of submission.
- No new enforcement proceedings may be commenced [1].

1-quater 1. Under no circumstances may the deferment of payment of the sums subject to verification be carried out, according to Article 48 bis, at any time before the date on which the request referred to in paragraph 1 is granted.
1-quarter 2. The payment of the first instalment determines the extinction of the enforcement proceedings previously commenced, provided that the auction has not yet been held with a positive outcome or the third party has not made a positive declaration, or an assignment measure has not already been issued for the attached credits [2, 1].
1-quinquies. The instalments provided for in paragraphs 1 and 1-bis, where the debtor is, for reasons beyond his control, in a difficult and proven situation of difficulty linked to the economic crisis, may be increased up to one hundred and twenty monthly instalments. To grant such an increased instalment facility, a difficult and proven situation of difficulty is one in which the following conditions are jointly met

- Established impossibility for the taxpayer to pay the tax claim according to an ordinary instalment plan;
- The taxpayer's solvency, as assessed about the instalment plan available under this paragraph.

1. **In the event of non-payment of eight instalments, including non-consecutive instalments, during the instalment period**

- The debtor shall automatically forfeit the benefit of the instalment facility.
- The entire amount still due shall be immediately and automatically collectable in one instalment.
- The debt cannot be rescheduled.

3-bis. In the event of an administrative or judicial order of total or partial suspension of collection issued concerning the amounts that are the subject of the moratorium, the debtor is authorised not to pay, limited to those amounts, the subsequent instalments of the plan granted. At the expiry of the suspension, the debtor may request the deferred payment of the remaining debt, including the interest fixed by law for the suspension period, in the same number of unpaid instalments of the original plan, or another number, up to a maximum of seventy-two.
3-ter. Forfeiture of the benefit of the payment in instalments of one or more loads shall not preclude the debtor from obtaining, following the provisions of this Article, deferred compensation of loads other than those for which the forfeiture occurred [6].

2. The monthly instalments into which the payment has been deferred according to paragraph 1 shall fall due on the day of each month indicated in the deed of acceptance of the application for deferral, and the related payment may also be made by direct debit to the current account indicated by the debtor.

There is no doubt, however, that the provisions of Article 19 of Presidential Decree No. 602/73 have created a quandary. The lack of references to specific technical-accounting instruments applicable to verify the situation of difficulty mentioned in Article 19 Presidential Decree 602/73 causes a situation characterised by the absence of an objective and unequivocal demarcation line between companies in temporary difficulty and companies that do not have this negative requirement.
Equitalia has attempted to solve the problem by combining the need to use economic-business analysis tools with the need to limit the taxpayer's discretion as much as possible. This has led Equitalia to issue a series of directives which, although suggested by partially shareable objectives, are marked by certain pragmatic choices that raise theoretical and operational perplexities.
Equitalia, with its directives of 13/5/2008 no. 17 and of 1/3/2012 no. 7, identified the elements that, in its opinion, constitute 'certain' evidence of the presence of a temporary situation of objective difficulty, i.e. the requirement that according to Article 19 of Presidential Decree 602/73, guarantee the granting of the tax debt instalment facility.

These directives distinguish taxpayers into two categories

- natural persons and sole proprietors in simplified tax regimes.
- corporations, cooperatives, mutual insurance companies, partnerships and sole proprietors in ordinary accounting.

Where the tax debt exceeds €50,000, and the debtor is not a natural person and a sole proprietorship in a simplified tax regime, Equitalia's directives identify two ratios whose values determine, respectively, the threshold for accessing the debt instalment facility and the parameter helpful in identifying the maximum number of instalments that can be granted to the company. The two ratios are the alpha ratio and the quick ratio.
The alpha ratio is derived from the ratio of the total corporate debt to the production value; this result must be multiplied by 100.
The role of this quotient has undergone a "revirement" over time.
Equitalia's directive No. 17 of 13/5/2008 specified that companies other than sole proprietorships in simplified tax regimes could be granted debt repayment in instalments in the presence of an alpha quotient more significant than 4, in addition to a quick ratio, which we will discuss later, of less than one. This directive also established the graduation of the maximum number of instalments that could grant to the company, which increased as the alpha ratio increased.

With directive No. 7 of 1/3/2012, Equitalia assigned a different role to the alpha ratio. Since the increase in the value assumed by the alpha ratio indicates an increasing financial difficulty for the company, the directive provides for an increase in the number of instalments that can grant to the debtor proportional to that increase. In this directive, Equitalia established that this index should no longer be considered in terms of an access threshold but solely as a parameter for determining the maximum number of instalments that can grant.

On the other hand, the index that still defines the discriminating line for granting tax debt instalments is the quick ratio.

Equitalia's directive No. 17 of 13/5/2007 specifies that this ratio must be determined by setting the sum of immediate liquidity and deferred liquidity against total current liabilities and emphasises that the balance must be less than one to allow the tax debt to be delayed.

Concerning the quick ratio, Equitalia's position has not changed significantly over time.

Against the generic regulatory provision of Article 19 Presidential Decree 602/73, Equitalia pragmatically makes the proof of a temporary situation of objective difficulty depend on the value of the quick ratio.

