BUSINESS IN ITALY 2019

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1. GENERAL ENVIRONMENT

1.1 Geography and population

Italy is a long peninsula (1,300 kilometres from North to South) situated in Southern Europe, in the centre of the Mediterranean Sea, bordering France, Switzerland, Austria and Slovenia to the North, while the rest of the State is surrounded by sea. Italian territory includes numerous islands, the largest of which are Sicily and Sardinia.

Italy has a total area of 301,336 square kilometre, a population of 60.6 million in 2017 and an average density of 198 inhabitants per square kilometre.

The climate is mild and temperate, with well-defined seasons, owing to the Alps that constitute a natural barrier from Northern Europe. Northern Italy has a fairly harsh winter and warm summer climate, while the South and the islands have a drier and hotter climate, with mild winters.

Italian is the official language: there are bilingual regions, where German, French and Slovenian are spoken. The religion most widely practiced is the Catholic religion.

Rome is the capital: other major cities include Milan, Turin, Genoa, Bologna, Florence, Naples, Palermo and Catania.

The currency is the Euro.

The National Holidays are:

- 1st January – New Year's Eve
- 6 January – Epiphany
- Date Changeable - Easter and Easter Monday
- 25 April – Liberation day
- 1st May – Labour day
- 2 June – Republic's day
- 15 August – Assumption
- 1 November – All Saints' Day
- 8 December – Immaculate Conception
- 25 December - Christmas
- 26 December – St. Stephen's Day

In general, the opening and closing hours of public offices are: 8.30-12.30 a.m. from Monday to Friday. The opening and closing hours of banks are: 8.30-13.30, 2.30-3.45 p.m., from Monday to Friday.

1.2 Political institution

Italy is a Parliamentary Republic, subdivided administratively into 20 regions, 107 provinces, and over 8,000 municipalities.

The President of the Republic, the Head of State, is elected by Parliament and remains in office for 7 years. His duties include calling elections, enacting laws, ratifying international Treaties and maintaining command of the Armed Forces.

The national legislative power is assigned to Parliament, composed of two Chambers (Chamber of Deputies and Senate of the Republic) elected by universal suffrage by the people every 5 years; only in exceptional cases the Government can legislate directly.

The local bodies of the State may legislate within the scope of the powers assigned by the Constitution, and within the limits of national regulations.

Executive power is in the hands of the Government, composed of a Chairman of Council (elected by Parliament and appointed by the President of the Republic), a Vice Chairman and a Council of Ministers.

The judicial power is shared between:

- ordinary jurisdiction, exercised by the ordinary magistrates and operating in the civil and criminal sectors (Civil Law System);
- administrative jurisdiction, exercised by the regional administrative courts (TAR) and by the Council of State;
- tax jurisdiction, exercised by the provincial and regional Tax Courts;
- accounting jurisdiction, exercised by the Audit Office on public accounts;
- military jurisdiction.

The highest level of judgment of the judicial power is the Supreme Court (Corte di Cassazione), which acts as judge on legal issues and not on the facts of the case. Finally, the Constitutional Court gives its opinion on any conflict between laws and the Italian Constitution, and between the public institution with reference to their respective competences.

In the international context, Italy is a founder country and member of the European Community (Treaty of Rome 1957).

1.3 **Economy**

Italy is the fifth largest national economy in the eurozone and the eighth world economic power in terms of gross domestic product, which in 2018 amounted to 1.886 million euros: the per capita income in 2018 amounted to approximately 31,000 euros.

Inflation in 2018 stood at 1,5%.

The most developed sectors of Italian industry include manufacturing, machinery, ceramics, motor vehicles, mechanical and construction sectors, iron and steel chemicals and transport industry. A significant contribution to the national wealth is generated, in particular, by products "made in Italy" (textile products, production of clothing and footwear, agri-foodstuffs and design sectors), known and appreciated throughout the world.

The role played by tourism is also of prime importance: Unesco has pointed out that Italy has the greatest cultural heritage in the world.

One salient feature of the Italian economy is the high propensity to entrepreneurship scene, in relation to other industrialized countries, in the very high number of small and medium-sized businesses: 98% of the over 4 million businesses employ fewer than 19 persons (the average is 3.98 employees per company).

Another significant feature of the Italian economy is the development of the so-called "industrial districts", geographical areas in which numerous companies belonging to the same sector are concentrated with close economic relations, each one specializing in a specific stage of the production line: today there are over 200 districts in Italian territory.

With these associations, the sectors concerned maintain considerable flexibility and a high level of specialization and innovation.

The favourable geographical position at the centre of the Mediterranean and the infrastructural links with the countries of Europe allow Italy to form a crossroads for international trade, a natural bridge between Europe and Africa.

Investment is favoured by the marked industrialization present in the North and by the concessions existing, at Community level as well, intended to favor the economic development of the South.

Finally, membership of the European Community provides for the freedom of movement of citizens, goods, services and capital between Italy and the 26 other Member States, thus creating a single market of continental dimensions.

2. IMMIGRATION AND LABOUR LAW

2.1 **Immigration: general**

EU / EEA nationals will only need to present an identification document to enter Italy, due to the common travel area of the Schengen zone of which Italy is part.

Non-EU/EEA traveller wishing to visit Italy must hold, in order to be permitted to enter, either a valid passport, travel document or a visa if they are subject to Italian visa regime.

2.1.1 **EU and Swiss nationals.**

Being a member state of the European Union and, moreover, associated with a membership into the Schengen Area, Italy grants to EU and EEA (European Economic Area) nationals the possibility to be employed therein without any authorization by the Italian authorities, in accordance with the principle of free movement of persons, goods, services and capital.

Accordingly, EU citizens are free to reside in Italy without any kind of registration for a maximum period of 90 days.

Only in case an EU national desires to reside in Italy for a period exceeding 90 days for work purposes, he/she shall apply for the so called "stay card" (carta di soggiorno), which is renewable and issued by the local state police office (Questura) through a simple request.

Swiss citizens are entitled to access to work in Italy according to the same ordinary rules applicable to EU countries nationals.

2.1.2 **Non- EU citizens.**

To work in Italy, a non-EU foreign worker must hold a work visa.

Althought, there are limits on the number of foreign citizens that can be hired in Italy each year. Indeed, in order to regulate the admission of third country nationals and their access to italian labor market, their admission is based on an annual quota (quantitative system) of new inflows enstablished by the Italian government through a Prime Minister Decree.

2.1.3 **Nulla osta for foreign workers**

In order to hire a foreign worker living abroad employers have to submit an authorization request to the Immigration Single Desk (ISD).
The application file shall contain the so called "stay of contract" (contratto di soggiorno) in which the applicant employer guarantees:

- adeguate accomodation for the request worker and to fund travel costs for his/her repatriation in case of expulsion, before the expiry of the contract;
- the terms of employment in compliance with the relevant collective contracts for the specific occupation, in which the requested worker will be employed.

Once the labout authority checks the terms of employment and the documentation required, the authorization for the foreign workers (nulla osta) is issued by the local state police office, and delivered to the applicant employer: the whole procedure should take 40 days from the application.

2.1.4 **Visa for foreign workers**

The employer who receives the nulla osta for the foreign workers, send it on to the requested worker, who must forward it to the Italian diplomatic representation in his/her country of origin, in order to request and obtain a visa for working purposes.
The nulla osta for the foreign workers will be valid for 6 months, period in which the visa may be issued by the Italian diplomatic representation in the foreign country.

2.1.5 **Stay permit**

Within 8 days from the arrival in Italy, the foreign worker must sign the stay contract filed by the employer to the ISD, which will contain the main terms of employment, and he/her at the same time must apply for the stay permit for working purposes.
As anticipated above, the stay permit will last as long as the employment contract does, for a maximum period of 2 years and it is renewable.

