COSTANZO & ASSOCIATI

CONSULENTI DI IMPRESA

Doing Business in Italy 2018

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Foreword

This Guide has been designed to provide assistance for investors interested in doing business in Italy.

It is intended to answer some of the most essential, broad queries that may arise.

When specific problems occur, it will often be necessary to refer to the Laws, regulations and decisions of the country to obtain appropriate accounting and legal advice.

Investing in Italy

In order to increase their competitiveness, companies need to start an internationalization process, which aims to enter in new markets, where companies might be interested to invest in. Nowadays, the exit from national boundaries has become a fundamental prerequisite to maximize profit and corporate success. Actual effect of recent economy's slowdown stressed out Western Europe to be an attractive pole for foreign investments.

The Italian economy is characterized by 4.4 mln. highly dynamic firms operating in many diversified industries. The vast majority of these are small and medium-sized enterprises (SMEs), of which more than 200,000 have over 10 employees. There are 3,400 are large companies with more than 250 employees. While the presence of a vast majority of SMEs is a common feature of many European economies, a peculiarity of Italian industry is the presence of a large number of micro-firms: approximately 95% of companies have less than nine employees, 3% of companies have 10-19 employees and approximately 2% of companies employ more than 20 people (source: ISTAT, 2015).

Indeed, besides data and economic reports, entrepreneurs need to look over statistics or quantitative analyses and try, through their experience, to understand national culture and potential key-aspects, which usually mathematics would not stress out.

Comparative data highlight Italy to be on the Chinese's podium for investments abroad. In addition, the Chamber of Commerce in Milan informs that Region Lombardia hosts 40% of Chinese companies' legal seats.

With reference to the analysis conducted by the United Nations Conference on Trade and Development (UNCTAD), in 2015 the total Foreign Direct Investments in-flows equaled to 20.279 mln $. Currently, the Italian government is pushing up efforts to promote firms' developments and reduce bureaucracy.

Why should foreign entrepreneurs invest in Italy?

Due to the myriad of attractive sides, Italy can offer, the answer could be:

- "Made in Italy" itself has always been a worldwide known symbol of excellence and prestige;
- The Italian market is one of the principal markets in the world, particularly for textile and manufacture sectors;
- Great capacity and opportunities for innovation, research and development;
- The related tax benefits for R&D investments, capital goods and machineries, targeted to foster new firm's development;
- Last but not least, the importance of its strategic and logistical position.

The industrial sector accounts for 18.5 percent of GDP with the remainder contributed by agriculture. Motor vehicles, fashion and luxury goods, life sciences, aerospace, chemicals, information and communication technology, logistics, renewable energy, and precision machinery are among the most important sectors of Italian manufacturing.
In particular, in Italy drones' production is catching on for their wide application's opportunities, which range from agriculture to security functions. Virtual reality, according to experts, will boom up in the near future, while new technologies allow their implementers to satisfy the huge increasing demand of various different economic sectors.
The social commitment to preserve the environment succeeded investors and builders to steer the buildings' industry to an ecological approach. The "green" path takes to the research of new environment-friendly solutions and materials, which, in addition, shall even provide cost savings in the near future.
With reference to Research & Development, recently the Italian government provided a tax-receivable for R&D investments. This treatment can be exploited by all typologies of firms operating in any economic sector with a credit's limit of 5 mln € per year. However, corporate income is an unavoidable requisite. The scope of accepted R&D activities to be included are:

- experiments and researches;
- project for new goods and services;
- trials of new processes, goods and services, which must not be intended for commercial purposes.

This benefit provides two typologies of tax-receivable:

- 25% tax-receivable for costs concerning equipment;
- 50% tax-receivable for high qualified human resources and academic partnerships.

The credit is "automatic", therefore companies will not need to initiate a preventive procedure to request it. Indeed, companies are required to respect certain requirements:

- the conservation of R&D's related records;
- the auditor's certified documentation;
- the duty to enclose such certification to the final financial statement.

Furthermore, the Italian government cares to provide to investors benefits, in order to make itself worldwide attractive.

General overview

Investments made in Italy are not subject to any limitations and are treated in the same way as those made by Italian entities. Foreign investors who intend to do business activities in Italy can choose from a wide range of legal entities that may be incorporated under Italian law, depending on the company's organizational model, its business objectives, level of capital to be committed, extent of liability, tax and accounting implications.
Italian Law offers a variety of legal forms (e.g. corporations, partnerships), which are subjected to specific tax rules and corporate laws. There are two main categories of legal entities:

- partnerships (società di persone);
- Companies (società di capitali).

Partnerships divide themselves into limited partnerships (S.a.s.), Copartnerships (S.n.c) and ordinary partnerships (S.s.)

The Italian Law provides for companies other corporate types, which include Stockholding companies (S.p.a), Limited Liability companies (S.r.l), Limited partnerships with share capital (S.a.p.a.) and Cooperatives.
The most important difference consists in the fact that, with reference to partnerships, assets and liabilities belong to the members' personal invested capital.
For companies exists a fundamental basic principle: the company is liable with its assets for its obligations and the liability of shareholders/quota holders is, therefore, limited to the amount paid in, or to be paid in, as corporate capital.

Stockholding Company (Società per Azioni)

The Stockholding company has its own legal identity and it is the form favored by large enterprises, usually, preferred by the foreign investor. The means of incorporating a business enterprise as a legal entity in Italy are laid down by the Italian Civil Code.
For the Stockholding Company, the Italian Civil Code regulates:

- constitution;
- governance;
- liabilities and duties;
- liquidation.

To set up a Stockholding Company in Italy, future shareholders have to sign an agreement in front of an Italian public notary. It can be founded with either one or more shareholders.
The company may be established by contract or unilateral deed.
In case that company's equity belongs to a unique shareholder, such a shareholder will be unlimitedly liable when contributions in kind have not been made pursuant and/or until the required publicity is made as legally prescribed in the Italian Civil Code (the deposit in the Register of firms of a declaration drafted by the Executives). If there is just one shareholder, the contribution will necessary be done 100% at the agreement's day.
The Law does not set a limit to the number, nationality or residence of shareholders.

In order to gain a legal status, the public notary is required to deposit the formation agreement within twenty days at the Register of Companies of the municipality the new company has its registered office. The end of the procedure allows the new founded company to act as a legal entity.

According to the Italian Civil Code, corporate liability belongs only to the company and its owner's equity. The minimum share capital required equals to an amount of 50.000,00 €.

Due to legal requirements, at least 25% of contributions in cash have to be executed at the agreement's day. This is valid only if there are more than one shareholder. The remaining 75% can be covered even with goods or receivables.

The capital may be divided into shares of any denomination. The shares must generally be in nominative form and not issued less than their par value. There exists the exception that shares can have par value equal to zero. All shares must be of equal value, and its usual for them to confer equal rights. It might occur, with statute's dispositions, that owners decide to create different categories of shares, which might have different types of rights. Additionally, owners can decide over shares' quantity limits for each of them.

If the company achieves to generate profits during its business activity, share owners have rights, according to their equity's proportions, over the company's income. Before their distribution, dividends must be approved by the Shareholders' meeting for the yearly financial statement approval. The Italian Law prohibits companies to distribute more dividends than the generated profits certified by the company's financial statement.

Besides dividends' distributions, the company is required to constitute a legal reserve, which consists of 5% of profits for each fiscal period. The reserve should be raised until it reaches 20% of equity. If the reserve is reduced, the company must provide for its reserve's reintegration. Dividends cannot be distributed if the reserve does not be equal to 20% of equity.

Governance

According to the Italian Civil Code, it is possible to adopt three different typologies of governance models. These models characterize themselves about the control's and administration's power

distribution. To change the adopted governance model, it is necessary to call a Shareholder meeting in front of a Public Notary.

"Ordinary Model"

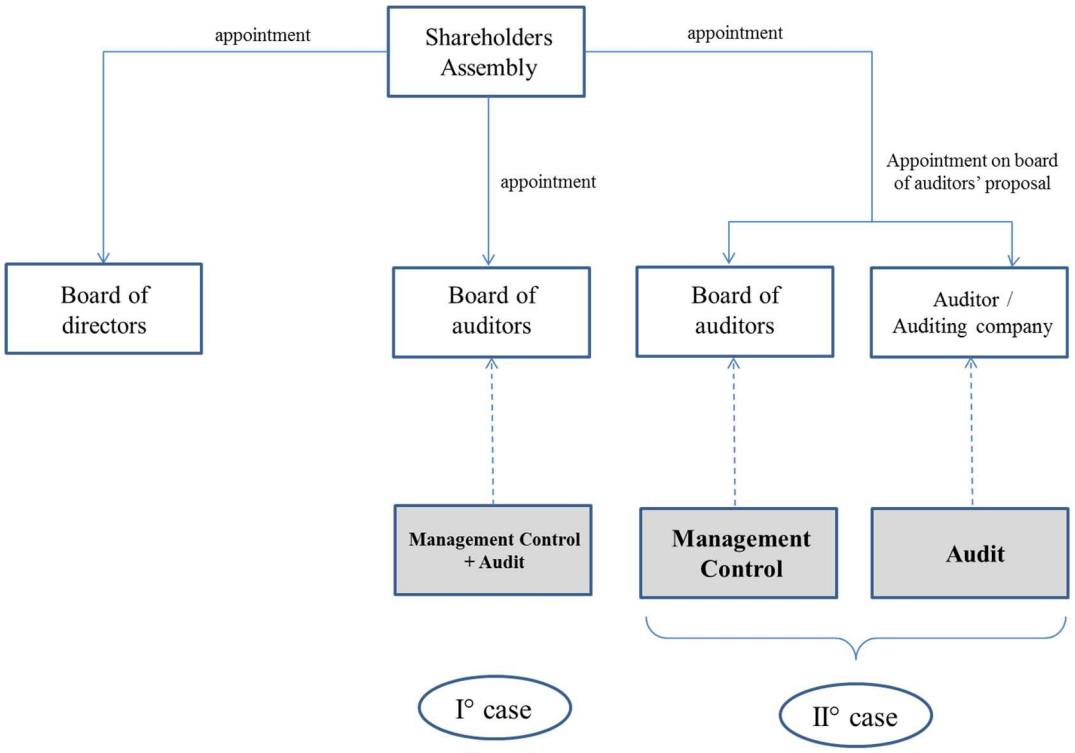
The firm's management is entrusted to an administrative authority, which might consist in one or more administrators. The unique director or the Board of Directors are appointed by the shareholders meeting, they stay in charge for three years and can be reenrolled.
There are two types of control over the management activities:

- assessment of Internal Control, Accounting System and Legality;
- corporate audit.

The first control activity is done by the Board of Auditors appointed by the Shareholders Meeting, they keep the role for three years and can be reenrolled.
Auditing operations can be done by the Board of Auditor, only if:

- it is provided by the Statute;
- all supervisors are auditors;
- the firm does not draft a consolidated financial statement;
- the company is not listed.

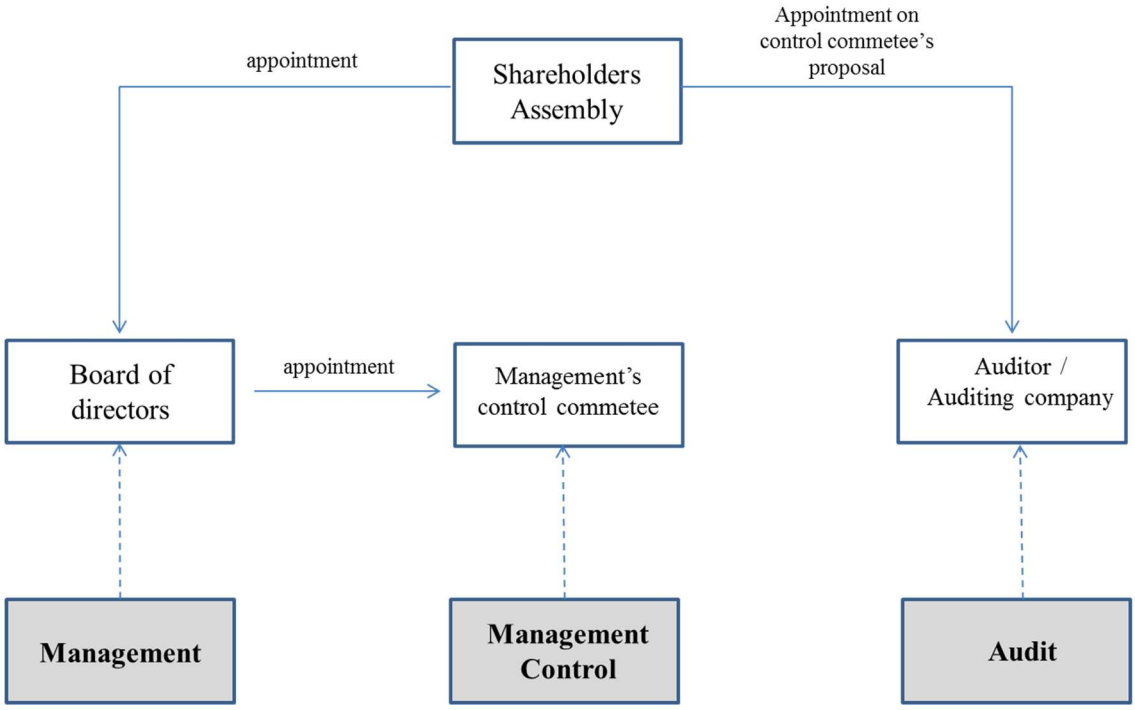
If the company is obliged to appoint an external auditor, or the shareholders might prefer this governance solution, the auditor is appointed by the shareholders meeting on proposal of the board of auditor.



"One - Tier System"

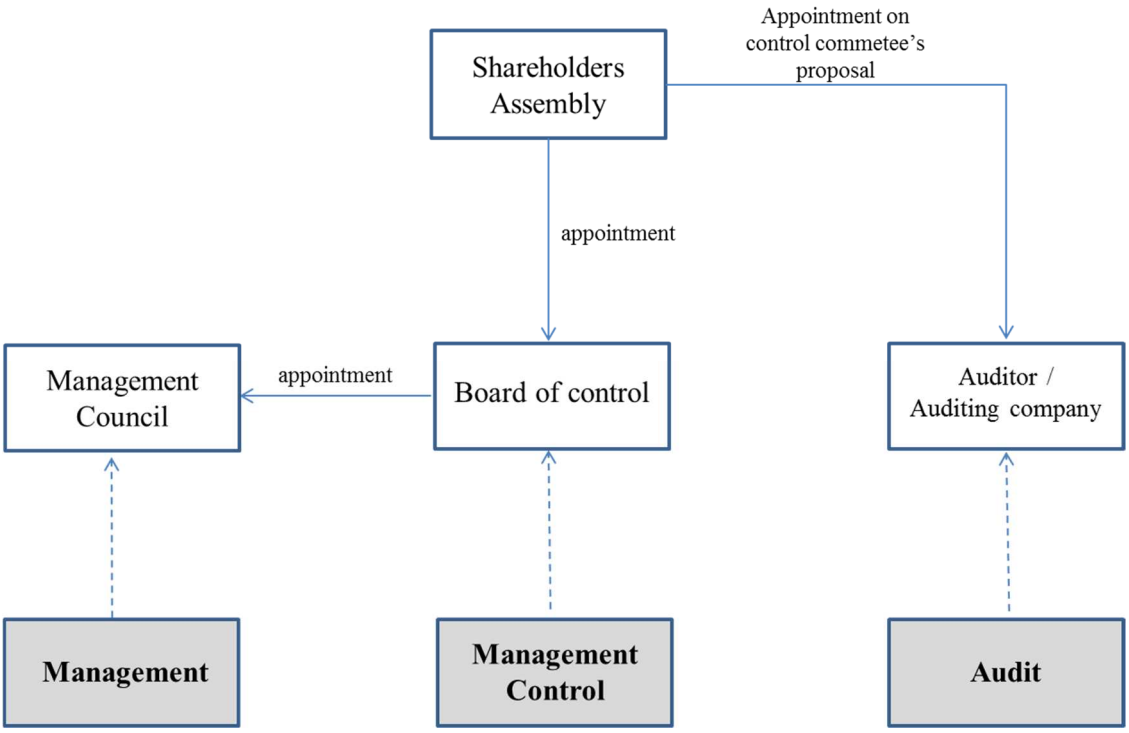
The company's Statute can provide the option to adopt the one-tier model. The firm's administration is entrusted to a Board of Directors, while the control over management will be supervised by a committee, which will be selected among the Board of Directors' members. For this reason, at list 1/3 of the Board of Directors' members has to satisfy independence requirements and a minimum of 1 of them has to be registered in the book of auditors. This governance model does not include the option to elect a sole administrator.

Auditing will be executed by a legal auditor or an auditing company. For listed companies audit has to be done by an auditing company registered in the appropriated Consob's database (the listed companies' authority). Decisions over auditing tasks and assignments depend on shareholders' decisions taken during their meeting.



"Two-tier System"

This governance system expects administration's powers to the management council, that will be nominated by the Board of Control, which provides monitoring activities. The Board of Control could be categorized as an intermediate authority between the shareholders' assembly and the administration body. The board of control is elected by the shareholder's assembly. Differently from the previous models, the shareholder's assembly does not approve the firm's financial statements and selects its administrator, but, it is expected to select its own board of control and the auditors or auditing firm to entrust the company's auditing activities. In some cases, the financial statement could be approved by the shareholders meeting.



Conclusions

Companies can choose among the available governance's model, Clearly, depending on either organizational structure or business model. The final choice relies on the extraordinary meeting, without the option to assign the selection's choice to the administrator's body. Previously, the Statute must include the opportunity to choose a specific governance model.

The choice to change the governance patterns may be made even after the company's birth. The final change will produce effects on the next fiscal year after the last Shareholders' meeting.

The most important aspects of each governance model are provided below:

- the ordinary model provides a clear cut between administration's and control's activities;
- the one-tier system has a more flexible and simple structure in comparison to the other governance models. It underlines the knowledge sharing between administration's and control's bodies;

- according to the two-tier system's features, this model provides to the control's authority important functions, which in the ordinary model would belong to the shareholders. Shareholders set up business guidelines to be followed and take the most relevant decisions, e.g. operations on equity, extraordinary operations, etc.