Although Directive No. 17 of 13 May 2008 states that 'if [...] the application of the above parameters (quick ratio and alpha ratio, Ed. Suppose [...] applying the parameters mentioned above (quick ratio and alpha ratio, Ed.) does not allow access to the instalment facility. In that case, the company may benefit from the instalment facility only on condition that it can document the existence of extraordinary events that have such a significant impact on the company or firm that the temporary situation of objective difficulty is deemed to exist, it cannot be ignored that, in operational terms, Equitalia almost automatically tends to identify the quick ratio as the discriminating element between companies that can obtain the instalment facility and companies that cannot access this form of facility.

There is no need to elaborate further to understand the importance that is, in fact, attributed to the quick ratio in the context of this issue. It is well known that when a company goes through a period of economic-financial difficulty, the possibility of accessing the payment in instalments of the tax debt may be the element on which the company's future depends. In the presence of unstable monetary-financial situations, the payment method of tax debt is not a condition that could create momentary imbalances between income and expenditure but is often the factor on which the company's ability to overcome the period of instability and crisis positively depends.

Since, according to the provisions of Equitalia's directives of 13/5/2008 no. 17, of 1/3/2012 no. 7 and of 6/10/2008 no. 36, the possibility of being granted an instalment payment depends on the value of a specific indicator; one could agree with what Equitalia imposes if the following conditions coincide:

- The indicator identified by the Equitalia guidelines should be calculated following an impeccable technical-accounting methodology and should be free from any theoretical-operational error.
- The precise value of a ratio should be able to be considered discriminating to identify temporary situations of objective difficulty.
- And finally, the Equitalia directives should be able to be regarded as normative sources on a par with the provisions contained in Article 19 of Presidential Decree No 602/73, since only in such a case could it be assumed that an Equitalia directive implements a kind of 'authentic interpretation' of the rule imposed by a Presidential Decree.

Considerations regarding the technical-accounting methodology imposed by the Equitalia directives for calculating the quick ratio

To be able to express an opinion based on the methodological correctness of the calculation of the quick ratio governed by the Equitalia directives, it is necessary to define the exact composition of that indicator.

The collection agent, faced with the plurality of reclassification schemes proposed by the doctrine and bearing in mind how scholars have attributed unequivocal meanings to the terms 'immediate liquidity', 'deferred liquidity' and 'current liabilities', has preferred to impose a mandatory list of accounting items that, in Equitalia's intentions, should lead to the correct determination of the numerator and denominator of the quick ratio.

The directive of 6/10/2008 no. 36, partially modifying and integrating what was prescribed by the previous orders of 13/5/2008 No. 17 and 1/7/2008 No. 25, established that current liabilities, deferred liquidity and current liquidity derive from the sum of the following accounting items.

Current liquidity
Current Assets
Cash and cash equivalents

1. Bank and postal deposits.
2. Cheques.
3. Cash and cash equivalents on hand.

Total current liquidity
Deferred liquidity
Current Assets
Receivables (due within one year)

1. Due to customers.
2. Due to subsidiaries.
3. Due to associated companies.
4. Due from parent companies.
5. 4bis) Tax receivables: (Amount).
6. 4b) Deferred tax assets.
7. From others.

Financial assets not constituting fixed assets

- 6) Other securities
- Total Deferred Liquidity

Current Liabilities
DEBTS (Due within one year)

1. Bonds.
2. Convertible bonds.
3. Payables to shareholders for financing.
4. Payables to banks.
5. Payables to other lenders.
6. Advances.

7. Payables to suppliers.
8. Payables represented by credit instruments.
9. Payables to subsidiaries.
10. Accounts payable to associated companies.
11. Payables to parent companies.
12. Taxes payable.
13. Payables to social security institutions.
14. Other payables.

Total Current Liabilities

The specific identification of the items constituting the numerator and denominator of the quick ratio is dictated by the desire to limit the taxpayer's discretion as much as possible.

Business economics doctrine has attributed non-univocal meanings to immediate liquidity, deferred liquidity and current liabilities. While some interpret deferred cash and cash equivalents as the sum of receivables and investments that can liquidate in the short term, some believe that only receivables collectable within 360 days should be included in this aggregate, considering it more appropriate for correct analysis of accounting data, to reclassify short-term investments in a micro-aggregate other than deferred cash and cash equivalents, defined as 'short-term assets'.

Faced with the potential plurality of meanings attributable to the various reclassifying sub-aggregates, instead of identifying a specific theoretical structure of reference with a good illustration of the reasons that could make such a scheme 'doctrinally' and 'pragmatically' superior to other alternative forms, Equitalia preferred to opt for an operational solution that eliminated any subjective assessment. However, the choice implemented by the collection agent, especially concerning deferred liquidity, appears hybrid. Concerning this aggregate, Equitalia does not adhere to any doctrinal theory and, instead, carrying out a sort of contamination between items, adopts a disharmonic scheme insofar as the inclusion of short-term securities characterises it, but the exclusion of any other short-term investment (e.g. equity investments held for sale). Scholars have proposed that only short-term receivables or the sum of receivables collectable within 360 days and all other short-term investments (securities, shares, company shares, etc.) be included in deferred liquidity. Equitalia's hybrid option has no economic foundation. Suppose it is decided to include delayed liquidity items other than receivables. In that case, it is unclear why securities other than securities or different types of investment subject to potential short-term liquidity should be excluded from the summation.