2.1.6 **Exemptions from entry limits**

The secondment of workers is not generally subject to the limits enstablished by the Italian government, since it involves companies engaging highly qualified workers and the existing relationship between the home company and the Italian host company.
Indeed, specific professionals' profiles can be admitted without any quantitative limitation that regulate their inflow (i.e: professors, managers or highly skilled members of multinationals/foreign companies).
Even though no quantitative restrictions are provided, the admission of workers in this specific category requires still the release of the authorization (nulla osta) granted by the ISD.
With regard to the relevant stay permit, it could last 2 years in case of fixed terms of contract, or it could have an unlimited duration in case of open-ended contracts.

2.1.7 **Investor visa for non-eu citizens**

In order to make Italy increasingly attractive to international flows of human and financial capital, Italian law provides for a specific new visa issued to individuals who intended to make significant investments in strategic areas for the Italian economy.
The relevant procedure is simplified and it aims to facilitate the release of visas to potential investors allowing them, moreover, to stay for periods exceeding three months without any sort of quantitative restrictions such those set by the law to regulate the inflow of non-EU citizens workers.
The relevant application only refers to foreign nationals, coming from countries that are not member of the EU or within the Schengen area, who intend to make an investment which aims to:

- buy Italian government bonds for at least 2 million of euros or
- invest at least 1 million of euros in the capital of an italian company or at least 500 thousand euros in a startup.

The above investments must be demonstrated and maintained for at least two years. Consequently, a two-year residence permit will be issued, renewable for another three years.
The same procedure will apply, if the foreign investor carries out philanthropic donations, at least of one million of euros, in cultural assets, immigrant management, education and research.

The institutional body responsible for ensuring that visa applications meet the requirements set

out by the law is a specific Committee, namely, the Investor Visa for Italy Committee.
The applicant must submit the request to the Committee via the online platform containing, along with the personal documentation required, a statement in which the applicant declares that the amounts are available and transferable to Italy, undertakes to use the funds within three months having entered into Italy for the investment or donation at stake, and to maintain the investment for at least two years.
Once the submitted request is received by received the Committe, it will check:

- the documents proving that the investor owns in fact the amounts to be invested or donated;
- the certification of the legality of the funds;
- the declaration of non - existing of final criminal convictions or any other pending charges issued by third countries regarding the applicant.

2.2 **Employment legislation**

Italian labor law provides, as a general mean of employment, a permanent contract which, however, can be interrupted on discretion of both parties, by giving a notice in accordance with the collective bargaining or the individual contract at stake.
However, there are other forms of contracts which appear more suitable to regulate particular business situations, such as seasonal jobs, show business, aiming moreover to encourage young people to take part to the labour framework.
These contracts are the following:

- the fixed-term employment contract, which can not exceed 24 months overall, including 4 periods of extensions;
- the apprenticeship contract which may last between 36 and 60 months, in order to facilitate young people to access the work scene.

This last one contract qualifies for a very important contribution to social security.
Before starting an employment relationship, the employer must deliver a letter of assumption in which are contained some specific informations (trial period, qualification, tasks and remuneration). The employment relationship starts the day after the mandatory online communication (UNILAV). Without these communications the employment relationship is considered "irregular" and the employer is punished by heavy penalties. Moreover, the company which hires employees must provide for the implementation and management of the insurance and health protection system.
The protection of the rights of employees is generally ensured by specific rules such as the standard duration of the weekly working time or the minimum number of holidays due. and it is organized at company level by national collective agreements (CCNL)
Law, also, establishes trade union rights and the freedom of expression of workers through the protected exercise of trade union activities in workplace.
The workers benefit from a public social security cover, financed up to 8.89 - 10.19% of gross salary, by a contribution of the company at the rate of 27% - 32% of gross salary. The social security system provides:

- disability, old age and survivorship;
- illness and maternity
- unemployment and "mobility"
- family allowances
- health care
- labor injuries
- professional diseases

The employer has to pay obligatory insurance cover - an annual premium- which is calculated on the basis of the type of risk linked to the work activity done.
In case of foreign workers temporarily working in Italy, different social security and welfare rules are applied according to the country of their origin (EU/non-EU): generally, in such case, the legislation of the country where the work is carried out is applicable.
Exceptions are possible pursuant to the tax treaty provisions.

2.3 **Employment policies**

In the last years labor market has gone through severl reforms which have introduced new forms of flexibility.
Changes in consumption and markets have been useful in re-elaborating costs with economical effects on the end of employment relationships.
Further development will derive from the active policies reform aiming at the reorganization of employment centers on the model of Northern European countries.

3. TYPES OF BUSINESS ORGANIZATION

3.1 Sole trader

The sole trader is the simplest legal structure available for running a business. The sole trader assumes all decision-making responsibilities of the enterprise and bears unlimited liability for any debts incurred.

A sole trader is a business set up by a single "holder" (person).

A businessman that performs a business is also financially responsible for it, thus he is liable for the debts contracted by the firm with his own present and future personal wealth.

If relatives (members of family of the "holder" up to the 3rd degree and relatives up to the 2nd degree) work in the business, it is regarded as a family business, for which the sole holder remains liable, receiving at least 51% of the business income (family workers do not share in the losses).

This legal form is very suitable for small businesses and allows access to forms of concessionary funding

3.1.1 Auxiliary of the sole trader: general manager

The general manager is usually a subordinate worker with the rank of manager, placed at the top of the staff hierarchy.

He's appointed by the sole trader and can be in charge to run the whole business activity carried out by the entrepreneur, or either a branch or a subsidiary.

In these particular cases, he can be subordinate to the general manager of the branch or subsidiary at stake. Nonetheless, there can be more than one general managers in charge to run the same business activity, thus, each of them will have independent power of decision.

Given his wide range of powers, he will be responsible, along the sole trader, for the:

- obligation of registration in the register of company;
- keeping the accounting records;
- criminal liability in case of failure of the entrepreneur, bearing in mind that only this latter will be exposed to the economic conseguences of the failure.

General manager also holds representative power: he can perform in the name of the sole trader all the acts pertaining to the business of the company or branch to which he is responsible for, except for those acts that go beyond the management of the company, for istance, the sale or lease of the company.

More over, he can stand in a trial as plaintiff and as defendant for:

- the obligations that depend on acts performed by himself in the exercise of the company to which he is responsible for;
- for the acts carried out directly by the sole trader.

The representative powers granted by law can be extended or limited by the entrepreneur both at the time of the preposition and subsequently.

3.2 Types of companies

The procedure for setting up a business in Italy is regulated by the Italian Civil Code which offers a wide range of legal forms to choose from. The main types of companies available to foreign investors are:

Partnerships:
› General partnership (Snc)
› Limited partnership (Sas)

Companies with share capital:
› Joint-stock company (SpA)
› Partnership limited by shares (Sapa)
› Limited liability company (Srl)
› Simplified limited liability company (Srls)

As an alternative to the above, investors may of course decide to begin their business activities in Italy by establishing a branch or, in the initial stages at least, by beginning promotional or market research activities through the opening of a local representative office.

3.2.1 General partnership (Snc)

Partnerships are characterized by the personal commitment of each partner to work together within the partnership.

The general partnership can be formed by two or more partners who have joint and several liability for the partnership's obligations.

This means that the individual partners are personally liable for the liabilities of the partnership and that this liability may also extend to their own private assets.

Partners in a general partnership always have unlimited liability for the partnership's obligations and any agreement stating otherwise is not legally binding. There is no minimum capital requirement and an S.n.c. has no separate legal identity.

3.2.2 **Limited partnership (Sas)**

The limited partnership has two different types of partners: general partners and sleeping or silent partners. There must be at least one partner of each type and each type of partner has different levels of liability.

The general partners, are responsible for the administration and management of the partnership and have joint and several liability for the partnership's obligations in the same way as the partners in an S.n.c.

The liability of sleeping or silent partners in a S.a.s. however, is generally limited to the amount of capital they have contributed and they are not directors and do not get involved in the management of the business.

Limited partners are also forbidden from negotiating or doing business in the name of the partnership except when granted a special power of attorney for specific business activities. Any limited partner who disregards this prohibition will take on unlimited liability for all partnership debts and may also be excluded from the partnership.

There is no minimum capital requirement for the S.a.s. and it has no separate legal identity.