Limited Liability Company (Società a Responsabilità Limitata)

The formation's procedure is similar to the S.p.a's one. In order to set up a Limited Liability Company, potential investors are required to draft an agreement, if there are more than one partner, or a deed pol in case of only one shareholder. The agreement or deed pol needs by legal conditions to be signed with a public notary act. In case of only one partner, the administrator is required to deposit to the Register of Firms a declaration containing relevant information about the sole partner, therefore the partner becomes unlimitedly obliged. The notary, then, will deposit the document within twenty days at the register of companies of the municipality the new company has its legal office in.

After the deposit, the new firm acquires its legal status and allows itself to execute its capacity to act.

The minimum amount of equity should be at least 10.000,00€. This import might include both currency and all kinds assets, which could be susceptible of economic valuation. The Italian Law suggests the opportunity to choose an equity of only 1,00€. In this case, the Law recognizes the new company as a "Simplified Limited Liability Company" (Società a Responsabilità Limitata Semplificata). For this type of company the contribution should be done in cash, unless different legal dispositions.

The liability belongs only to the company and its equity. According to the Italian Law, priority goes to creditors first. After creditors have been satisfied, the company will be allowed to reimburse its partners.

Shares do not exist in the Limited Liability Company. Partner's shareholding is represented in proportion to equity.

If the company generates profits, 5% of these should be addressed to the legal reserve as prescribed by the law until the reserve's amount reaches 20% of equity.

The legal reserve can be used to cover losses. If it is the case, the company will be required to reconstitute the reserve to the prescribed conditions. Dividends can't be distributed until the legal reserve reaches the minimum legal amount.

Governance

In this type of company the ordinary system is the only one allowed by the Law. There are some differences about the audit rules: the deputy to the audit activities has to be monocratic. The statute can provide a body instead a monocratic choice.

Limited Partnership with Share Capital (Società in Accomandita per Azioni)

The Limited Partnership with Share Capital belongs to the joint stock companies category. Joint stock companies regulation will be applied even for this firm's category. Differently from the other partnerships it has two main types of shareholders.
Executives, according to the Italian Law, are all firm's administrators and they are unlimited obliged to the firm's obligations.
This excludes the choice to relieve them from administration duties or outsource administration authority. It might be possible to outsource single management acts or attorney's powers. The Italian Law allows to the company to entrust to third parties. During Shareholders meetings, Executives are not allowed to vote for nominations or revocations concerning the statutory auditors. If provided, the statute allows Executives, statutory auditors or management committee to change the statute. This power does not be transferred from the extraordinary shareholder meeting to other bodies, except statute's indications.
In case that the extraordinary shareholders meeting delegates the power to change the statute, Executives, with previous deposit of statute's changes at the Register of firms, will be allowed to act further changes. If the company adopts an ordinary governance model, the regulation concerning Board of Directors will be applied for Executives.

Otherwise, if a two-tier system has been adopted, Executives will be treated as management committee's members.

Limited partners are not involved in management operations. Their duty for corporate obligations is limited to the proportion of capital they actually own. In addition, they reserve themselves the right to apply veto on new administrators' proposals. This right allows top management to secure its position towards potential new administrators.

The participation to equity consists in shares, which do not differ between the two types of shareholder. Its legal base relies on the same one for stockholding companies, while its regulation find itself in few legal norms. Generally, its functional role is circumscribed to family holdings, which, consequently, hold corporate control.

	S.p.A	S.r.l. - S.r.l.s.	S.n.c.	S.a.s
Type of company	Medium-sized and large companies/listed companies	Small and medium-sized companies with a limited number of shareholders	Partnerschips set up to conduct commercial and non-commercial activities	Partnerschips set un to conduct commercial and non-commercial activities
Minimum share	€ 50.000	€ 10.000 - € 1	No minimum	No minimum
Liability for company obligations	Limited to the company assets	Limited to the company assets	Unlimited for all schareholders	Unlimited for general partners Limited for sleeping partners
Board of Statutory Auditors/Audit	Compulsory	Optional/Compulsory according to art. 2477 c.c.	Not provided for	Not provided for

Cooperatives

This kind of company differs itself by providing a "mutual" scope. Through a cooperative, partners can establish exchange relations much easier than the market would offer. In addition, the cooperative allows knowledge sharing among its partners. The features of exchange relations characterizes different cooperative's kinds. Differences can be observed in business operations and corporate structure. According to the relation between the partner and the cooperative, the Italian legislator provides three cooperative's models:

- consumers cooperatives: they operate in favor of their partners, who can be producers or consumers of goods and services;
- work cooperatives: they exploit partners' work and competences;
- support cooperatives: they avail oneself of goods and services supplied by partners.

The cooperative must constitute a public deed, that is drafted by a public notary. The incorporation deed is deposited at the Register of Firms.

Cooperatives are legal entities subjected to equity's variability. This means equity is not predetermined by legal dispositions like the other kinds of firm. According to the number of partners, it will vary. The company, as a legal entity, operating through organs, i.e. performing their functions through natural persons, who are assigned certain tasks. The Shareholders Meeting may be ordinary or extraordinary, depending of the items on the agenda. The meeting must be convened at least once a year within 120 days from the year end. The majority required for the composition of the meeting and for the validity of the resolutions are determined by the Laws and they are calculated according to the number of voting rights of the shareholders. The meeting is open to all members registered in the shareholders' and they are entitled to vote only the cooperative members who have been registered to shareholders. The Board of Directors is the body responsible for the management of the company, according to the strategic direction determined by the shareholders and the limits fixed by the Statute. The governance rules to be applied to cooperatives are the same for the S.p.a. Although cooperatives belong to Joint Stock companies, they benefit of a reduced tax rate (about 10%), due to the fact that mutuality is a principle guaranteed by the Italian Constitution. The reduced tax rate will be applicable if and only if they respect the dominant mutuality condition. Dominant mutuality concretes itself if either more than 50% of revenues or costs is realized or sustained by the partners.

Preparation and keeping of accounting records

Accounting records may be kept directly by the business at their premises, or by other persons at their respective offices.

There are two main compulsory accounting systems available depending on the company's characteristics and the amount of income declared in the previous year: one ordinary and one simplified (suitable for small entities with a simple organization). The businessperson (whether an individual or a company) is required to keep the books and records of accounts according to the provisions of the Italian Civil Code and the tax regulations.

Accounting books can also be kept electronically.

Trademarks

It is possible to obtain legal protection of a trademark in Italy in order to distinguish goods and services of one organization from those of another and to create an identity, a strong connection between the brand and the company. Registering a trademark prevents others using the same sign in commercial activities in the relevant territory. It is possible to apply for protection of a trademark in Italy, limited in geographic area and specific product class.

A trademark's owner has the right to its exclusive use and can prevent third parties from using an identical or similar mark for identical or similar products or services if it is likely to cause confusion. If the trademark also has a famous reputation, then this right is extended also to dissimilar services or products.

Trademark registration applications can be made at the Italian office of trademarks and patents.

It is possible to request trademark protection throughout the European Union (from Italy), meaning that a trademark can be registered, transferred, withdrawn, invalidated or expire and its use can be protected throughout the whole EU Community.

Registration of an EU trademark can be applied for at the Office for the Harmonization in the Internal Market (OHIM, based in Alicante, Spain).

Any natural or legal person from any country in the world may file an application for an EU trademark.

The applications can be filed either directly at the OHIM or at any of the national patent and trademark offices of the 27 Member States of the European Community or the Benelux Trade Mark Office.

Other options for foreign companies - Establishing an Italian branch of a foreign company

An Italian branch/secondary registered office may be a representative of the foreign company's core business including a permanent establishment in Italy with decision-making powers. This should be distinguished from the setting up of a completely new company used by the foreign party to conduct its business in Italy indirectly (which can be a subsidiary, "filiale" in Italian, of an existing foreign company), and secondly, from the conduct of a business in Italy without a permanent establishment as described above. The Italian branch office is not a separate legal entity and the parent company is responsible for its initiatives. Details of the branch office must be registered with the Business Register (Registro delle Imprese). The registration of a branch office is governed by the Italian civil code (Codice Civile). The foreign entity first needs to appoint a legal representative. The deed of appointment, the certificate of incorporation (memorandum of association), the articles of association and the registration details of the foreign company must be registered with the Business Register in the area in which the branch office is located. Where foreign companies have more than one branch office in Italy, the publication requirements involving the filing of the above-mentioned documents only need to be satisfied for the first Italian branch. All documentation must have been issued by a public authority with sworn translation into Italian. These documents must be filed with an Italian Notary (or with a District Notarial Archive). The notary will draft a specific notarial deed with the documents listed above as annexes, to be registered by the Notary and filed with the Business Register. If the branch office is not registered in this way, directors or anyone acting in the name and on behalf of the company will have unlimited liability for all company contractual obligations. The foreign company and its directors will be liable for company obligations contracted in Italy in its name (except for European companies given that European principles of freedom of establishment apply). The overall income of a permanent establishment in Italy of a company residing abroad is determined according to the rules governing the determination of the company income, as if it were a company domiciled in Italy.