In addition, a further element raises perplexity about the methodological correctness of the determination of deferred liquidity. From the above list, it can see that, according to Equitalia, only items recognised in the current statutory assets can be included in deferred liquidity. However, short-term items may be included in receivables recognised as financial fixed assets. Article 2424 of the Civil Code requires that financial fixed assets show, separately for each item, the amounts due within the next financial year. To all intents and purposes, these items are short-term items, yet there is no trace of these amounts in the schedule in Equitalia Directive No. 36 of 6/10/2008.

Even if this position reduces the amount of deferred liquidity concerning what should be determined if the business-accounting methodology were correctly applied, and therefore even if this choice is 'favourable' to the taxpayer in that it reduces the amount of the numerator, it cannot be ignored that the indicator governed by Equitalia's directive of 6/10/2008 No. 36 has a reduced capacity to indicate the company's actual financial situation. Therefore, this ratio is incapable of correctly highlighting the 'temporary situation of objective difficulty' to which Article 19 Presidential Decree 602/73 explicitly links the possibility of obtaining the instalment of the sums entered on the role.

In addition to deferred liquidity, the current liabilities governed by Equitalia Directive 36/2008 are also tainted by a theoretical problem that inevitably creates reverberations in the operational sphere.

It is well-known that short-term (or current) liabilities represent the sum of short-term debts, i.e., items that will turn into monetary outflows within 360 days.

Art. 2424 of the Civil Code requires the indication of amounts due beyond the next financial year and thus, by way of difference, permits the determination of short-term portions, but only concerning the relevant items in aggregate D) Payables.

For aggregates B) Provisions for risks and charges and C) Employee severance indemnities, there is no indication of the timing of future outflows. For both aggregates, the balance sheet writer must record the total amount without further specification.

Equitalia, to reduce the taxpayer's discretion, has interpreted the concept of current liabilities restrictively, requiring that only the short-term portions of liabilities be recognised in aggregate D) Payables may be included in this aggregate. The aggregate thus determined does not reflect current liabilities as the short-term portions of severance pay and provisions for risks and charges are totally absent. The operational impact of this imposition appears to be more disruptive than the provisions concerning deferred liquidity in that it causes a clear undervaluation of current liabilities resulting in an overvalued ratio.

The choice implemented by Equitalia is borrowed from the fear that, to obtain an instalment payment that is not due, taxpayers tend to identify short-term instalments connected with severance pay and provisions for risks and charges that do not correspond to reality. While this is understandable, it is not acceptable that adherence to this alternative may prevent companies, which are genuinely in a temporary situation of objective difficulty, from being able to access the facility under Article 19 of Presidential Decree No. 602/73, which, as noted above, may represent the discriminating element between the possibility of continuing the business activity and its inevitable liquidation and bankruptcy.

A final reason why the quick ratio governed by the Equitalia directives may not represent a valid instrument for verifying the existence of a temporary situation of objective difficulty concerns the reclassification logic imposed by the collection agent.

The numerator and denominator of the quick ratio are derived from the summation of statutory aggregates that, in turn, reflect the recognition of double-entry accounting entries. Article 2424 of the Civil Code provides that accounts are recognised as assets or liabilities/equity depending on the accounting section (debit or credit) in

which the ledgers are recognised. Accounts recognised in debit are shown as assets, while accounts with values identified in debit are shown as liabilities or equity. In the current state of the law, the only exceptions to this principle concern adjustment funds, the value of which is deducted directly from the relevant asset item.

Determining a significant quick ratio presupposes a reclassification free from misinterpreting accounting items. It is well known that determining the quick ratio requires a prior reclassification of things in the balance sheet based on the items' different collection/receivable maturity. Such a reclassification interprets the accounting items entirely differently than in double-entry accounting. In the reclassification, according to the financial criterion, it is not the double-entry column that is substantial, but rather the ability of the item to be transformed into a future short- or long-term income or expense that is important. All aggregates are therefore considered based on their ability to transform into income and expenditure, regardless of the initial double-entry recognition of the item itself.

The above may seem 'obvious' and, therefore, redundant. However, this does not correspond to the truth since the lack of understanding of the correct reclassification principle is often the reason for severe errors in the placement of accounting items with the consequent determination of misleading economic-financial ratios.

As an example, consider advances on termination benefits. In the statutory financial statements, all advances are recognised according to the logic applied in general accounting. Advances on staff severance pay are therefore recognised in C) Current Assets, II Receivables, 5) Others, or in B) Fixed Assets, III Financial Fixed Assets, 2) Receivables, d) Others. In contrast, customer advances are recognised in D) Payables and 6) Advances. Immediate/deferred liquidity and short-term liabilities are determined by summing up the civil law items shown in the schedule on the previous pages. This means that advances will be added to short-term receivables if recognised in aggregate C) Current Assets. However, such aggregation leads to a quotient tainted by a logical reclassification error.

An advance on severance pay does not become future income but instead reduces future outgoings. When the severance pay liability is settled, the employee will be paid a sum equal to the amount of severance pay accrued to him a net of the advances received. This advance is, therefore, not an asset item but must be deducted from a liability item.

Since the current liabilities of the quick ratio governed by the Equitalia directives do not include the short-term portion of the termination indemnity, if the debt for termination indemnity were to be settled within 360 days, the quick ratio governed by the collection agent would be vitiated by a twofold methodological error. If the termination indemnity advance were to be incorrectly included among the receivables, the short-term portion of the debt for termination indemnity would not be recognised as a current liability.