3.2.3 **Joint-stock company (SpA)**

This company is likely to be the most suitable business form for medium and large companies, especially those in need of contributions from investors in the form of large numbers of shareholders. It is also the compulsory type of company for businesses wishing to be listed on the regulated markets.

There is a minimum capital requirement of € 50,000. At least 25% of the capital subscribed must be paid-in at the moment the company is formed.

If the company is set up by a single shareholder then 100% of the capital must be paid in. The capital is divided into shares which represent the equity holding of the shareholders.

An S.p.A. can issue shares, bonds and other financial instruments which can be listed. More over, the S.p.A. has separate legal personality and therefore its shareholders have limited liability and are not liable beyond the amounts they have subscribed.

The administration of joint-stock companies may be organized according to three different models:

- traditional
- monistic
- dualistic

In the traditional model, the directors have the task of managing the company.

The managerial competence attributed to the directors is general and includes all necessary measures to achieve the company's objectives, that are not expressly reserved by law or by the deed of incorporation for other bodies.

In the dualistic system, management is assigned to a board of management, elected by the supervisory body which, in turn, is elected by the general meeting.

In the monistic system, the rules of administration are not significantly different, but supervision is exercised by a committee set up within the board of directors.

One characteristic element is found in the accounting supervisory system, which may be assigned to an auditor or to the supervisory board, while in "listed" companies, an auditing firm must be present.

3.2.4 **Partnership limited by shares (Sapa)**

The partnership limited by shares combines some of the features of both a limited partnership (S.a.s.) and a joint stock company (S.p.A.).

Unlike the S.a.s, the S.a.p.a. has its own separate legal identity but it presents the same distinction between general partners, who have joint and

several liability for the partnership's obligations, and sleeping or silent partners, whose liability is limited to the amount of capital they have contributed.

Otherwise the S.a.p.a. is similar to an S.p.A. and the rules applicable to the S.p.A. also generally apply to the S.a.p.a., including minimum share capital requirements.

3.2.5 Limited liability company (Srl)

This is a popular form for small businesses due to it being reasonably flexible to set up and run.

The minimum capital requirement, € 10,000, is lower than that of an S.p.A. and investments are not represented by shares but by quotas. As with the S.r.l., at least 25% of the capital subscribed must be paid in at the moment the company is formed. If the company is set up by a single member then 100% of the capital must be paid in.

These quotas are generally held by a limited number of quotaholders in proportion to their initial contribution. The rights of each quotaholder are proportional to their quotaholding.

Quotaholders often play an active role in the running of the business. The S.r.l. has a separate legal entity and as suchi is liable for its obligations only to the extent of the amount of the quotas paid in by each quotaholder.

An S.r.l. may issue debt instruments which are similar to bonds, but unlike bonds may only be subscribed for by professional investors.

Additionally, the quotas of an S.r.l. cannot be incorporated into certificates or listed.

3.2.6 Simplified l.t.d. company (Srls)

The simplified limited liability company is a relatively new form of business which has been introduced in order to simplify the process of setting up a limited liability company in Italy.
The S.r.l.s. is similar to the S.r.l. but with some restrictions relating to company structure and function.

Members must be individuals.

It can be set up by one or more members with a minimum capital requirement of 1 euro and a maximum of € 10,000 subscribed and fully paid in on the date of incorporation.

3.3 Other options for foreign companies - Permanent Enstablishment

An alternative approach to standard incorporation for a foreign investor may be to establish a branch in Italy.

According to Italian legislation, a branch must be registered when a foreign company carries out any business activities such as the sale of goods or provision of services through an Italian office.

By engaging in such business activities, the company is required to be permanently established in Italy.

A branch has no minimum capital requirements and, generally, the corporate formalities required for a branch are less burdensome than those for a subsidiary.

On the other hand, since the branch and the foreign company are considered to be the same legal entity, the foreign company remains directly responsible for all the liabilities of the Italian branch and is responsible for its initiatives.

The establishment of a branch requires the nomination of a representative domiciled in Italy who has all the necessary powers to manage the branch and represent the company in dealings with third parties

Although the branch has not separate legal identity, it is subject to italian domestic law.

3.3.1 Local representative office

A local representative office is the quickest and least expensive way available to a foreign company wishing to have a minimum presence in Italy, but it cannot be used for business relating to the sale or purchase of goods or services.

The local representative office may be used solely for promotional activity and marketing research and other non-business operations such as the storage, delivery and display of goods belonging to the foreign company.

It does not represent the foreign company vis-à-vis third parties and so may not issue invoices to or accept payments from, customers.
It is not a separate legal identity and it is not considered to be a permanent establishment for tax purpose

4. ACCOUNTING AND REPORTING

4.1 General

Accounting and reporting in Italy are regulated by the Italian Civil Code, Italian tax regulations, Italian Accounting Standards and, where applicable, International Accounting Standards. All companies, either companies with share capital or partnerships, are required to keep accounting books and records of accounts.

It should be remembered that the Italian branch of a foreign enterprise is subject to all Italian laws concerning bookkeeping. A branch is therefore required to have its own accounting books and records.

All books and records, including computerized records, must be kept for at least ten years from the date of the last entry, together with all related original documents received and issued by the business.

Companies with share capital are also required to prepare annual financial statements and to file them to the Italian Business Register within 30 days of their approval by the shareholders.

Partnerships are required to draw up an annual report showing the profit and loss for tax purposes but there is no filing requirement.

In addition to their own financial statements, Italian branches are required to file a certified translation of the financial statements of their foreign parent company.

4.2 Simplified accounting

Simplified accounting can be adopted by sole traders and partnerships.

To be eligible, businesses operating in the services industry must have a turnover less than € 400,000 per year; for those operating in other sectors the limit is € 700,000 per year.

A sole trader or partnership falls within the limits outlined above it can automatically adopt the simplified scheme without need to communicate this to the authorities.

Companies falling within the limits are free to choose to opt for the ordinary accounting regime instead, if they wish so.

Under the simplified accounting regime businesses are required to keep the following books and records.

4.2.1 VAT purchase register

In addition to recording all purchase invoices, the VAT purchase register must detail all costs that are not subject to VAT such as:

› wages, salaries and social security contributions
› insurance
› postage and revenue stamps
› taxes and duties
› interest charges from banks

It should also include details of adjustment entries, such as accruals, prepayments, invoices to be issued and received etc.

If no fixed asset register is kept then details of any fixed asset additions should also be recorded in the VAT purchase register.

4.2.2 VAT sales register

In addition to recording all sales invoices, the VAT sales register must detail all revenues that are not subject to VAT, such as:

› bank interest income
› capital gains
› other income falling outside the scope of VAT.

4.2.3 Register of daily takings

If the company operates as a retailer the receipts from sales should be recorded in the register of daily takings which replaces the VAT sales register.

It should also detail all income falling outside the scope of VAT.

A retailer is not required to issue an invoice, a receipt or a till slip will suffice.

4.2.4 Book of depreciable assets

The fixed asset register records the purchase, sale and depreciation of the fixed assets used by the company.

It is not mandatory if details relating to fixed assets are entered into the VAT purchase register as explained above.

4.2.5 Compulsory Employee registers

If the company has employees, certain mandatory registers and records must be kept, such as the personnel register and payroll book.

4.3 Ordinary accounting

Companies following the ordinary accounting scheme are required to keep more books and records than those adopting the simplified accounting scheme.

Ordinary accounting must be adopted by companies with share capital, i.e. S.p.A., S.a.p.a. and S.r.l., and by sole traders or partnerships whose turnover exceeds the thresholds allowable for simplified accounting

The books and records which must be kept are as follows.

4.3.1 Book of depreciable assets

The fixed asset register is not obligatory if the details of depreciable fixed assets are recorded in the inventory register. If a register is kept, then it must include details relating to the purchase, sale and depreciation of the fixed assets utilised by the company.

4.3.2 Inventory register

The inventory register shall contain a description and valuation of the company's assets and liabilities as reported in the balance sheet.