Joint Stock Companies Taxation

- Tax rate equal to 24% on taxable income;
- applied on corporate income;
- non-resident companies pay taxes only on incomes produced in Italy;
- dividends are taxed on the 5% of their amount, if they come from White List countries.

According to the Italian Tax Law, joint stock companies are required to pay a proportional tax on corporate income, the so called "Imposta sul Reddito delle Società" (IRES).
Furthermore, companies are subjected to IRAP (Regional tax). The tax liability will be calculated by applying a tax rate equal to 24% on the taxable income.
In order to be taxable, the corporate income should be produced inside the Italian territories.
A company is resident in Italy and therefore its corporate income is taxable in
Italy, if the firm during the majority of the fiscal period has (alternatively):

- its legal seat;
- its administrative seat;
- its main business activities

On the contrary, for non-residential companies, incomes produced in Italy will be subjected to IRES taxation.
Generally, foreign companies might decide to start businesses without necessarily have their legal or administrative seat abroad. Hence, their choice focuses either on opening a branch or subsidiary in new countries. The choice will depend on fiscal consequences. In case that a new subsidiary will be opened, this will be represented as a distinctive entity separated from the parent company. Hence, it will be considered to be legally autonomous and isolated from the parent company's responsibility. On the other hand, branches consist in a secondary seat without any legal autonomy, through which the parent company executes its business activities in another country. In addition, branches provide certain fiscal advantages:

- minimum required capita does not exist;
- in case of taxable losses, these will have consequences even on the parent's company's final income;

- in case of profits, profits' transferring to the parent company will not be subjected to Withholding Taxes.

The taxable income is determined starting from the net profit. By applying positive and negative variations, which are compliant to Italian tax rules, the final taxable income will consist in the definitive taxable corporate income.

Dividends are taxable only on the 5% of the dividend's income with the exclusion of the remaining 95%. This option is valid for both qualified and not qualified profit sharing. In order to apply this rule, the dividend's distributor must be resident in a "White List" State. Otherwise, dividends will be fully taxed. For capital gains, there is a "participation exemption" treatment. Even in this case the Italian Law provides taxation reductions of the 95% for participations in companies having their fiscal residence in "White List" Country.

Capital Gains and Losses

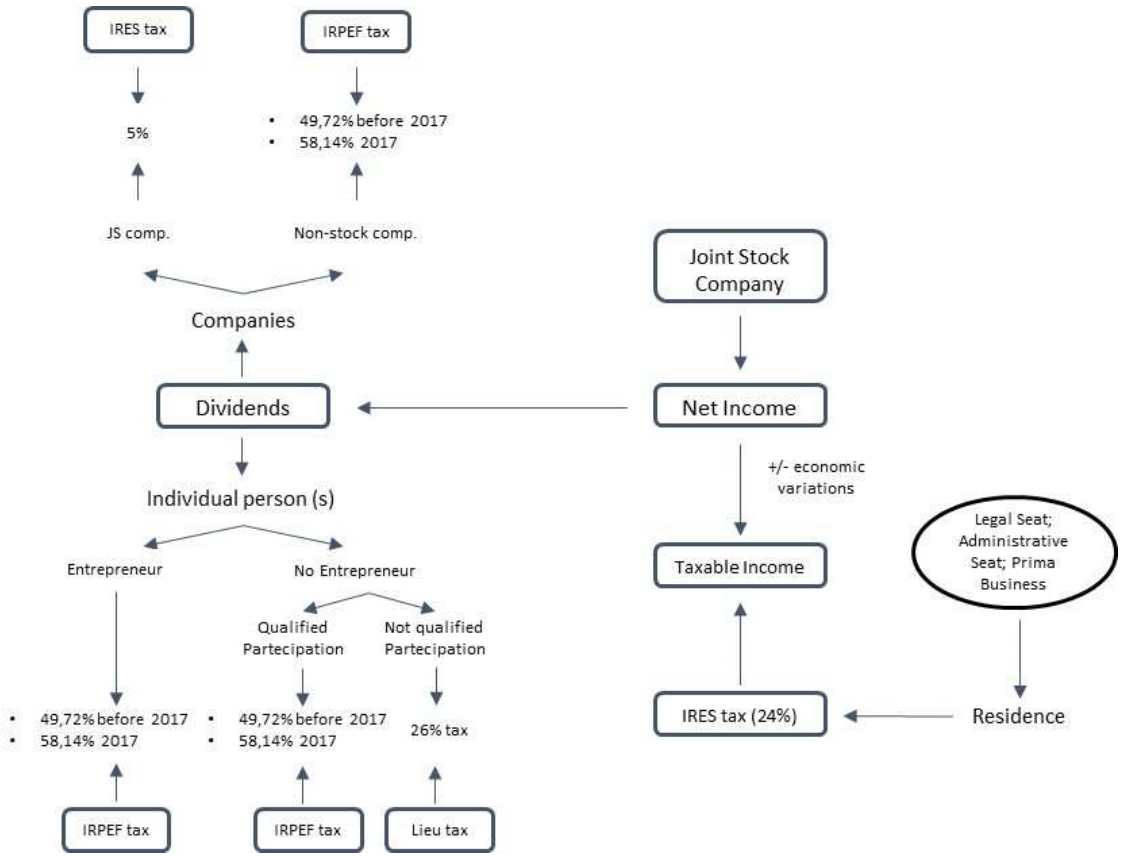
Capital gains on the transfer of company holdings, under certain conditions, are 95% exempt from taxation. Capital losses are not deductible. The exemption applies, provided that:

(i) the participation has been continuously held for at least 12 months;

(ii) the participation is classified as a financial asset in the first balance sheet closed after the acquisition;

(iii) the participated company is engaged in a business activity (companies whose assets are mainly represented by real estate not used in the business activity are not deemed to perform a real business activity);

(iv) tax residence of the subsidiary in a country or territory other than those with a preferential tax system. Capital gains on shares in non-resident companies are treated in the same manner as domestic gains. However, the exemption is subject to the condition that the participated company is not a resident of a state or territory that has a privileged tax regime for Controlled Foreign Companies (CFC) purposes. This holds true unless a ruling has been obtained that the holding of the shares in the controlled foreign company does not achieve the localization of income in a state having a privileged tax regime. Corresponding capital losses are not deductible however.



Imposta Regionale sulle Attività Produttive (IRAP)

- Each Region has its own tax rate;
- generally, the tax rate is equal to 3,90%;
- applied on production activities;
- not deductible.

The requirement for the IRAP's application underlies in the usual practice of organized activities aimed to the production of goods and services. IRAP is ascribed to each single Italian Region. For Regions with special statute, other dispositions will be applied.
Differently from other types of corporate taxes, taxpayers cannot deduct it out of income taxes.
Taxpayers' scope frames following legal entities:

- Joint Stock Companies
- Limited Liability Companies
- Limited Partnerships with Share Capital
- others

IRAP's current rate equals to 3,90%. Besides, the rate's change can be differentiated among activity's and taxpayer's categories. In addition to the Regional tax, provinces and municipalities have the opportunity to increase the charge by 1,5 times the minimum established tax rate. IRAP's payment expires the same date issued for IRES and IRPEF tax and it will be carried out through the F24 model.

Annual payment (IRAP and IRES 201X) + first tax advance	June, 30 201X+1
Pontponed payment + 0.4% rise	July, 30 201X+1
Electronical submission	October, 31 201X+1
Second tax advance	November, 30 201X+1

Transfer pricing

Transfer pricing rules in line with OECD Guidelines are applicable in Italy.
In particular, the rules apply to:

- foreign companies which control Italian enterprises they perform transactions with;
- italian enterprises which control foreign companies they perform transactions with;
- italian or foreign companies which control both entities (Italian enterprises and foreign companies) involved in the transaction.

"Foreign companies" is defined in practice as any kind of business entity, legally recognized in the foreign country, even if it has only one partner.
"Italian companies" is defined as companies with share capital, partnerships, sole traders and permanent establishments of foreign companies set up in Italy.
Inter-company transactions are to be performed at Arm's Length, which is the principle recommended by the OECD Guidelines, according to which the price is negotiated by independent entities.
There are no legal obligations in terms of documenting the price policy used within the business group, however, it is advisable to ensure documentation can prove the transfer pricing method adopted within the group. Avoiding transfer pricing issues is also possible by using one of the means provided by the tax authorities, such as:

- advanced pricing agreement (APA);
- safe harbors;
- international standard ruling.

An annual tax return must include the following information:

- the kind of control (see the above point a) b) c)) applicable to the company;
- the amount of the transaction relating to the operation subject to the Transfer pricing rules;
- if the company has the documentation to prove the transfer pricing method adopted within the group.

In relation to the above documents, the Italian regulations make explicit reference to the OECD Guidelines (namely, to the recent edition approved by the OECD Council on July 22nd, 2010), and the documentation requirements broadly replicate the recommendations of the EU Code of Conduct on transfer pricing documentation for associated enterprises in the EU – the "European Union Transfer Pricing Documentation" or "EU TPD". This includes the Master File and Country File concepts, although with some points of difference, towards a more comprehensive informative package (please see the table at the end for a detailed list of the required documentation).