The advances on staff severance indemnity are, of course, only one of the many items that, following the requirements of the Equitalia directives, could be incorrectly reclassified with a consequent incorrect determination of the quick ratio.

This is not the place to make a detailed list of every accounting item that could be subject to misleading reclassification with the consequent calculation of a quick ratio devoid of significance.

For the results of the aggregates thus determined to be significant, the reclassification of balance sheet items requires critical subjective intervention by the analyst. The automatisms that place each statutory item in a specific short- or long-term aggregate are prodromal to the determination of erroneous reclassifications that, inevitably, lead to the decision of misleading ratios lacking any significance.

These considerations raise more than one perplexity as to the actual capacity of the quick ratio governed by Equitalia Directive 36/2008 to highlight a temporary situation of objective business difficulty, which, as we have repeatedly pointed out, represents the only regulatory element based on which the collection agent can grant the facility of deferred payment of the sums entered on the tax rolls.

Considerations concerning the ability of an individual ratio to play a discriminating role in identifying temporary situations of objective difficulty under Article 19 of Presidential Decree 602/73

Even though the analysis by ratios is the subject of many doctrinal positions, there is a substantial unanimity of opinion as to the need for such an investigation to be carried out systematically and systematically.

All ratios must be interpreted simultaneously and in the light of the indexes as a whole, also considering any ratios that do not originate directly in the financial statements.

The systemic interpretation must also be combined with a systematic analysis method to highlight the individual ratios' time trends.

The point value of a single index, insofar as it is potentially insignificant, can lead to misleading considerations about the actual company situation. For this reason, it is conceptually incorrect to assume that the value of the quick ratio concerning a specific financial year can be considered conclusive proof of the existence of the 'temporary situation of objective difficulty' referred to in Article 19 Presidential Decree 602/73.

If the quick ratio exceeds unity in a specific financial year, the company may enjoy excellent financial health. However, if interpreted systematically together with all the other indicators, this ratio could reveal a situation, more or less temporary, of objective economic-financial difficulty.

Let us assume, for example, the case of a company with a quick ratio of 1.1 at 31/12/n. As it exceeds unity, this ratio would prevent the company from accessing the instalment facility for the debt entered on the tax roll since, according to Equitalia, a quick ratio greater than unity would demonstrate the non-existence of a temporary situation of financial difficulty.

Imagine, however, that the time trend of the quick ratio is as follows:

Table 1: Quick ratio years N-3, N-2, N-1, N

Quick ratio	
31/12/N-3	1,5
31/12/N-2	1,3
31/12/N-1	1,2
31/12/N	1,1

As can be seen, even though at 31/12/n the index exceeds unity, the trend of the quotient worsens conspicuously, suggesting a hypothetical further worsening of the financial situation that could lead to a future value below unity. To

this consideration, however, one could counter that the initial value of the quotient is 'abnormal' in that it is well above agreement, i.e. the minimum limit of a generally defined stable financial situation. Notwithstanding this consideration, however, it seems unquestionable that the judgement on the value of the index must also be unequivocally based on the analysis of its time trend.
Let us now assume that the quick ratio is placed in the following indicator context:

Table 2: Quick ratio, Debt ratio, ROA, and average cost of debt

	Quick ratio	Current ratio (Short-term assets/short-term liabilities)	Debt ratio (Debt/equity)	ROA (Operating profit/net assets)	Average cost of debt (Financial charges/total debt)
31/12/n-3	1,5	1,6	4,2	4.1%	5,2%
31/12/n-2	1,3	1,4	5,3	4.0%	5,1%
31/12/n-1	1,2	1,3	6,2	3.5%	5.4%
31/12/n	1,1	1,2	6,5	3.2%	5.9%