4.3.3 Day Journal

The day journal records all the daily transactions relating to the business activities of the company.

Accounting entries should be made in chronological order and include the following information:

› description
› entry number
› posting date
› accounts
› amounts
› debit and credit columns

4.3.4 General ledger

Entries from the journal must be transferred to the general ledger, itemized according to the company's chart of accounts.

4.3.5 Statutory Books

Companies with share capital must also keep the following statutory books:

› Register of shareholders' meetings
› Book of board of directors meetings
› Book of board of Statutory Auditors

S.p.A.s must also keep a share register giving details of the names of the shareholders, numbers of shares held and any transfers or payments made and a bond register giving similar details relating to bonds if the company has issued them.

Partnerships are not required to keep statutory books although in practice it is advisable to keep a book of partners' meetings.

5. INCORPORATION AND RESTRUCTURING OF COMPANIES: LEGAL ASPECTS

5.1 Incorporation of a company limited by shares

A limited liability company (S.r.l.), can be set up between two or more individuals or legal entities, or through a unilateral act (one-person S.r.l.) with a minimum capital of 10,000 euros. In both cases, the incorporation act must be drawn up by a notary as a public deed.

The process of establishing a S.r.l. is made up of the following steps:

- drafting of the articles of association (even if is no longer strictly necessary, since is is possibl to include the rules company in am attached document);
- payment of at least 25% of the capital (100% in the case of a one-person S.r.l.) into a deposit account, but it is possible to substitute the payment due with an insurance policy or a bank guarantee;
- valuation of any contributions in kind or credits by an expert;
- incorporation act by public deed and full subscription of the capital;

- delivery of the incorporation act and articles of association to the register of companies by the notary;
- enrolment of the company in the register of companies.

The company acquires legal status once registered in the register of companies. For operations conducted before registration, responsibility is held jointly and without limits by those who took such actions and by the members that decided these actions to be taken.

After the registration in the register of companies, the company may ask to transfer the capital paid from the deposit account to an ordinary bank account.

5.2 **Incorporation of a joint-stock company**

In order to set up a (S.p.A.), a minimum capital of 120,000 euros is required and the relevant contract can be concluded by two or more individuals or legal entities, or by a unilateral act (one-person S.p.A.).

The process of establishing a S.p.A. is the same as for a S.r.l.
In this case, it should be noted only that the articles of association must be drawn up in any case and it is not possible to substitute the payment of share capital with an insurance policy or a bank guarantee.

5.3 **Merger and Acquisition**

Merger and acquisition are transactions which fall within a specific corporate restructuring business plan. They do not provide the winding up of the company at stake, but instead, guarantee its on going.
Under italian law is possible to distinguish a proper merger from a merger by acquisition.

In the first case the company at stake is dissolved without being liquidated and all its assets and liabilities are transferred to a newly established company, the so called 'newco'. In this event the members of the former dissolved company cancell their old shares and in exchange receive shares of the newco.

In the second case the company at stake is not liquidated and all its assets and liabilities are transferred to an existing company, the so called 'absorbing company'. Also, in this event the shareholders of the former dissolved company receive shares of the new absorbing company after having cancelled their old shares.

In both circumstances, in order to these procedures be effective towards third parties, the directors of the merging company must be compliant with the following formalities:

- prepare a proper merger plan;
- subtmit it, along with reports and financial statements, for the approval to the shareholders;
- approval by the extraordinary shareholders meeting of the companies involved.

5.4 **Spin off**

A spin off is a transaction by which the involved existing company transfers all or parts af its assets to one ore more beneficiary companies, either a newco or an existing company.
Accordingly, shares of the beneficiary company are attributed to the members of the former divided company.

Similarly to the merger and acquisition procedure, in the spin off transaction the directors of all the involved companies must be compliant with the following formalities:

- prepare a proper division plan;
- submit it, along with specific reports and financial statements, for the approval to the shareholders;
- approval by the extraordinary shareholders meeting of the companies involved

5.5 **Transformation**

The transformation consists in changing the type of social business organization.
In general, the principle common to all hypotheses of transformation is the one concerning the continuity of overall existing liabilities and assets at stake.
Accordingly, with transformation, the transformed entity mantains the rights and obligations and taks after all the legal procedures of the entity that carried out the transformation.

Italian legislation foresees two types of transformation:

- homogeneous transformation: takes palce when a company is transformed into another company of a different type;
- heterogeneous transformation: in this case a transformation takes place into an entity of a different type compared to the original one.

In this particular last event must be distinguished the two further following cases:

- transformation of a capital company: a capital company turns into a different type of entity (into a consortium or an association or foundation);
- transformation into joint-stock companies: consortiums, cooperative companies, associations or foundations are transformed into joint-stock companies.

5.6 **Dissolution of a joint-stock company**

The dissolution of a joint stock company follows a precise procedure that is split into the three following stages:

- the arising of a reason for winding up the company;
- the carrying out of the liquidation activities;
- the cancellation of the company from the relative enterprises register.

Reasons for winding up that are common to all types of companies are the expiry of the legal duration of the company, the final achievement of the company's objectives or the impossibility of achieving them, and other reasons for winding up that are foreseen in the articles of incorporation.

Furthermore, there are some reasons that are particular to individual company types. With regard to joint stock companies winding up can be caused by the company's inability to function, due to the repeated lack of action by its shareholders' meeting, the reduction of its share capital below the legal minimum, or by the impossibility of being able to pay off the holding of a shareholder who has withdrawn from the company and, as anticipated, in general by any other reasons that are laid down in the act of constitution and the articles of incorporation of the company.

The effects of the winding up take place, except for the winding up of the company for its natural expiry date and for the reasons laid down in its act of constitution, from:

- the date of the publication in the enterprises register by directors of the declaration ascertaining the reason for the liquidation, or;
- the date of the publication of the resolution putting the company into liquidation (after going thorugh the shareholders' meeting).

At this stage the directors maintain management in order to safeguard the company's equity and assets, until all the company's books are handed to liquidators. Untill this point the directors are still personally and jointly liable towards the shareholders, the company's creditors and third parties.

The liquidators, who are nominated by the shareholders' meeting, or by the Court, are responsible for the drawing up of the yearly financial statements for presentation for approval to the shareholders' meeting.

From now on, the liquidators will be responsible for any damages caused to the company, as a result of the activities they have carried out, to the same extent as is provided for the directors. After having made available the required payment for the company's creditors, the liquidators go ahead with the division of the remaining assets of the company among its shareholders. A final set of liquidation financial statements is drawn up in which there are shown what is due to each shareholder. These financial statements are signed by the liquidators.

At this point the tasks and duties of the liquidators are considered to be ceased and the company is crossed out from the relative enterprises register.

At any time, the company, with a resolution of its shareholders' meeting can revoke the state of liquidation, after having eliminated the cause that has brought the winding up of the company, but only with the prior agreement of the company's creditors.

5.7 **Dissolution of a l.t.d. company**

The dissolution of a limited liability company follows the three below mentioned steps:

- determining the reasons for winding up the company;
- carrying out of the liquidation activities;
- cancellation of the company from the register of companies.

As anticpated, there are reasons for dissolution which are common to all types of companies for example: the expiration of the legal duration of the company, the achievement of the company's objectives or the impossibility of achieving them, or simply the will of the shareholders to do so. Other reasons for winding up may be provided for in the incorporation deed and in the articles of association.

In addition, and similarly to joint-stock company, in the case of limited liability company winding up can be caused by:

- the company's impossibility to function;
- the repeated lack of action by its shareholders;
- declaration of invalidity of the company;
- the reduction of its share capital below the legal minimum;
- impossibility to pay off the stake of a shareholder who has withdrawn from the company;

Except for situations when the winding up of the company takes place on its natural expiry date and for the reasons stated in its incorporation deed, the winding up becomes effective only from the date of the publication in the register of companies of the directors' statement setting out the reasons for the liquidation, or from the publication date of the shareholders' resolution for the liquidation of the company.