International ruling

Businesses with international activities may implement a suitable international standard ruling procedure, mainly with regard to the system of transfer prices, interest, dividends and royalties, in order to reach an agreement with the Inland Revenue, valid for three tax periods, without prejudice to any changes in the "de facto" and "de jure" circumstances resulting from the agreement signed. Italy has established over 90 international treaties to avoid the double taxation of income produced in different countries (see below).

Domestic and world tax consolidation

Companies belonging to the same group may opt for the consolidation of their company income.

Domestic tax consolidation

Domestic tax consolidation is an optional system arranged for a 3-year period, to which company groups may have access. To exercise the option, the law provides for the controlling company to participate directly or indirectly in an amount exceeding 50% of the share capital and profits of the subsidiary for the year.

The system consists of the consolidation of the taxable income, calculated separately by each company, which is totally algebraic, irrespective of the percentages of participation of the different companies.
For this purpose, the holding company must:

- submit the consolidated earnings return, calculating the overall global income based on the algebraic sum of the overall net income declared by each of the companies participating in the system, without making any consolidation adjustment;
- proceed with payment of the group taxation (IRES).

Any excess interest payable and non-deductible assimilated costs formed by a subject who takes part in the consolidated balance sheet can be deducted from the group's overall income if and within the limits in which the other participants submit a declaration of large-scale gross earnings for the same taxation period that is not fully used for deduction. These rules can be applied to excesses carried forward, excluding any excess formed prior to entering the national consolidated balance sheet that must be used for the sole purposes of each company elected for this regime.
The option is exercised by forwarding suitable notification to the Inland Revenue.
Companies belonging to the group and using IRES rate reductions may not exercise the option.
The following conditions must also be met:

- residence in Italy of all companies participating in the "fiscal unit";
- all of the companies participating in the group must have the same year-end;
- election of domicile by each subsidiary with the controlling company.

World tax consolidation

World tax consolidation is an optional system with a 5-year period, based on which a controlling company resident in Italy may consolidate the income made by all non-resident subsidiaries

proportionately, for which the control requirement exists, based on the percentage of participation held in the subsidiaries.
The following conditions must be met:

- residence of the controlling company in Italy;
- all of the companies participating in the group must have the same year-end, unless not permitted by foreign legislation;
- inspection of the balance sheets of the controlling and subsidiary companies;
- compulsory consolidation of all foreign subsidiary companies;
- certification by non-resident subsidiaries of their consent to the audit of the balance sheet and undertaking to provide any collaboration required to establish the tax assessment basis and to comply with the requests of the Inland Revenue.

Hiring & managing staff in Italy

In the last 15 years as a result of several reforms, regulation of the Italian labor market has undergone a substantial overhaul, the latest of which is the "Jobs Act" approved by the Renzi Government in December 2014 which introduced four key initiatives:
a new form of permanent employment contract with increasing protection related to the tenure (‘contratto a tutele crescenti’); reshaping of temporary contracts; new rules on dismissals with more flexibility; and the redesigning of unemployment benefits.
The "Jobs Act" is a comprehensive reform package, which includes:

- relaxed employment protection legislation on employment contracts, by linking the level of protection with tenure;
- a simplified and organic regulation of certain types of con- tracts and employment relationships, including a more flexible regulation of employee’s duties and tasks, in order to meet temporary and permanent employers’ needs, and the introduction of new rules on distance control of plants and working places;

- a new unemployment benefit scheme, with more stringent requirements in order to activate benefits;
- a renewed active labor market policy system, through more effective employment incentives and improved employment services, to enhance demand and labor supply matching;
- a revision of wage supplement scheme for redundant workers;
- the establishment of a single inspection agency to coordinate activity and avoid multiple controls in the same plant.

Additional provisions were adopted in the 2015 Stability Law, which provides a three-year cut in employers' social contributions (up to € 8,060 a year), and removes the costs of the local tax surcharge (IRAP) for newly hired permanent workers.

Main sources of the employment law

Basic rules regarding rights and obligations of employer-employee relationship in Italy can be found in the Constitution, the Civil Code ("Codice Civile") which includes a special section on employment matters, and the Workers' Statute ("Statuto dei Lavoratori"), i.e. Law no. 300/1970 as modified by subsequent legislation.
Terms and conditions of employment are also fixed by national collective agreements ("NCAs", Contratti collettivi) signed periodically between the trade unions and the employer's associations of the same industry. These collective bargaining contracts normally regulate the working conditions and establish the minimum wage and salary scales for each sector.

Start of employment

Employment contracts are governed by the general rules set out in the Civil Code. Given the existence of a large number of NCAs and their extensive use by the employers, employment agreements in Italy normally consist of simple hiring letters which refer to the items required by the law including, the identity of the parties, place of work, employment start date, trial period

(if any), duration of the employment (in case of fixed-term employment) and enrollment, employee's duties) and to the provisions contained in the applicable NCAs.
Individual employment contracts also specify the employee's "category" as established by the Civil Code. under article 2095.
There are four categories of employees:

- executives ("Dirigenti");
- middle managers ("Quadri");
- white collar employees ("Impiegati");
- blue collar employees ("Operai").

Despite the fact that national collective agreements normally define general principles that regulate the employment relationship of Dirigenti, general and specific conditions are often negotiated through individual agreements. Quadri are defined as employees who, while not top executives, are continuously engaged in duties that con- tribute significantly to promoting the company's growth and achieving its goals. According to a limited number of collective agreements, employers are required to insure quadri against claims for civil liability brought by third parties as a result of negligence in their duties.
At the start of the employment relationship, the employer must inform the employee of the main terms and conditions of his/her contract.
Italian law does not prescribe any particular form for employment contracts generally; they may be communicated orally, although most contracts are evidenced in writing. That said, some specific provisions as well as specific information concerning the employment relationship are required by law to be written down (for example: trial period, non-compete clause, fixed-term, if any).
Also, certain types of contracts are required by law to be in writing (for example: part-time contracts).
Employment contracts can be made in any language, provided that both parties are able to fully understand the content of any provision therein.

The age of majority is 18 years old in Italy. The minimum age required for validly entering into an employment relationship is 16 years old with the parents' consent (15 years old for apprenticeships contracts).

Trial period

The statutory trial periods are the following:

- **3 months**, for employees not assigned to managing functions;
- **6 months**, for all other employees.

However, the probation period is commonly set in the relevant NCAs depending on the category of the employee.
During the trial period, either party may freely terminate the working relationship at any time, without any notice, obligation or payment of the relevant indemnity in lieu.

The pay

Italian law does not give a statutory definition of "wages" and "salary".
For income tax and social security purposes, any compensation granted to the employee within the scope of the employment relationship, including compensation in kind, is considered wages (this does not include a few limited exceptions, such as expenses reimbursement).
There is no statutory minimum wage in Italy. Minimum wages for each contractual level are usually set out by sec- tor in the relevant national collective agreements (NCAs). A minimum wage is being introduced for workers not currently covered by NCAs, although they account for less than 3% of the total workforce.
There are no statutory bonuses. NCAs may provide for some such as the collective performance bonus ("premi di risultato") or individual performance bonuses.
There are no statutory allowances, although NCAs provide for transportation allowances or indemnities for certain working arrangements such as on-call work.

Under Italian law, compensation is granted in thirteen monthly installments. The additional 13th installment ("tredicesima") is paid out each year along with the December salary.
Some NCAs provide for a 14th monthly installment, normally paid in June.
The NCAs also normally set the payment date and the calculation basis of the contractual items (e.g. notice period, compensation during illness).

Employers frequently grant certain employees with fringe benefits (for example: a company car and mobile phone to top/middle management and sales positions, luncheon vouchers and internal or external training and education). Employers are required to fund severance payments for all employees ("Trattamento di Fine Rapporto – TFR"), amounting to 1/13.5 of the annual overall compensation, payable on termination of employment for any reason.

Working hours

Maximum statutory daily hours	13 hours
Statutory weekly hours	40 hours (on yearly basis)
Maximum statutory weekly hours	48 hours (generally on a four-month basis, but NCAs can set the reference period up to 12 months)

Executives are not subject to the rules governing working hours. Some NCAs provide for a working week of less than 40 hours. Employees must be granted at least one weekly rest day (normally Sunday).
Exceptional and temporary business activities may need employees working on weekly rest days or legal holidays.

Overtime work is the hours worked exceeding the 40 hours per week and may not exceed 8 hours on a weekly basis and 250 hours on a yearly basis. NCAs set specific additional rates to be applied overtime work, and can also replace overpay with additional rest days.

Public holidays	**Date**
New Year's Day	1st January
Epiphany day	6th January
Easter Monday	Variable
Liberation day	25th April
Labor Day	1st May
Republic day	2nd June
Assumption day	15th August
All Saints' Day	1st November
Immaculate conception	8th December
Christmas day	25th December
St. Stephen's Day	26th December

A local saint's day (variable on the local tradition of each city) is also considered a public holiday for the relevant territory.

Public holidays that fall on the weekend do not entitle absence from work on the nearest weekday, but employees are entitled to their normal pay.

Statutory annual vacations amount to 4 weeks.

The employer normally decides when workers can take vacation based on company and production interests and taking into account (where possible) employees' needs. NCAs normally provide for, in addition to the statutory minimum, a further period of paid vacation that it is increased with seniority service.