The contextualisation of the quick ratio in the set of ratios illustrated above shows how the company is characterised by financial difficulty resulting both from the company's debt-to-equity ratio and from the comparison between the cost of capital (average cost of borrowed capital) and the income benefit obtained from the company's investment (ROA). In other words, the context of the quotients illustrated above shows a company with significant financial problems, as the debt ratio has an upward trend that leads it to a value indicating an unstable financial situation. In addition, it can be seen that a profitably uneconomic debt action is also taking place due to a negative leverage effect (ROA ≥ average cost of debt capital). This is not the appropriate place to delve into the issue of the impact of implicit financial charges on the profitability (leverage effect) and financial (leverage rate, quick ratio and availability ratio) aspects of debt. From the above values, however, it is clear that the company cannot boast of a flourishing financial situation. Despite the presence of a quick ratio consistently higher than one, its trend, interpreted systemically with the other quotients reported, despite the simplicity and lacunae of the analysis, shows instead, incontrovertibly, the existence of financial difficulty, understood in a broad sense.
This shows that the punctual analysis of a ratio never allows one to judge the company's situation, be it income or financial.
In the above example, the data provided may not directly impact the decision to grant the tax debt instalment facility as this facility depends on a temporary situation of financial difficulty. Equitalia is not interested in the company's overall condition but must focus on verifying any short-term financial problems. The existence, for example, of a comprehensive financial imbalance in a company is not part of the requirements that a company must meet to obtain the possibility of debt rescheduling. There is no doubt, however, that the values illustrated above show with certainty that the point value of the quick ratio may not be significant for verifying the company's situation. And this could undoubtedly have considerable weight in ascertaining the existence of what Article 19 Presidential Decree 602/73 defines, in a generic and general manner, as a 'temporary situation of objective difficulty'.
To complete the above considerations, it is finally necessary to understand whether an analysis carried out exclusively using indices can be considered exhaustive. Only an affirmative answer to this question would allow one to believe it correct to conclude the existence of a temporary situation of objective difficulty based on the value assumed by a specific ratio. One must therefore ask oneself whether ratios, in addition to the need to be interpreted systematically, necessarily require the use of complementary analytical tools or whether, on the contrary, they can be considered specific elements for an in-depth analysis of the financial situation.
The question is rhetorical insofar as both scholars and practitioners consider it indispensable for the static analysis by indexes to be complemented by the interpretation of corporate cash flows.
In the balance sheet, 'stock' equity and financial values referring to a precise instant are flanked by 'flow' income data as they refer to a period. For this reason, the income also represents a 'flow' value that derives from the presence, in the income statement, of values referring ap. to a period.
However, 'income dynamics' should not be confused with 'financial dynamics', the analysis of which, going beyond the static view crystallised in the values recorded in the balance sheet, is capable of capturing the intertwining of monetary and financial flows that are incessantly produced and consumed in the flow of company management.
A dual representation, therefore, characterises the in-depth analysis of the 'dynamics' of the book values: An analysis of the 'flow' components, negative and positive of income, must be accompanied by an investigation of the purely financial nature of the company's income and expenditure.
Even if the financial analysis were conducted systematically and systematically, an in-depth examination of the ratios alone could never be considered complete, exhaustive and reliable. The standard OIC 10 Cash Flow Statement emphasises that the informative benefits of the cash flow statement, i.e. the document summarising all the flows produced and consumed by the company's operations, are multiple in that the report makes it possible to evaluate.

- the cash flows produced and consumed by operations and how they are used and hedged.
- b) the ability of the enterprise (or group) to meet short-term financial commitments.
- the ability of the enterprise (or group) to finance itself.

OIC Standard 10 Cash Flow Statement asserts that cash flows represent 'an increase or decrease in the amount of cash and cash equivalents'. This statement, which echoes what is stated in IAS 7 Statement of Cash Flows, recognises cash flows as the only changes worthy of recognition and disclosure so that cash flows expressed in terms of net working capital are no longer counted among the financial

valuable information to internal managers and external users of companies.

The analysis by quotients, although implemented systematically, does not allow for the study of the typology of liquidity needs and sources. This limitation cannot be overcome as it is an intrinsic element of ratios. The financial ratios are inherently static and lack information on the characteristics of income and expenditure for the period in question. Therefore, such an analysis is intrinsically limited and deficient and needs a complementary investigation concerning financial dynamics.

Simplifying a highly complex issue, it is possible to state that the first step of the dynamic financial analysis employing flows requires the comparison of flows with similar structural characteristics. Only the balance between recurring sources (i.e. revenues that recur over time) and similarly non-occurring requirements guarantees the company's financial soundness. In fact, in the presence of recurring needs financed by occasional sources, the enterprise cannot be financially balanced.

What is of interest here is not to illustrate all the benefits of dynamic financial analysis by flows but rather to verify whether the determination of a quick ratio greater than unity can give rise to a 'false negative'. In other words, we must ask whether the absence of any reference to flow analysis, even in the presence of a quick ratio that might suggest the existence of financial equilibrium, can conceal a 'temporary situation of objective difficulty'.

To this end, consider the following business case:

Table 3: Financial reporting Lucky Co.

Balance sheet Lucky Co. - 31/12/n-1 e 31/12/n						Profit and Loss Lucky Co. Year n			
Assets	**31/12/n-1**	**31/12/n**	**Debt and Equity**	**31/12/n-1**	**31/12/n**	**Costs**	**Year N**	**Revenues**	**Years N**
Speculative Securities	1.500	1.450	Fornitori	250	100	Inventories 1/1/1n	900	Ricavi di vendita	15.180
Customers	200	1650	F.do tfr	900	900	Purchases of raw materials	3.000	Rimanenze finali	1.470
Bank	30	30	Mutuo	2.300	3.300	Depreciation	600	Plusvalenze	5.000
inventories	900	1.470	Debiti tributary	600	1.200	Administrative costs	5.300		
Plants and buildings	10.500	9.000	Fondo amm.to	3.500	3.600	Miscellaneous industrial costs	4.950		
						Marketing costs	1.000		
			Totale passivo	7.550	9.100	Taxes	1.200		
						Financial expenses	100		
			Social capital	2180	1000	Wages and contributions	4.000		
			Profit reserves	3.000	3.200	Severance pay	300		
			Profit for the year	400	300				
						Total Cost	21.350		
			total equity	5.580	4.500	profit	300		
Total Assets	13.130	13.600	Total debt and equity	13.130	13.600	total	2.1650	Total revenues	21.650

Imagine that in year N

1. Buildings were sold (historical value 4000, depreciated by 500).
2. The annual loan instalment of 500 was paid off.
3. Speculative securities were sold, as occurred in year n-1, for securities on the balance sheet.
4. The reserve increase is due to the appropriation of profits from the previous year.