5.8 **Corporate criminal liability**

Provisions concerning corporate Italian criminal liability are set up in the legislative Decree no. 231/2001. This set of rules foresees a direct responsibility of companies for specific types of offences. It is worth to notice that not only corporations strictly speaking are subject to this criminal liability, but any legal entity including association without formal legal personality (such as associations *de facto* and foundations).

A company can be held responsible only if the the crime has been commited in its interest or advantage. Indeed, interest and advantage (deemed to be considered the concrete economical utility obtained by the company) are the two alternative creteria that must be considered to allege corporate liability.

As a consequence, legal entities may be held liable by being subject – autonomously respect to the individuals committing crimes – to money penalties (from approximately € 26.000,00 to € 1.500.000,000).

In addition, interdiction penalties can be applied for a certain period of time. After all, this penalty results extremely harsh for the company since can easily cause the paralysation of the entire business. Thus, instead of applying an interdiction penalty, the relevant judge can dispose the prosecution of the company activity and the election of a commisioner any time the interruption could cause relevant prejudice to the community or could have negative effects on employment.

On the other hand, entities are free from responsaibility once is proved that they have adopted a suitable model organization and a proper supervisionary organism which has activated proper control.

Individuals liable to criminal law will be those subjects who are legal representatives, directors or managers of the company, or any individual who has financial and functional independence

Corporate criminal law may result from the committing of the following crimes detailed in the decree:

- offences against the public administration (such as corruption);
- corporate crimes (i.e falsification of financial statements);
- money laundering;
- market abuse;
- occupational health and safety crimes;
- environmental crimes.

6 TAXATION OF INDIVIDUALS

6.1 **General**

IRPEF is a general progressive income tax levied on natural persons as opposed to legal persons; is payable by individuals on income earned in the tax

year. For employees' tax is deducted from their salary through the PAYE system whereas the self-employed are responsible for paying their own tax through a system of self assessment.

6.2 Residence

Residents are subject to income tax on their world-wide income. Non-residents are taxable on their income arising in Italy only.

For income tax purposes resident individuals are those individuals who for most of the tax year (up to 183 days) are registered in the Italian civil register or are resident and/or domiciled in Italy as defined in the Civil Code. In Italian law residence is equivalent to one's place of habitual abode while domicile refers to the place where a person has established his or her principle centre of business and interests.

Anti-avoidance provisions apply to Italian nationals who claim to be resident in tax havens: an Italian resident is deemed to be still resident in Italy if he moves to a tax haven and removes his name from the civil registry.
This is a rebuttable presumption but the burden of proof that actual residence is outside Italy is on the taxpayer.

6.3 Taxable income and rates

Personal income tax is based upon income from the following categories:

- income from real property;
- income from capital;
- income from employment;
- income from independent professional services (self-employment);
- business income;
- certain miscellaneous income;

The aggregate taxable income is calculated by adding the net income of each category. Exempt income and income subject to a final withholding tax or a separate tax is not taken into account.

From the gross income any deduction provided by law will apply (generally are equal to 19% of the expenses listed by specific provisions).

The income rates currently in force are the following:

Income	Rates
Up to 15.000 euro	23%
From 15.001 to 28.000 euro	27%
From 28.001 to 55.000 euro	38%
From 55.001 to 75.000 euro	41%
Over 75.000 euro	43%

According to the new 2019 budget law, starting from the 1th January 2020 there will be a reduction from the current 5 IRPEF rates to 3 and then, within the 5-year term, these rates are expected to be in line with those introducing the dual tax as follows:

- up to 75.000 euro a 23% tax rate will apply;
- income exceeding the above treshold will be tax at a 33%.

6.4 Regional and municipal Irpef surtax

In addition to the income tax levied on earnings of any kind, two additional payments have to be made in favor of the local authorities, region and municipality, in which the taxpayer is resident:

- a regional surtax between 1.73% and 3.33%, whose rate is enstablished by regional government on yearly basis;
- a municipal surtax which includes a fixed rate established each year by the state which, generally, is raised up to 0.8% by the municipality authority who levies it on individuals

6.5 Tax on income of non-residents

As already anticipated, non-residents individuals are subject to IRPEF only for their income sourced in Italy, according to a mere territorial basis.
For this purpose, the following incomes are deemed to produced in Italy:

- Income from land and immovables;
- capital gain paid by the State, resident persons (entities or individuals) or PE of foreing entities in Italy, except interest and other income derived from bank/post deposits and current accounts
- income from employment produced in Italy;
- income from self-employment related to activities performed in Italy;
- business income from activities performed in Italy thorugh a PE;

- other income from activities performed and assets located in Italy, capital gains derived from the sale of shares in resident entities;
- income from participation in transparent Italian entities (i.e partnerships).

Taxable income of non-residents is determined in the same way as resident's income: thus, it will be equal to the total amount of the overall income produced in Italy as indicated above, excluding exempt income and income subject to withholding tax, or final withholding tax.

With specific regard to income of non-residents, it should be stressed out that the foreing taxpayer could anytime claim the application of the relevant tax treay provisions when they are more favourable.

6.6 **Tax compliance**

For the purpose of personal income tax, individuals and parterships must file an annual tax return by the end of september of the following tax year.

Tax payment is due into two instalments on the basis of the avarage of the previous tax year return

- The first payment on account must be paid by the last day of the six-month following the end of the relevant tax period. It is allowed to make a delay payment by the last day of the 7th month with an additional of an interest rate of 0.4%;
- The second payment on account must be due within the last day of the 11th month following the end of the relavant tax period.

7 CORPORATE TAXATION

7.1 **Company income tax**

Corporate tax refers to a direct tax levied by various jurisdictions on the profits made by companies or associations and often includes capital gains of a company. Generally, earnings are equated to gross revenue less expenses.

Italian corporate income tax, IRES, applies to both resident and non-resident companies. The former is taxed on their wordwide income, the latter are taxed only on their Italian-sourced income.

The following companies and institutions resident in the State territory are liable for IRES:

- companies with share capital;
- cooperative companies;
- mutual insurance companies;
- resident public and private commercial institutions;
- resident public and private non-commercial institutions;
- non-resident companies and institutions.
- companies and institutions with the registered office, the administrative office or the main object of the activities in the territory of the Italian State for most of the tax period (183 days).

If income produced abroad contributes to the formation of the overall income, the taxes ultimately paid on that income in the countries of origin may be deducted from the net tax due in Italy with specific limitations.

7.2 **Residence**

As anticipated above, a company is resident for tax purposes if its legal seat, place of effective management or main business activity is found to be in Italy for the most part of the tax period (183 days). A foreign company that holds a controlling partecipation in an Italian company is deemed to have its place of effective management in Italy and, therefore, to be resident in Italy for corporate tax purposes if the foreign company is controlled by an italian resident or managed by Italian residents representing the majority of its board of directors.

7.3 **Rate**

The corporate tax (IRES) rate is 24%, plus the regional tax on productive activities (IRAP, 3.9% in general).
For banks and other financial istitutions (excluding SGRs and SIMs), the corporate tax rate it 27.4%.
"Non-operating" entities are subject to a 34.5% corporate tax rate.

7.4 **Taxable Income**

The taxable income of a company is that shown in the profit and loss account for the relevant tax year and it is determined by applying specific criteria laid down for tax purposes.
Income subject to a final witholding tax or a separate tax are not taken into account in

determining taxable income. Taxable income is determined on the accrual basis with certain exceptions (e.i. for dividends and directors'fees)

7.5 **Dividends**

The income of companies and associations subject to IRES is taxed when produced only; the later distribution of profit to shareholders does not incur into any further taxation. The company therefore pays IRES permanently and shareholders are not entitled to any tax credit on profits received.

Generally, dividends received by Italian entities are subject to taxation as follows:

- dividends received by resident companies are taxed at 5% of their amount;
- dividends received by companies located in countries with a preferential tax system are fully taxable.

In particular, dividends received by subjects to income tax on income from companies based in member states of the European Union (EU) and in the States signatories of the European Economic Space Agreement (EES) that allow a fair exchange of information with Italy, are taxed at source at the rate of 1.2% of the total.
Dividends paid within companies in a group that opt for tax consolidation are 95% exempt from taxation.