The law states that at least two weeks have to be taken in the same year. Up to two weeks of unused vacation may be postponed, but it must be taken within 18 months following the accrual year.

Employees are entitled to pay in lieu of unused vacation upon employment termination.

Compulsory hiring of disabled workers

Headcount	Obligation
15 to 35 employees	Company must hire at least 1 disabled worker
From 36 to 50 employees	Company must hire at least 2 disabled workers
51 employees and over	Disabled employees must represent at least 7% of the workforce

Companies in breach of these obligations are subject to administrative sanctions. In order to encourage the compliance, employers can enter into conventions with the competent authorities for the hiring of disabled workers. Companies that are experiencing financial or business difficulties can apply for a temporary suspension of this obligation.
Companies staffed with more than 35 employees which, due to the nature of their business (e.g. dangerous and strenuous works), cannot fulfill their quota may be eligible for a partial exemption from this obligation.

Specific types of contracts

Part-Time contract

Part-time employment contracts must be in writing and specify the hours of work (e.g. by day, week, month and year).
Pay and other entitlements of part-time employees are normally pro-rated to those applicable to full-timers in the same job entitlement.
Ancillary clauses to part-time contract can be added, which allow employer a wider flexibility:

- "elastic clauses" (clausole elastiche) which permit an employer to increase working time;
- "flexible clauses" (clausole flessibili) which permit an employer to vary working hours during the day.

Fixed-Term contract (legislative decree no. 368/2001)

Companies can hire employees on a fixed-term contract for arrangements limited by time. Fixed-term contracts can last up to 36 months, including any extension.
Quantitative limits are normally set by the NCAs; alternatively, the law states that the overall number of fixed-term contracts may not exceed the 20% threshold of the work- force hired on permanent basis.
Fixed-term contracts cannot be used to replace workers in strike or to replace employees temporarily laid-off or involved in collective dismissals in the past few months.

"On Call" jobs ("lavoro a chiamata o intermittente", legislative decree no. 276/2003)

"On call" job contracts provide that an employee declares his/her availability to work over a certain period of time, during which he/she can be called in – even for a few days only – with short-term notice.
The individual contract may provide that the employee is bound to work if called by the employer. In this case, in addition to the normal remuneration paid for the working activity currently carried out, the employee is eligible to an additional 20% of the wage set by the NCAs. This contract must be drafted in writing.

Apprenticeship ("apprendistato", legislative decree no. 276/2003)

Apprenticeship is an open-end contract with a vocational training content.
The employer can hire apprentices within certain quantitative thresholds depending on the number of employees hired and is required to ensure that the apprentice acquires professional skills and qualification.

Temporary agencies contracts ("contratto di somministrazione di lavoro")

Temporary contracts, on fixed-term or open end basis, can only be agreed with qualified employment agencies. Workers must benefit from the same legal and economic conditions available to employees of the user company. Employers may not use staff supply contracts to replace workers on strike or to replace employees temporarily laid-off or involved in collective dismissals in the previous few months. The overall number of temporary contracts may not exceed the 20% of the workforce hired on permanent basis, unless collective bargaining set different threshold.

End of employment

Dismissal should always be provided by written notice. Individual dismissals of employees are subject to certain restrictions.

Open ended contracts can be terminated without any compensation or additional sanction where there is just cause ("giusta causa") or objective or subjective justified grounds ("giustificato motivo").

Just cause means a very serious breach (e.g. theft, serious in- subordination) or any other employee's behavior that seriously undermines the trust relationship on which employment relationship is based.

Justified grounds means either:

- subjective justified grounds, consisting of a less serious breach of the employee (e.g. failure to follow important instructions, willful misconduct, repeated unjustified absences from work);
- objective justified grounds, consisting of an objective reason related to the employer's need to reorganize its production activities or workforce setting.

Termination of Fixed-Term contracts

If one of the parties terminates the contract before its expiration date and without just cause, the other party may be awarded a proper compensation.
In the event of early termination by the employer, compensation would customarily amount to that which the employee would have accrued up to the contract expiration date.

Resignations

Generally, resignations do not need to take any specific form, however most collective agreements require that this be in writing. According to certain NCAs, in case of resignation, the length of the notice period may be shorter than in the case of dismissal.

Notice and termination payments

Upon termination of employment relationship, employees are entitled to:

- the payment of deferred wages (TFR);
- the payment of some minor termination indemnities (payment in lieu of unused holidays and leave, accrued pro-rata 13^{th} and 14^{th} monthly installment and so on);
- a notice period of termination, the duration of which varies according to the employees' seniority and professional level and as established by national collective agreements.

The payments under points (i) and (ii) above are always due in the case of dismissal, while the notice period (or the relevant indemnity in lieu) would not be due in the case of dismissal for just cause.
With respect to point (iii) above, it is worth noting that the employer is anyway entitled to exempt the employee from working during the notice period. In such case, the employee would be entitled to receive the corresponding indemnity in lieu, which would be equal to the normal salary (plus social security contributions) that would have been due during the notice period.

Social security and assistance system

The social security system provides retirement, survivor and disability pensions, as well as healthcare, unemployment benefits and family allowances.
Benefit amount is generally based on accrued social security contributions and length of service.
All employees and wage earners, including executives, project-work and self-employed workers are obliged to take part in the Italian social security scheme.

- social security contributions are paid to Italian social security administration (so called "INPS"). Employees can join some pension funds (provided by NCAs) to in- crease social security benefits;
- the national work accident insurance institute (so called "INAIL") covers almost all employees for accidents at workplace and occupational diseases.

Patent Box

The 2015 budget law ("Legge di stabilità") also introduces a patent box regime. The new regime is applicable from the tax period following the one in course on 31 December 2014 (and therefore from the tax period 2015 for entities with a calendar year end).
The regime can be accessed by all entities that satisfy all the following conditions:
they carry out business activities in Italy and produce business income ("reddito di impresa"), they carry out R&D activities, either directly or through research agreements with university or other research entities, they license out eligible intangible assets (see below for definition) or use such assets in manufacturing processes or provide services using one of such assets or, ultimately, intend to sell the eligible assets.
Foreign entities carrying out business activities in Italy through a permanent establishment can also benefit from the regime, provided that they are resident in a country that has a double tax treaty in force with Italy and with which the exchange information is operating ("effettivo scambio di informazioni"). When licensing out eligible intangible assets, the patent box regime

provides for the exclusion from both profit chargeable to corporate income tax (IRES at 24%) and local income tax (IRAP at 3.9%) of an amount of income equal to:

Royalties deriving from the licensing	x	R&D costs incurred for the maintenance, increase and development of the eligible assets	:	Overall costs incurred for the production of the eligible assets	x	Percentage of excluded income

The percentage of excluded income is equal to 30% and 40% for the tax year 2015 and 2016 respectively (assuming a calendar year end) and will be 50% as of 2017.

In the event of direct use, the patent box regime provides for the exclusion from both profit chargeable to corporate income tax (IRES at 24%) and local income tax (IRAP at 3.9%) of an amount of income to be agreed with the Italian tax Authorities, through an advanced pricing agreement (APA), in accordance with the procedure set by by law.

Upon sale of the eligible assets, capital gains realized are entirely exempt from taxation provided that at least 90 percent of the proceeds received are reinvested into research & development activities of other eligible assets by the end of the second tax period following the one of the sale.

The Italian patent box regime is applicable to any kind of patent, to certain brands “functionally similar to patents", as well as to processes, formulas and know-how related to industrial, commercial or scientific fields that can be legally protected (it is not necessary that the intangible assets have been previously registered, it is sufficient that they can potentially be legally protected under current legislation).

Also, income deriving from the exploitation of copyright appears to be included.

In accordance with the technical memorandum to the 2015 Finance Bill, brands “functionally similar to patents" should be those brands that require expenses on R&D in order to be developed or maintained.

Commercial trademarks remain out of the scope of the patent box.

The new regime is optional and, once selected, it is irrevocable and has effect for the subsequent five fiscal periods.

After the first five fiscal periods, it is possible to renew the option.

Additionally, an advanced pricing agreement procedure shall be agreed with the Italian tax authorities in accordance with art. 8 of DL 269/2003 when eligible assets are licensed or sold to entities that:

- directly or indirectly control the licensing entity;
- are controlled by the licensing entity;
- are controlled by the same entity that controls the licensing entity.

Flat Tax

Italy introduced a flat tax for wealthy foreigners in a bid to compete with similar incentives offered in Britain and Spain.

Individuals can pay a flat tax of €100,000 on income produced abroad with the possibility of extending the tax regime to family members (with a flat rate of €25,000).

The regime is reserved to individuals, but not companies, who move their fiscal residence in Italy. Taxpayers cannot have been resident in Italy for at least nine of 10 fiscal years prior to the year of validity of the provision. The flat tax covers income produced abroad but does not apply to capital gains earned through the sale of financial holdings during the first five tax years of validity of the measure. Eligible taxpayers can ask to participate in the new regime when they present their tax returns for the fiscal year during which they moved the tax residence in Italy or during the immediately following year.