Let us assume that the analyst knows that in year n+1, Lucky will have to settle severance pay liabilities of 250 and pay an annual loan instalment of 500.

In light of this information, Lucky's balance sheet should be reclassified as follows.

Table 4: Balance sheet reclassified according to the financial criterion

	31/12/N-1	**31/12/N**		**31/12/N-1**	**31/12/N**
Bank	30	30	Tax payables	600	1200
Customers	200	1.650	Suppliers	250	100
Speculative securities	1.500	1.450	Short-term loan	500	500
			Short-term severance pay	300	250
Total immediate and deferred liquidity	1.730	3.130			
Inventories	900	1.470			
Total short-term assets	2.630	4.600	total short-term liabilities	1.650	2.050
Plant and buildings	10.500	9.000			
(Depreciation fund)	(3.500)	(3.600)	Long-term loan	1.800	2.800
			Long-term severance indemnity	600	650
Total long-term assets	7.000	5.400	Total long-term liabilities	2.400	3.450
			Social security	2.180	1.000
			Reserves	3.000	3.200
			Profit for the year	400	300
			Total net equity	5.580	4.500
Net Assets	9.630	10.000	Total	9.630	10.000

Based on the above data, the quick ratio as at 31/12/n-1 and as at 31/12/n assumes the following values:

Table 5: Quick Ratio year n and n-1

	Immediate and deferred liquidity	Current liabilities	Quick ratio
Year N-1	1.730	1.650	1,0484
Year N	3.130	2.050	1,5268

From the above values, it can see that the trend of the quick ratio is increasing, demonstrating an apparent optimal short-term financial situation. It can also see that, in both years, the quick ratio exceeds unity, reaching, in year n, a value of 1.5268. If the analyst were to dwell only on the value assumed by this ratio, he would be able to conclude that a prosperous financial situation characterises Lucky.

According to the provisions of the Equitalia Directive 36/2008, the company Lucky in year n (as well as in year n-1) would not be eligible for the facility of deferred payment of the sums levied on it because the liquidity quotient exceeds unity by a large margin.

However, as explained in the preceding pages, the static ratio analysis must be interpreted in light of investigating the cash flows generated and consumed by the company's operations. Based on the above information, Lucky's cash flow statement, structured according to the format provided for by OIC Principle 10 Cash Flow Statement, would be characterised by the following values.

Table 6: Cash Flow Statement

A. Esercizio N	
Receipts from customers	13.730
(Payments to suppliers of raw materials)	(3.150)
(Payments to suppliers of administrative costs)	(5.300)
(Payments to suppliers of various industrial costs)	(4.950)
(Payments to suppliers of marketing services)	(1.000)
(Payment of salaries and contributions to employees)	(4.000)
Cash flow from ordinary operations	(4.670)
(Taxes paid on the income)	(600)
(Finance charges paid)	(100)
(Payment of severance pay to employees)	(300)
Cash flow generated by operating activities (A)	(5.670)
B. Tangible fixed assets	
(Investments in the plant)	(2.500)
Proceeds from disinvestments in buildings	8.500
Financial assets not held as fixed assets	
(Investments in speculative securities)	(1.450)
Divestments of speculative securities	1.500
Cash flows from investing activities (B)	6.050
C. Third-party funds	
Issuance of the new loan	1.500
(Annual loan repayment)	(500)
Own means	
(Reduction of share capital with repayment to shareholders)	(1.180)
(Dividends paid)	(200)
Cash flows from financing activities (C)	(380)
Change in Cash and cash equivalents	------
Cash and cash equivalents as at 1/1/n	30
Cash and cash equivalents as of 12/31/n	30

As can be seen, in drawing up the report, we have indicated the so-called characteristic monetary cash flow, i.e. the money flow generated by the company's typical operations. This flow derives from the sum of the monetary flows linked to revenues and costs that directly connect with the performance of the typical activity.

The indication of this aggregate is not specifically envisaged by the standard OIC 10 Cash Flow Statement, but its high signalling capacity suggests that it should highlight. The typical cash flow should represent the recurring source par excellence. Indeed, typical business operations should generate a cash flow that balances, albeit with the help of other regular sources, all requirements of a non-occurring nature. Therefore, the informative relevance of this aggregate requires it to determine within the section of the statement destined for the calculation of cash flows produced by income management.

From then on, a characteristic negative cash flow characterises Lucky because typical operations, instead of generating a financial source, cause a requirement. This means that the characteristic activity drains substantial financial resources instead of producing a constant inflow. In addition, it is noticeable that recurring sources are absent against the presence of requirements characterised by 'non-occurrence' (such as the payment of taxes, finance charges, the annual mortgage instalment, etc.). This testifies to a

situation of severe financial-monetary distress.

The fact that the characteristic monetary cash flow drains financial resources instead of contributing to their production and the resulting clear imbalance between recurring sources and needs show that the company's financial situation is characterised by a profound dynamic imbalance, even though the static liquidity index shows an improvement and has a value greater than unity.

The above case demonstrates how the apparent good performance of the quick ratio can conceal an unstable financial situation, which identifies the 'temporary situation of objective difficulty' which, under Article 19 of Presidential Decree 602/73, is the discriminating element that guarantees the acceptance of the tax debt instalment request.