Dividends paid to physical persons receiving company incomes or by partnerships or qualified shareholders are taxed at 58,14%.

Dividends paid to qualified shareholders (with a share holding of more than 20% of voting rights in an ordinary meeting or 25% of capital or corporate assets), not included in company income, are taxed at 58.14%.

Dividends paid by resident companies to other resident companies are not subject to withholding tax.

7.6 **Capital gains and pex**

Generally, capital gains are treated as ordinary income, therefore are taxed at the 24% IRES tax rate. However, capital gains derived from the transfer of company holdings, under certain conditions, are 95% exempt from taxation.

In this event, the following requirements should be met:

a) uninterrupted holding period as from the first day of the twelfth month preceding that of transfer;
b) holdings acquired more recently will be deemed to be transferred first (LIFO);
c) classification of holdings as investments as from the first balance sheet closed during the period of ownership;
d) tax residence of the controlled company in a State or territory other than those with a preferential tax system;
e) exercise by the controlled company of actual commercial activities; "immovable property" companies are excluded.

The requirements set out in letters c) and d) must exist starting from the the tax period prior to realization.
Capital losses are not considered to be deductible.

7.7 **Deductions of general expenses**

Cost and expenses may be deducted only if they are incurred for the production of income and as long as they are accounted in the P&L (profit and loss statement) of the relevant tax year.

In determining taxable income, there is a wide range of expenses that can be deducted from the profit as it comes out from the profit and loss statement.

Some of the expenses above mentioned are 100% deductible, some of them are deductible according to a certain percentage, some other are not deductible at all.

As a general principle, are eligible to be deducted from the profit all the expenses carried out within the business activity of the company. However, some expenses are considered to be miscellaneous, since relate to both company and private purpouse, so the percentage of deductibility is less than 100%.

The following list, based on the scheduals set forth by the Decree of Ministry (31.12.1988), gives some examples of deductible costs and the relevant percentages deductibility:

For istance;

- telephone costs: are deductible for the 80% of their amount;

- costs related to cars: if the car is used exclusively for the company needs, they are entirely deductible, otherwise, they can be deducted in different percentages;
- cost of labour: all the costs related to wages, social and health contributions paid by the company are deductible;
- other taxes: apart from I.R.A.P. that is deductible only for 10% of the amount paid, other taxes are deductible in the fiscal year according the proper amount paid;
- write downs: are not relevant from a fiscal point of view;
- entertainment expenses: if they are represented by goods of net value of less than € 50 each, they are entirely deductible. Other entertainment expenses are deductible in different percentages, proportionally to the total annual turnover.

7.8 Deducibility of interest payable

Interest payable and assimilated charges other than capitalized costs can be deducted in each tax period, up to the limit of the interest receivable and assimilated revenue.

Any excess can be deducted up to 30% of the EBITDA plus cost of financial leases.

Any further excess cannot be deducted during the taxation period, but can be deducted, without any limit on time, in later periods, on the condition that the 30% of the gross earning relevant to each financial year is higher than the difference between the total of interest payable and assimilated costs and the total of interest receivable and assimilated revenue.

In order to apply the system described, interest payable and interest receivable, assimilated costs and revenue from the following are taken into consideration:

- Mortgage contract
- Financial lease contracts
- Issue of bonds and similar
- Any other contract for financial reasons

Implied interest coming from debts is however excluded, while interest receivable from payments of the same nature can be included.

7.9 Depreciation of tangible assets

Corporate expenses that relate to capital expenditures are usually deducted in full and over the useful life of the asset purchase, so-called depreciation.

The depreciation of fixed tangible assets used in the business of the company is based on their purchase or manufacturing cost, which may include interest on funds borrowed to purchase the assets. That interest must be capitalised until the asset goes into use, thus, depreciation should start from the very first day an asset comes into use.

Generally, depreciation is carried on a straight-line basis over the estimated useful life of the asset, determined using the Ministry of Finance scheduale which set forth for each sector of industry and each category of assets the allowed relevant deductible pertengaces.

In the first year of use, the ordinary depreciation rate is halved.

If the purchase cost of the asset is not higher than EUR 516.46 it may be fully deducted in the year of purchase.

Generally, depreciation for tax purposes refers to a 12-month period. If the assets are used only for part of the period or if the financial year is longer than 12 months, depreciation must be adjusted accordingly.

7.10 Losses

Tax loss carry-forward is allowed. Previosuly, the carry-forward of tax losses was subject to a 5-year limitation, exept for tax losses incurred in the first 3 taxable years of the business activity, which they still could be carried forward without any restriction (so called start-up losses).

The actual regime does not foresee anymore the five-year limitation; however, tax losses can be used to offset the taxable income of subsequent years only up to 80% of the taxable income of any given year.

In other words, the 20% left of the taxable income of the relevant year can't be offset by the carried-forward losses mechanism and will be normally subject to corporate tax in compliance with the "minimum tax" rule.

However, taxpayers are free to use, without any restriction, company losses either incurred during

subsequent years (offsetting up to 80% of the taxable income of the relevant year) or losses incurred during the first 3 taxable periods but only if these losses relate to a new business activity.

Accordingly, the carry-forward of tax losses is forbidden if the company carrying forward the tax losses is operating both a change of control and in its business activity (e. g losses may not have been incurred during a marger). Tax losses cannot be carried back.

7.11 Capital gain and losses

Capital gains on the transfer of company holdings, under certain conditions, are 95% exempt from taxation. The exemption applies, provided that:

- the participation has been continuously held for at least 12 months;
- the participation is classified as a financial asset in the first balance sheet closed after accquisition;
- the participated company performs a real 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);
- the participated company is tax residence 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 ones.

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.

7.12 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 a listed company;
- more than 20% of voting rights in an ordinary meeting or 25% of capital or corporate assets for other companies (not listed).

Dividends of foreign source from countries which grant an effective taxation lower than the half of the Italian one is subject to ordinary tax on 100% of their amount.

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 1,20% final withholding tax.

For companies only, dividends may qualify for exemption under the EU Parent – Subsidiary Directive, accordingly no withholding tax will be applied.

7.13 Royalties paid to non residents

A 30% final withholding tax applies to royalties paid to non-resident companies. Normally the mentioned withholding tax is levied on the 75% of the gross taxable royalty amount, resulting in an effective tax of 22.5%, unless the tax rate is reduced under an applicable tax treaty or the payment qualifies for exemption under the EC Interest or Royalties Directive.

7.14 Interest paid to non residents

Unless reduced by an applicable tax treaty, a withholding tax of either 26% or 12,5% is applicable to interest paid by a resident entity to a non-resident person. Different tax rates are applicable according to the type and the duration of the contract at stake.

For companies only, interest qualify for exemption under the EC Interest or Royalties Directive.

Interests on bonds and other financial assets are subject to 26% advance or final withholding tax according to various conditions.

Interest paid to non-residents on deposit accounts with banks and post offices is exempt.

7.15 National tax consolidation

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

National tax consolidation is an optional system to which company groups may have access for a 3-year period.

To exercise the option, the controlling company must partecipate directly or indirectly in an amount exceeding 50% of the share capital and profits of the controlled company.

The consolidation of the total taxable income will be calculated by summing up each individual company income, regardless of the percentages of participation of the different companies.

For this purpose, the holding company must:

- submit the consolidated earnings declaration, with the overall global income calculated;
- proceed with payment of the group taxation.

If there are 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 participating subjects submit a declaration of large-scale gross earning for the same taxation period that is not fully used for deduction.

These rules can be applied with reference to excesses carried forward, excluding those formed by single companies prior to entering the national consolidation. In this event, only these latter can use them.

The option is exercised through a specific application on that purpose and more over, the following requirements must also be met:

- residence in the State of all companies participating in the "fiscal unit";
- identity of tax period;
- election of domicile by each participating company with the one of the controlling companies.

7.16 World tax consolidation

Similarly, to the domestic version, world tax consolidation is an optional tax system regime valid, in this case, for a five-year period.