The payment must be done in one solution for every fiscal year covered by the tax, within the deadline for the payment of the income tax balance. The flat tax is only paid on income made abroad, while any money made in Italy would be taxed at a normal rate.

ACE (Aiuto alla Crescita Economica)

The Italian government introduced the "ACE" treatment whose aim consists in the reduction or even removal of corporate income savings' differential between the exploitation of onerous off-balance-sheet financing instead of equity. This benefit aims to reduce leverage effect, which negatively affect the corporate cash flow. In addition, dividends' distributions would reduce potential tax savings derived by the ACE treatment. Hence, the equity's solidness, and therefore firms' survival might be put to the wringer. The ACE treatment aims to provide benefits for those firms requesting equity's contribution. The deduction's rate equals to 1.65% in 2017 for incremental changes in equity with reference to the previous year. For future years, the deduction's rate will be decided annually by the government. The legal disposition refers to increases by considering the net equity (Equity + Reserves, without profits, but anyway taking into account the previous year's loss).
ACE treatment should be seen as an opportunity for firms to strengthen their equity structure and providing growth signals to their investors.

Imposta sul Valore Aggiunto (IVA)

- Standard VAT rates;
- businesses charge VAT on goods and services they sell;
- VAT on purchased goods and services can be deducted;
- exportations do not charge VAT;
- importations are subjected to VAT;
- VAT exemption does not mean VAT exclusion;
- all those who issue invoices for goods and services must be registered.

Value Added Tax (VAT) is an indirect consumption tax applied on goods and services' transfers. Key-features of this tax consist in:

- objective requirement: goods' and services' transfers, excluding those without a financial counterpart;
- subjective requirement: If goods' and services' transfers are made by (even not) organized entities implementing a commercial activity, these will withstand VAT's application;
- territorial requirement: Concerning VAT purposes, territoriality verifies the place of taxation for transactions made or received by taxable persons in the Italian State. VAT will be applied if transactions occur inside the Italian State.

VAT is a tax with payback right. This means that the supplier is obliged to charge the tax to the final consumer.

Generally, for goods and services the tax rate equals to 22%.

This decreases to 10% and to 4% in case of certain categories of consumption goods.

The basis of taxation consists in the amount of payments to the seller, hence the price or the cost related to the goods' and services' production. The invoice and its contents represents the most important document for the application of the VAT's discipline. VAT's settlement occurs monthly. The taxable entity is required by legal dispositions to settle the VAT payment by using the F24 model, which will be sent electronically to the Italian Tax Authority on the 16th day of the next month.

During the fiscal year the legal entity can by chance use a VAT receivable to reduce its VAT debt. This measure differs itself from the compensation, which, if possible, allows the legal entity to exploit its VAT receivable to cover other fiscal debts.

Vat Group

The 2017 Italian Finance Act implemented the VAT Group regime in Italy. The provisions will enter into force from January 1, 2018 and the regime will be effective as of 2019.

In broad terms, taxable persons established in Italy carrying out business or professional activities, for which financial, economic and organizational links are met, can be treated as one single taxable person, identified with just one VAT number.

For the VAT Group transactions between taxable persons participating to the VAT group are considered as not relevant for VAT purposes (except for certain cases) and the VAT group operates as single VAT taxable person towards those not participating the group itself.

To be part of a VAT Group in Italy, the following conditions must be jointly met:

- taxable persons joining the VAT Group must be resident for VAT purposes in Italy;
- Financial, economic and organisational links must be satisfied between the members of the VAT Group and;
- A specific selection must be filed with the Italian tax authorities.

The possibility to be part of a Vat group is excluded for:

- Non - resident taxable persons;
- Foreign permanent establishments of resident taxable persons;
- Taxable persons who are subject to certain pre-emptive judicial measures;
- Taxable persons undergoing bankruptcy procedure;
- Taxable persons undergoing a liquidation and dissolution procedure.

Super and Hyper – depreciation

The superdepreciation, introduced by the financial law 2016, provides an increase in the purchase cost of 30%, instead of 40%, for investments performed from January 1st 2018 to December 31st 2018 or by June 30th 2019 upon the condition that by December 31st 2018:

- the relative order is accepted by the seller;
- advance payments are made at least 20% of the purchase cost.

The Financial Law 2018 extends also the hyperdepreciation regime, introduced by the Financial Law 2017. In particular, it is provided a 150% increase of the cost for investments in new tangible assets relevant for the technological and digital transformation of the company performed by December 31st 2018 or by December 31st 2019, upon the condition that, by December 31st 2018: the relative order is accepted by the seller and advance payments are paid at least for 20% of the purchase cost.

Municipal tax on property (IMU, Imposta Municipale Unica) and other local taxes

IMU is the municipal tax charged on the possession of buildings, buildable areas and agricultural lands situated within the Italian territory, intended for any use, including property used in performing company activities.
The owner of the property or holder of the real right of usufruct, use, residence, emphyteusis or taxable area thereof is required to pay the municipal tax.
In case of a financial lease, the lessee of a real estate is subject to the tax.
The tax assessment basis is represented:

- for buildings, by the value obtained multiplying the cadastral rent increased by 5% by a different multiplier (from 55 up to 160) based on the cadastral category;
- for building land, by the commercial value of the land as at the 1st of January in the year of taxation;
- for agricultural land, by the value obtained multiplying the cadastral income revalued by 25%, by 75 in case of agricultural land, cultivated, owned and run by farmers and professional agricultural entrepreneurs, and by 135 in all other cases.

The tax is usually calculated by applying the basic rate of 0.76% to the tax assessment basis.
Each municipality, as part of its own statutory authority, may vary such rate by a maximum of 0.3% (increase or decrease), to determine a range between 0.46% and 1.06%.

Registration tax

A tax must be paid for documents that must be compulsorily registered and documents that are registered voluntarily.

Documents referring to real estate or assets drawn up in Italy, corporate transaction papers and documents stipulated abroad that have the purpose of constituting or transferring real rights in intangible assets or companies located in Italy, the lease or rent of such assets must be registered.

The timing in which a document must be registered depends on whether the document is subject to registration "within a specified period"por whether it is subject to registration only "in the event of use".

All the other documents can be voluntarily submitted for registration by anyone with an interest in doing so.

Tax is liquidated by the competent tax office by applying a tax rate determined by the value set out in the registered document, or by the service contained therein. All applicable rates are stated in the rates sheet attached to the Presidential Decree 131/86.

The applicable rate varies from 0.5% to 12%, depending on the type of the relevant document, with a minimum payable of EUR 200.

For documents relating to the sale of assets and provision of services subject to VAT (including non-taxable provisions due to the lack of territorial premises, as well as exempt provisions), the tax is always applied as a fixed amount.

Exceptions are the leasing of instrumental assets which, despite being subject to VAT, pay registration tax proportionally (1%).

The tax must be paid to the Inland Revenue at the time of registration. Public officials who have drawn up, received or authenticated the document, persons in whose interest the registration is completed (contracting parties or assignees) and real estate agents are all liable for the payment of taxes. The tax is also applied on the transfer of boats, as a fixed amount, according to the type and size of the boat.

Individuals Taxation (IRPEF)

- Residents in Italy are taxed on the worldwide income
- exposure to Italian taxations depends on whether an individual is resident for the greater part of the year or is domiciled in Italy;

- nonresidents are exposed to taxes only for incomes perceived in Italy or they stay in Italy more than 183 days;
- tax rates are progressive;
- certain incomes are taxed separately at lower rates;
- tax credits are available for foreign taxes paid abroad.

In Italy, individuals are subjected to pay taxes, only if these are endowed of certain characteristics, which consist in:

- the possession of incomes;
- residence in the Italian State.

Independently from the citizenship, age, gender and marital status residents are obliged spontaneously to clear their fiscal debt. The residence's theme is fundamental for incomes' identification due to the fact that resident individuals will pay on total amount of all perceived incomes, while for not resident individuals just incomes produced in Italy will be subjected to taxation, except different dispositions provided by double-taxation treatments. The global income will be given by the sum of all income's typologies the taxpayer had perceived during the fiscal year. Then, the taxpayer will subtract from the global value all deductions.
These consist in personal expenditures. In order to calculate the net tax, the taxpayer will later will apply:

- receivables for taxes already paid abroad;
- advanced payments;
- withholding taxes paid as advance.

Tax is applied to the overall income, i.e. the sum of the income of each category, minus any losses deriving from the practice of arts or professions and/or commercial businesses.

Relevant income's categories include:

Income	Contents
Real Estate Income	Buildings, plots of land
Capital Income	Interest and dividends (26% tax rate)
Employment Income	Taxable income consists in the gross income; no deductions allowed
Self employed Income	Pratice of arts and professions; Taxable income = net income after the deduction of job's costs
Corporate Income	Generated from corporate business
Other incomes	Capital gains and incomes generated from not habitual jobs

To the taxable income, the Tax Authority will apply the selected tax rate for the tax bracket the taxable income is located in.