Observations concerning the legality of the Equitalia directives and their consequent legitimacy in identifying the discriminating line capable of determining the temporary situation of objective difficulty on which, according to Article 19 of Presidential Decree 602/73, the grant of the tax debt instalment facility depends

In the preceding pages, it has been shown how the punctual analysis of a single ratio, determined, among other things, based on technical methods that are not always agreeable, can lead to incorrect judgments on the actual financial situation of a company.

However, the issuance of directives that, at least in theory, should favour the objective identification of companies in temporary financial difficulty gives rise to doubts as to the actual legal capacity of such documents to identify the management element that, according to Article 19 of Presidential Decree 602/73, constitutes the condicio sine qua non for the granting of the tax instalment facility.

Regardless of the considerations of merit set out above, we must now ask ourselves whether an Equitalia directive, by establishing a clear discriminating line, pragmatically not modifiable, between taxpayers who can obtain a relevant facility and those who are denied such a possibility, can legitimately play a substantial role of 'authentic interpretation' of a regulatory act such as Article 19 Presidential Decree 602/73.

The Equitalia directives could play a role if a specific juridical character characterised them.

Concerning this issue, each scholar can take the doctrinal position that they consider most correct. However, as happens in the jurisprudence field and in the tax context, the pragmatic elements that are really discriminated against are the decisions of the Tax Commissions and the Court of Cassation. While doctrinal positions are based on more or less shareable theoretical foundations, what is of concrete relevance, at least in the short term, are the statements expressed by judges in their rulings. It is, therefore, essential to understanding whether, for the Tax Commissions, the Equitalia directives are endowed with legal standing.

In this respect, the decision of the Treviso Provincial Tax Commission of 11.11.2014 No. 763/9/14 appears exceptionally relevant. In that decision, the Commission mentioned above substantially denied the legal validity of Equitalia directives, equating them to mere internal acts of the collection organisation, which as such are not capable of identifying insurmountable demarcation lines to identify the temporary situation of objective difficulty cited in Article 19 Presidential Decree 602/73.

This judgment deals with the case of a goldsmith company with approximately one hundred employees, which in November 2013 had requested Equitalia to pay its debt in instalments in 72 instalments of a constant amount, which had emerged from two tax bills for a total of €208,410.63. Equitalia had rejected the request because 'the indices used to define the situation of temporary and objective economic difficulty are not such as to prove the actual existence of the conditions set out in Article 19 of Presidential Decree No 602/1973, in particular, the quick ratio is not less than 1'.

The company's appeal was based on the notion that this ratio, due to which Equitalia had denied the debt instalment, was merely an internal expedient of Equitalia not provided for by any rule. The Treviso Tax Commission found that the company was in actual financial difficulty, demonstrated, among other things, by the fact that it had submitted a bankruptcy plan for reorganisation, reduced its turnover by 45% and reduced the number of employees.

The Commission also pointed out that an agreement had also been reached at the headquarters of the Province of Treviso between the company and the trade union representatives to reduce the company's costs as a result of the continuing crisis in the gold sector, demonstrating the problems that the company was trying to manage and overcome. For this reason, the Commission held that it had to consider the quotient indicated by Equitalia as a mere reinforcement of this temporary economic difficulty. In particular, the ruling states that 'Article 19 of Presidential Decree 602/1973 does not establish any particular conditions, but merely requires a "temporary situation of objective difficulty", as the party has demonstrated. The Commission, therefore, considers that the refusal of the instalment payment would result in a further heavy burden on the economic situation of the applicant company. And it considers that the refusal is not justified based on the abovementioned rule".

Considering Equitalia's directives as "Mere" acts that, at most, may provide useful information/considerations to interpret the law, but can never constitute legal acts that substantially supplement the legislative content and provide an "authentic interpretation" of regulatory acts, is, therefore not a mere doctrinal theory, but reflects a position explicitly taken by a tax court. Or, rather, by several tax judges insofar as the same conclusion, albeit concerning a partially different situation, was also reached by the Turin Provincial Tax Commission in decision no. 62/2/11 of 31.1.2011. That decision concerns a natural person for whom Equitalia's directives no. 17 of 13/5/2008 and no. 7 of 1/3/2012, supplemented by the press release of 8/5/2013, requires the taxpayer to attach the ISEE certificate for debts exceeding €50,000. The Turin Commission's decision reads: "As is well known, the purpose of this certification is to assess the economical situation of persons applying for subsidised social benefits (nursery schools, school canteens, etc.), i.e. the situation of indigence, a purpose that is completely outside the scope of the case in question. The granting of the instalment facility, based on the rule mentioned above, does not presuppose a situation of indigence at all but the temporary difficulty of meeting the debt in a single payment. This situation must assess concerning quite different parameters, such as the size of the debt regarding

the debtor's income. Equitalia's claim to obtain the ISEE certification, in the face of the futility of that certification for the assessment required by the provision mentioned above, is therefore unjustified and excessively burdensome for the taxpayer. The appeal, therefore, is well founded and must be upheld, with the annulment of the contested act".

The Turin Tax Commission, therefore, also considered the provisions of the Equitalia directives to be non-binding, equating them to mere internal acts of the collection agent, lacking the necessary juridical nature that would guarantee the possibility of supplementing and providing elements for a constrictive interpretation of the regulations in force. The position of the tax judges thus demonstrates how even the competent authority in the tax field believes that the quick ratio should not and can never be considered the sole discriminating element to verify a temporary situation of objective difficulty, which, according to Article 19 of Presidential Decree 602/73, guarantees that the tax debt can be paid in instalments.