Indeed, the controlling company resident in Italy may consolidate the income produced by all non-resident companies in proportion to the controlling percentage of participation held.
In addition, the following conditions must be met:

- residence of the controlling company in Italy;
- all companies participating must have the same tax period;
- inspection of the balance sheets of the controlling and controlled companies;
- compulsory consolidation of all foreign subsidiary companies;
- in general terms, a certification by non-resident-controlled company to agree with the overall procedure.

In order to verify the existence of the requirements needed for the valid exercise of the option, is suggested to propose a suitable ruling to the relevant tax authority.

7.17 Controlled foreign companies

The income realized through a company, or other entities resident or enstablished in countries with a privileged tax status which are controlled directly or indirectly by a resident person (individual or company) is subject to CFC rules.
The distinction between White List and Black List countries has no longer been proposed lately, accordingly, in both cases the CFC regulation applies if, jointly:

- the foreign company is subject to effective taxation lower than half of that to which it would have been subject in Italy;
- more than a third of the company's income goes into the categories of income qualified as passive income.

With regard to the effective taxation criteria, to understand if it is less than half of the Italian one, it will be necessary to calculate the taxable base of the foreign company with the regulations in force in Italy, then apply the IRES and IRAP rates and compare the result with the taxes paid in the foreign country.

When the above conditions are met, the income produced by the foreign company is charged to the controlling entity in proportion to the share of participation and it will be taxed according the ordinary rates in force in Italy.

The taxpayer can benefit from the possibility to disapply the CFC by submitting a specific request to the tax authority if demonstrates that the controlled foreing company performs an effective economic activity, through the use of personnel, equipment, assets and premises.

7.18 Transfer pricing

Intercompany transactions are subject to the specific transfer pricing rules.
Italian regulations make explicit reference to the OECD guidelines, in fact the relevant regime, which has European matrix, provide that intercompany operations are taxable/deductible on the basis of the arm's length principle, according to which the intercompany prices negotiated should be the same as those agreed between independent parties operating in conditions of free competition and under comparable circumstances. In particular this rule applies to:

- foreign companies which control the Italian enterpises they perform transactions with;
- Italian enterprices which control the foreign company they perform transactions with;
- Italian or foreign companies wich control both entities involved in the transaction.

No legal obligations in terms of documenting prices used within the group is set forth. However, is strongly suggested for Italian companies to have proper documentation about the transfer pricing method adopted within the group.

In addition, taxpayers have to file an annual tax return along with the following information:

- the type of control applicable to the company;
- the amount of transactions related to those subjects to transfer pricing rules;
- documentation proving the transfer pricing method adopted within the group.

In order to avoid transfer pricing issues is also possible to use specific means provided by the tax authority, such as, the advanced pricing agreement (APA) or the international standard ruling.

7.19 Regional production tax

The tax is levied on the net value produced in each Italian region. Taxpayers carrying on business in more than one region by employing personnel in each region for more than three months must calculate the taxable base among the regions concerned on the basis of the remuneration paid to personnel employed in each region.

The standard rate is 3.9 % although individual regions may increase or decrease the rate by a maximum of 1% and may introduce percentage differentiations according to the belonging sector and category.

For commercial and manufacturing enterprises the taxable base is the difference between the value of production in the tax year (gross revenues plus increases in inventory plus work in progress) and the costs of production (the costs of raw and other materials, the costs of services, depreciation of tangible and intangible assets, the decrease in inventory of raw and other materials, provisions for risks and other miscellaneous costs). The cost of personnel, losses on bad debts and interest paid are not deductible.

It is to notice that, the following tax incentives currently in force have been enhanced:

- labour costs relating to personnel hired with training contracts may be deducted in their entirety and
- the amount of the current general deduction has been increased.

The tax is not deductible for income tax purposes.

7.20 Tax compliance

Persons subject to Ires must file the annual tax return within 9 months of the end of the relevant tax period, which usually matchs with the financial statement date.

7.21 International rulings

Is given the possibility to enterprices with international activity to go through a proper international standard ruling procedure in order to prevent tax litigation and reach an agreement in advance with the Italian tax authority.

The agreement will be valid for three tax periods, without prejudice to any change in the circumstances resulting from the agreement signed.
The standard ruling procedure mainly regards:

- the correct transfer pricing yo adopt with repsect to the transactions carried out with related parties;
- the proper treatment with reference to dividens, interest, royalties or other income paid to or received from the non-resident persons in specific cases;
- the proper application of certain law provisions, including tax treaties, with speficic regard to the attribution of profits or losses to PE of non-resident companyes in Italy, as well as to PE established abroad of resident company.

8 INCENTIVE FACTORS

8.1 General

Companies and individual enterprises, wishing to invest in Italy, are eligible for several tax allowances, such as the tax credit on research & development activities, the patent box regime, the super and hyper depreciation regarding fixed assets.

Moreover, businesses can count on a direct dialogue with the tax authority thanks to the advance tax ruling on new investments, the general taxpayer's advance ruling, the advance tax agreements for enterprises and to the cooperative compliance program.

Also, the Italian legislation provides some unique tax incentives to attract human capital, such as the new resident regime for high net worth individual and for impatriates.

8.2 Tax regime for new italian residents

The tax regime for new residents is dedicated to individuals transferring their residence to Italy, providing them with the possibility to opt for a substitute tax on their foreign income. This beneficial regime aims at enhancing investments and attracting to Italy high net worth individuals.

This tax regime is available for "newly resident" individuals in Italy, who (regardless of their nationality or domicile) have been non-tax resident in Italy for at least 9 years out of the 10 years preceding the application.

The incentive regime may be also extended to the family members of these individuals.

In detatil, high net worth individuals transferring their tax residence to Italy are enabled to apply a substitute tax to their foreign income, amounting to €100,000 for each tax period, instead of the ordinary individual taxation.
Needs to be stress out the extra possibility to operate a sort of cherry pickin with regard to foreign income; basically, the taxpayer has the further option to choose which foreign income subject to the substitute tax and which not.

Therefore, this taxation represents an alternative to the application of the ordinary taxation and the option is valid for a period of 15 years. As anticipated, the election for the regime may be extended to family members through the payment on their foreign income of a substitute tax, even lower, amounting to € 25,000 per member. Taxpayers may access to this regime submitting:

- a specific ruling to the Italian revenue agency or;
- exercising the option for substitute taxation in their tax return.

More over, in provide that individuals transferring their tax residence have to pay inheritance and donation tax only for properties and assets existing within the Italian territory.

8.3 Expat regime

The Italian tax system also provides a favourable tax regime dedicated to people who decide to move to Italy to work.
For example, if professors and researchers, currently residing abroad, decide to move to Italy, they enable tax incentives for the income generated in Italy.
Tax incentives are also in force for:

- graduates who have worked abroad;
- students who have obtained an academic qualification abroad;
- managers and workers with high qualifications and specializations.

In order to access this benefit, it is required that the applicant has not been tax residence in Italy in the previous 5 years unless the individual is an EU citizen who both: lived continuously abroad during the last 24 months, and has moved to Italy after studying, working, or graduating abroad;

The benefit consists in excluding the 50 percent of the taxable income gained, meaning that only 50 percent of the income earned by the individual from the employment activity will be subject to taxation in Italy.
It is important to notice that this regime, initially provided for EU citizens only, now is extended to citizens of any countries which Italy has a double taxation treaty or an information exchange agreement in force with.

8.4 Advance tax ruling on new investments

As anticipated above, art. 2 of the DLgs 208/2015 provides for enterprices, whether resident or non-resident, that intend to carry on investments of at least 20 million of euros in italy a new ruling procedure in relation to the specific object of the investments.
The investments which quilify for the mentioned ruling are the followings:

- either starting a new business activity or expanding the existing one;
- restructuring an existing business in order to overcome or prevent potential breakdown;
- transactions aimed to the purchase of equity interests in an enterprice.

