

Fiat Chrysler Is Told to Pay \$1.6 Billion in Italian Back Taxes

Italian-American car maker suffers a blow as it tries to complete its merger with Peugeot's owner

[Eric Sylvers](#) Updated Dec. 5, 2019 3:01 pm ET



A Rome dealership selling Fiat Chrysler cars. Photo: Alessia Pierdomenico/Bloomberg News

MILAN—Italy is demanding €1.4 billion (\$1.6 billion) in unpaid taxes from [Fiat Chrysler FCAU 1.16%](#) Automobiles NV, in another hit to the car maker as it tries to complete [its merger with Peugeot](#) maker PSA Group while defending itself against a major lawsuit from General Motors Co. in the U.S.

The Italian tax authority said in October that Fiat Chrysler understated the

value of the recently acquired Chrysler when the company moved its headquarters to the Netherlands in 2014. When companies move their base out of Italy, they must pay a one-time tax based on capital gains.

Fiat Chrysler disputes the Italian tax agency's numbers and said it is confident of significantly reducing the amount that Italian authorities want paid. A spokesman for the company said any eventual tax debt would be offset by previous losses, leaving "no material cash outflow or impact on earnings."

The tax affair comes as Fiat Chrysler is in the midst of completing a €50 billion merger with PSA Group. While the Italian tax issue and the [legal dispute with GM](#) aren't expected to derail the PSA deal, which Fiat Chrysler wants to seal by the end of this year, some financial analysts say they could slow down negotiations or put pressure on the Italian-American car maker to adjust the terms of the deal.

Italy's Fiat acquired Chrysler in stages after the U.S. company declared bankruptcy in 2009. In the final step in 2014, Fiat bought the 41% of Chrysler that it didn't already own for \$4.4 billion from a trust of the United Auto Workers union. That transaction valued all of Chrysler at about \$10.6 billion.

Italy's tax authority maintains that, at the time Fiat Chrysler moved its headquarters, the company understated the value of Chrysler by about €5 billion, according to a person close to the company. The tax authority declined to comment. Bloomberg first reported the potential amount of Fiat Chrysler's tax bill.

Fiat Chrysler can use its past losses to lower or cancel the cost of the potential tax bill, but that could mean it pays more in future taxes, said Luigi Belluzzo, a partner at accounting firm Belluzzo International Partners.

“If there isn’t a pre-litigation agreement, the controversy could go for years,” he said.

In documents filed for its third-quarter results on Oct. 31, Fiat Chrysler said Italian authorities began their tax audit in 2017, and on Oct. 22 of this year sent a report to the company. From that date, the two sides have 60 days to negotiate.

“We cannot predict whether any settlement may be reached or if no settlement is reached, the outcome of any litigation,” Fiat Chrysler wrote in October. “As such, we are unable to reliably evaluate the likelihood that a loss will be incurred or estimate a range of possible loss.”

GM sued Fiat Chrysler in the U.S. last month, accusing Sergio Marchionne, Fiat Chrysler’s longtime chief executive [who died last year](#), of authorizing bribes to UAW officials to reach an agreement to reduce labor costs and gain an advantage over GM. Fiat Chrysler has denied GM’s allegations and called the lawsuit meritless.

The suit is connected to a long-running federal probe into corruption at Fiat Chrysler involving labor-relations executives and UAW officials. The company has said that the wrongdoing under investigation involved a small group of individuals acting in their personal interests.

UAW has said the bargaining process wasn’t corrupted, but is instituting reforms to combat corruption.

—*Giovanni Legorano contributed to this article.*

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