Therefore, only a complete analysis of all the balance sheet ratios, supplemented by an in-depth analysis of the company's inflows and outflows, can provide the necessary elements of knowledge to allow a correct decision to be made regarding the granting of the instalment payment of the sums on the tax rolls.

The determination of the quick ratio thus represents only a tiny piece of the information necessary for debt deferral to be granted to companies truly experiencing a temporary situation of objective difficulty.

To conclude these brief remarks, it should be considered that the taxpayer, according to Article 19 Presidential Decree 602/73, paragraph 1-quinquies, has the right to request the application of an extraordinary instalment plan if he finds himself, for reasons beyond his control, in a proven and complex situation of difficulty linked to the economic crisis. If this occurs, the payment deferral may be increased up to 120 instalments. To grant such an increased instalment facility, a proven and complex situation of difficulty is to be understood as one in which the following conditions are jointly fulfilled: A) ascertained impossibility for the taxpayer to pay the tax credit according to an ordinary instalment plan; b) solvency of the taxpayer, assessed with the instalment plan that can be granted according to the paragraph as mentioned above.

The granting of the extraordinary instalment plan to pay the amounts entered on the tax rolls is governed not only by Art. 19 of Presidential Decree 602/73 but also by the Decree of the Ministry of Economy and Finance of 6 November 2013, referred to in Art. 52, paragraph 3 of Decree-Law no. 69 of 21/6/2013, and converted into Law no. 98 of 9/8/2013 (following the issuance of which paragraph 1-quinquies was added to art. 19 of Presidential Decree 602/73). Concerning taxpayers other than natural persons and sole proprietorships under the simplified tax regime, Article 3, paragraph 2 of the Ministerial as mentioned above Decree identifies the following parameters as the elements that prove the existence of a business situation suitable for the granting of the extraordinary instalment plan: The amount of the instalment must be more significant than 10% of the value of production, monthly and enumerated under Article 2425, numbers 1), 3) and 5) of the Civil Code and the quick ratio [(deferred liquidity + current liquidity)/current liabilities] is to be between 0.50 and 1. While the granting of normal debt accrual has been the subject of a series of specific Equitalia directives, identifying the characteristics that a company must possess to have access to an extraordinary tax debt deferral plan has been entrusted to a Decree of the Ministry of Finance. Therefore, the dividing line between taxpayers who can access the 120 instalment payment plan and those denied this other facility is based not on an Equitalia directive but on a ministerial decree. Unlike the Equitalia directives, this act undoubtedly has its own normative force.

That Decree also identifies the quick ratio governed by Equitalia directive 36/2008 as the discriminating element for obtaining the great tax debt payment plan. Therefore, the criticisms made in this regard in the preceding pages continue to exist. However, the fact that the demarcation line between companies that can potentially benefit from the extraordinary tax debt payment plan and companies that are not entitled to access this additional facility is based on a Ministerial Decree and not on an Equitalia directive entails the legal unassailability of the discriminating element identified by Article 3 of the MEF Decree of 6/11/2013 (quick ratio between 0.50 and 1), even though the latter refers to an index that raises doubts and perplexities.

In conclusion, it can therefore be affirmed that while the increase in the number of instalments (from 72 to 120) is subject, in a legally safe manner, to the determination of the quick ratio alone, calculated based on the dictate of Equitalia Directive 36/2008, the granting of the instalment of the sums entered on the role, to be implemented according to the ordinary payment plan, cannot depend on the mere calculation of that ratio. Also or, perhaps, above all, in light of the decisions as mentioned above taken by the Treviso and Turin Tax Commissions, it is, therefore, possible to hold that, notwithstanding the issuance of Equitalia's directives no. 17 of 13/5/2008, no. 7 of 1/3/2012 and no. 36 of 6/10/2008, the verification of the temporary situation of objective difficulty, i.e. the condicio sine qua non imposed by art. 19 Presidential Decree 602/73 for obtaining the tax debt instalment plan, must depend not on the mere calculation of a single quotient, but rather on the determination and interpretation of a complete set of financial ratios supplemented by the analysis of the interweaving of monetary and financial flows that are incessantly produced and consumed in the flow of the company's operations

Conclusions

After these brief considerations on the use of the Quick ratio by the Italian tax authorities in deciding whether or not to grant a taxpayer's tax debt instalment facility, it can be stated that, on the one hand, the use of a corporate tool represents an evolution on the part of the Italian tax authorities. On the other hand, however, it must note that the service is incomplete and potentially misleading because the Italian tax authorities have not considered a golden rule concerning ratios, namely that all ratios must be interpreted systemically. In this specific case, the index is a single one. Still, the Italian tax authorities have not considered that analysing a single index and drawing considerations from the performance of this ratio can lead to the identification of erroneous and misleading concerns. As shown in the previous pages, a perfect Quick ratio index can conceal a

extreme financial imbalance that would require the tax debt to be paid in instalments, but that cannot be granted because the Quick ratio shows a financial situation that is not worrying. This further demonstrates how business tools of a technical nature should only be used in exceptional circumstances and by experts and cannot be used without the systemic rigour that characterises the use of balance sheet ratios.

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