Tax bracket	Tax rate	Calculations
0,00€ -15.000€	23%	23%
15.000€ - 28.000€	27%	3.450€ + 27% on exceeding part over 15.000€
28.000€ - 55.000€	38%	6.960€ + 38% on exceeding part over 28.000€
55.000€ - 75.000€	41%	17.220€ + 41% on exceeding part over 55.000€
75.000 -	43%	25.420€ + 43% on exceeding part over 75.000€

The Financial Law 2018 has reformed the tax regime of capital gains of the "qualified" participations realized by individuals acting as non – entrepreneurs (IRPEF). The Law proposes to replace the taxation described above with a flat 26% substitutive taxation, aligned with the capital gains tax of non qualified shares and gains realized by physical persons, instead of personal income tax with progressive rates.

For capital gains the new tax regime applies starting from 1.1.2019.

Dividends

Dividend income received by partnerships or by individuals in relation to business activities is subject to tax at 26% or 49.52%.
Dividend income received by individuals not related to business activities is subject to:

- ordinary tax at 49.52%, if related to qualified participations (26% advance withholding tax also applies to foreign source dividends);
- 26% substitutive final tax withheld at source for the total amount, if related to non-qualified participations.

Qualified participations are participations entitling to:

- more than 2% of voting rights in an ordinary meeting or 5% of capital or corporate assets of quoted companies;
- more than 20% of voting rights in an ordinary meeting or 25% of capital or corporate assets of other companies.

Dividends of foreign source from black list countries are subject to ordinary tax on 100% of their amount. 26% advance withholding tax applies.
Dividend paid to non-residents (other than EU companies) are subject to a 26% final withholding tax. Reduced rates and reimbursement may apply (leading to a 15% effective tax rate), provided that certain conditions are met.
Dividends paid to EU companies are subject to a 1.375% final withholding tax.
Payments to a qualifying EU parent company are exempt from withholding tax under the Parent-Subsidiary Directive, according to specific conditions.
According new rules, the Financial Law 2018, the dividends from qualified and non qualified participations are taxed at 26%. Such provisions applies staring from January 1st, 2018.

Anyway for dividend distributions resolved between 1.1.2018 and 12.31.2022 the transition regime provides that net income reserves accrued up to 12.31.2017 are subject to the former taxation regime.

Interests

Interest on bank deposits and current accounts is subject to a 26% substitutive final tax withheld at source. Other interest on loan, deposits and current accounts is also subject to a 26% advance withholding tax.
Interest on bonds and other financial assets is subject to 26% advance or final withholding tax according to various conditions.
Interest paid to non-residents is subject to the same rates applied to resident individuals; the withholding tax is applied on a final basis. Interest paid to non-residents on deposit accounts with banks and post offices is exempt.
Payments to associated EU Companies are exempt under the EC Interest and Royalties Directive, provided that certain conditions are met.

In order to have a clear idea on how the individual taxation works, below are provided few income data for the tax's calculation for a generic (not entrepreneur) natural person.

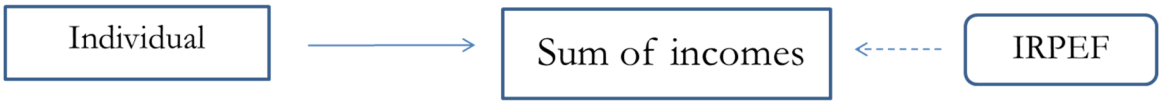
Imposta Persone Fisiche	
Real Estate Income	450,00 €
Plots of land Income	
Capital Income	
Employment Income	16.012,63 €
Other Incomes	
Deductions for first residence	- 450,00€
Total Income	16.012,63 €
Deductible expenditures	
Social contributions	- 2.150,00 €
Gross tax (23% tax bracket)	3.188.40€
Subtractions	- 1.604,00€
Net Tax (IRPEF)	1.584,25 €

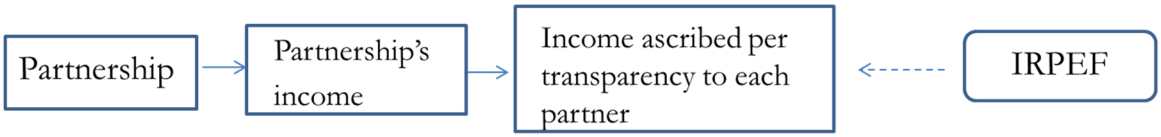
With no doubt, individuals have the right to round up in form of firms. For the so called "Società di persone", the coordination between corporate and individual taxation is executed by ascribing proportionally the corporate income to each partner independently from the real perception of these. Incomes declared by the firm for a certain fiscal year will be linked to each partner, even if these have been reinvested in the firm. On the contrary, RTPA will be payed directly from the partnership. Previously, equity quotas need to be determined in the constitution's act.

If not, the Law ascribes to each partner the same quota. The same logics is also valid for losses. Losses will be proportionally divided among all partners along the "transparency principle". If the firm generates losses, the Italian State allows to compensate those with other incomes either in the same fiscal year or in the future. An exception occurs in the case that the loss is generated by other a S.n.c or S.a.s. These firm's types are not allowed to take to the next year losses. This means that losses will reduce each partner's total income. Both IRPEF and IRES taxpayers have to complete an annual return to be able to self-assess and pay taxes in full for the applicable tax year and the tax payments on account for the current year at the time the return is prepared.

Annual payment (IRPEF 201X) + first tax advance (40%)	June, 30th 201x+1
Postponed payment + 0.4% rise	July, 30th
Electronical Submission	Semptember, 30th
Second tax advance (60%)	November, 30th

The tax return must be drawn up using a standard form approved by the tax authorities on a yearly basis. Individuals and partnerships must file an annual tax return by the end of September of the following tax year.





Throughout the year, the taxpayer is required to comply with a series of obligations that vary, by type and by date, depending on the category of taxpayer and the type of
tax that applies. It is important to note that almost all tax returns and fiscal communications must be sent by electronic filing only.
Taxpayers will submit electronically the F24 Model to the Italian Tax Authority.

Expatriates benefiting from the dedicated Italian special tax regime

The Legislative Decree 147/2015 entered into force on October 7, 2015 includes provisions aimed at repatriating into Italy highly skilled workers, including top managers and EU citizens. Employment income of workers that transfer their residence into Italy is 30% exempt from taxation (IRPEF), provided the following conditions are fulfilled:

- the worker was fiscally resident abroad and not in Italy in the five years preceding the transfer and commit to living in the country for at least two year;
- b. once in Italy, an employment contract is concluded with a resident Company;
- c. the employment activity shall be carried out mainly in Italy;
- d. the worker has an university degree and his job in Italy requires high qualifications and specialization.

The benefit is applicable from the fiscal year in which the transfer of residence occurs and for the following four. A decree, to be issued by the Ministry of Finance in 90 days since October, 7th 2015, will contain the rules for implementation of the new regime.

Tax on income of non-residents

IRPEF applies to resident and non-resident individuals.
Resident individuals are taxed on a world-wide basis, while non-resident individuals are taxed on the income produced in Italy on a territorial basis.
The following incomes are deemed to be produced in Italy:

- income from land and buildings;
- income from capital paid by the State, by resident persons (entities or individuals) or by permanent establishment in Italy of foreign entities, except interest and other income derived from bank/post deposits and current accounts;
- income from employment produced in Italy;income from independent work derived from activities performed in Italy;
- business income derived from activities performed in Italy through a permanent establishment;

- other income derived from activities performed/assets located in Italy and capital gains derived from the sale of participation in resident entities (exceptions: e.g. non-substantial participations in listed companies);
- income from participation in transparent Italian entities (e.g. partnerships).

Tax is assessed on the aggregate amount of the incomes indicated above (deductions and tax reductions may apply).

Non-resident companies and other entities, including trusts, with or without legal personality are subject to corporation tax (IRES, Imposta sul Reddito delle Società).

Tax is assessed on the income produced in Italy, except for exempt incomes and incomes subject to final withholding tax or substitutive tax.

For corporation tax purposes (IRES), the incomes indicated above are deemed to be produced in Italy; for non-resident companies and other entities, the business income includes capital gains and capital losses relating to assets used in commercial activities performed in Italy (even if not realized through permanent establishments), dividends derived from resident entities, other income derived from activities performed/assets located in Italy and capital gains derived from the sale of participation in resident entities.

Tax treaties, where more favorable to the tax-payer, override statutory provisions.

Tax credit for training 4.0 expences

Is was provides for a tax credit for companies that carries out training expenses relevant for 4.0. In particular, eligible for the tax credit are the expenses on training activities carried out in order to acquire and consolidate knowledge of the technologies provided by “Industry 4.0” plan, such as the following: big data and data analysis, cloud and fog computing, cyber security.

The tax credit is equal to 40% of the expenses relating only to costs of employees for the period in which they are employed in the above training activities and it is recognized up to a maximum annual amount of 300,000 euro for each taxpayer.

Conclusions

Italy has been hit by a major economic crisis.

During the crisis, Italy's bankruptcy Laws were amended to minimize company wind-ups by making out - of - court agreements with creditors easier. This has created an interesting market for distressed and semi - distressed assets. Italy is not yet out of the woods but there is light at the end of the tunnel. Investors may find it beneficial to bet on Italy soon in order to capitalize on opportunities.

Costanzo & Associati hopes this guide will provide You with useful information about the Italian economy, business, corporate and taxes.

C&A

"There is no competition or gaining market shares at the expenses of others, but diffusion of best practices wherever we find them to help growing the market worldwide for mutual benefit!"

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