The 30 million threshold is calculated by taking into account all different kinds of financial resources (such as external loans) may necessary to allow the enterprice to make possible the investment in Italy. Thus, the scope of this provision is to enable the enterprices to obtain in advance a clear framework of the tax regime applicable to their investment plan.

The ruling must be filed to the tax authority in order to be accepted.
Italian tax authorities must issue the tax ruling within 120 days from the notice/receipt of the tax ruling application.
If tax authority may request more detalied information/documentation, it will have 90 extra days to answer.
if tax authority does not issue any ruling within the mentioned terms, it is intended to have agreed with the solution proposed by the applican in the tax ruling application.
The ruling is intended to be binding for the tax authorities as long as the facts and circumstances pictured in the application ruling remain unchanged.

8.5 Investments in innovative start-up companies

To create favourable conditions for the development of innovative enterprises Italy provides a new industrial policy for economic developmeent and competitiveness, especially in the high tech and high skills sectors.

Innovative startup are intended to be those companies with shared capital (i.e. limited companies), including cooperatives, the shares or significant registered capital shares, which generally are not listed on a regulated market. These companies must also meet several requirements, the main importants are;

- be new or have been operative for less than 5 years;
- have their headquarters in Italy or in another EU country, but with at least a production site branch in Italy;
- have a yearly turnover lower than 5 million Euros;
- be of innovative character, which can be identified by at least one of the following criteria:

(i) at least 15% of the company's expenses can be attributed to R&D activities;
(ii) at least 1/3 of the total workforce are PhD students, the holders of a PhD or researchers; alternatively, 2/3 of the total workforce must hold a Master's degree;
(iii) the enterprise is the holder, depositary or licensee of a registered patent (industrial property) or the owner of a program for original registered computers.

The favourable measures consist in cuts to red tape and fees and will apply once the above requirements.

8.6 Benefits for reinvesting business profits

The draft Budget Law 2019, dealing with the capitalization of companies, introduces a tax benefit on business profits which are reinvested in

purchasing new material capital goods and in labour cost, hiring employees with a fixed-term or permanent contract.

Mainly, the benefit consists of a nine-point reduction of the ordinary 24% tax rate, providing an effective taxation of 15% on the relevant portion of profits reinvested.

This new tax benefit is addressed either to companies and entities subject to IRES and individuals subject to IRPEF, to which the grant of the benefit is extended, even if they have adopted the simplified accounting regime.

The taxable income does not take into account the shareholders' contributions to increase the assets, but only the further distribution of the profits, through their allocation to reserve. The allocation from profits to reserve does not determine any entry accounting, but it will be necessary operate a comparison between the profits allocated to reserve and the relevant portion aimed to face the mentioned investments for which the benefit is granted.

8.7 Tax credits related to research and development

The research & development tax credit aims to encourage investments in R&D activities.
This benefit is available to any Italian entity providing R&D services. If the services are provided to a foreign company, even a company belonging to the same group, it will be allowed to be allowed to benefit from the R&D tax credit, as long as the R&D activity is carried out in Italy.
As for 2019 the maximum annual credit for each beneficiary amounts to € 10 million, and the credit up to 25% for certain types of expenses, such as:

- self-employment;
- depreciation;
- R&D subcontracted to other companies;
- costs of purchased technical knowledge and patents.

Instead, tax credit is up to 50% for expenses related to:

- employees;
- R&D subcontracted to universities and research institutions and R&D subcontracted to innovative SME's or;
- innovative startup companies not belonging to the same group.

The cost of materials and supplies to be used for R&D activities, which currently are not eligible for the R&D tax credit, may become eligible expenses.
For all enterprises seeking to claim an R&D tax credit, a proper certification will be mandatory as well as technical documentation describing the R&D project.
Taxpayers have to sustain R&D qualifying costs between 2015 and 2020.

8.8 Patent box regime

The patent box regime is a tax *bonus* introduced in order to improve the development of intellectual property, granting tax benefits to resident and non-resident taxpayers carrying out research and development activities.

The eligible intangible assets are:

- softwares protected by copyright;
- patents;
- business and technical-industrial know how;
- other legally protected IP, such as designs and models.

Basically, under this regime, taxpayers can partially exclude from their tax income, for purposes of the income tax and of regional tax on productive activities, those qualified incomes deriving from the direct exploitation of intangibles or from licensing of the IP, such as royalties earned by the taxpayer, net of all IP-relating costs. The patent box regime shoul entitle taxpayers to exclude up to 50% of their income derived from such assets.

In order to determine the benefit, there must be a direct nexus between R&D activities and qualified IP, as well as a direct nexus between qualified IP and qualified income.

The patent box regime requires taxpayers to obtain an ad *hoc* advance tax ruling from the Italian revenue agency, whose submission is mandatory for determining the amount of benefited income arising from the direct exploitation of the qualified intangible assets.

8.9 Accelerated and enhanced depreciation

In order to support and incentivize companies that invest in new capital goods, purchased or leased, an additional IRES depreciation was granted for new investments in fixed tangible assets carried

out during the 2018 tax period. More precisely, the relating cost was increased by 30%, bringing the taxable basis of the asset up to 130%.

The eligible assets were those having a tax depreciation rate higher than 6.5% (previously, from 15 October 2016 to 31 December 2017, the cost for new investments was notionally increased by 40%).

More over, for new investments carried out in 2018 tax period in hi-tech, industrial robotics, digital manufacturing, IT security, etc., an increase of the purchase cost of 150% has been confirmed for tax depreciation, bringing the IRES basis of the assets up to 250%.

Originally, the period to take advantage of the menioned benefit was from 15 October 2016 to 31 December 2017.

The above benefit applies to eligible investments also made by 30 June 2019, provided that, by 31 December 2018, the following conditions are met:

- the purchase order has been accepted by the seller;
- at least 20% of the purchase cost has been paid.

For enhanced-depreciation investments of more than € 500,000 per single asset, a technical appraisal by an expert is required in order to certify that the asset has technical characteristics which enable to the above-mentioned grants.

Land is not a depreciable asset.

8.10 Ecobonus

The deduction for energy efficiency measures is reduced from 65% to 50% for expenses incurred from 1 January 2018 to 31th December 2019 for the replacement, installation or purchase of winter air-conditioning systems with condensation heating systems with a class A, as required by Reg. (EU) n. 811/2013; and in general, for the purchase of particular types of mosquitos' nets, fixtures, windows, solar panesl and so on.
For these interventions, the maximum deductible expenses depend on the specific item at stake; generally, amounts between 30,000 up to 100,000€.
Accordingly, a tax deduction is envisaged - to be divided into 10 annual installments of the same amount - for the expenses incurred and income to be paid by the contribution for works aimed at the energy requalification of existing buildings.
In order to enable the benefit, expenses must be proved, thus, the relevant transactions need to be certified through proper means of payment.

8.11 Electric, hybrid and methane car incentives

The state incentive on cars of this kind will enter into force from 2019 and will be recognized by the seller to the buyer through a discount on the selling price of the vehicle.
This discount may be applied from March1th, 2019 to December 31th, 2021.
The producers, in turn, will pay back the seller the amount of the incentive, recovering the same amount in the form of a tax credit.
The maximum amount to which the benefit is grant is equal to 40.000 €.
Accordingly, those who purchase, also in financial leasing, a new M1 category car registered in Italy from 2019 to 2021 are entitled to benefit from an incentive on the relevant purchase, whose amount is calculated on the number of grams of carbon dioxide emitted per kilometer according to as follows:

C02g/km	Incentive
C02g/km from 0 to 20	6.000 €
C02g/km from 20 to 70	3.000 €
C02g/km from 70 to 90	1.500 €

8.12 Renovations and green bonuses

A 50% discount for renovations is extended until 31th December 2019 and will remain the same as the prior structure: a deduction of 50% is envisaged for all building renovation measures, to be divided into ten annual installments.
The maximum deductible amount is equal to 96.000€

Likewise, the green bonus, introduced for the first-time last year, allowing a 36% deduction for care, renovation and irrigation of the private and public green areas is renewed for the whole 2019 as well.

8.13 Domestic appliances and furniture

As a result of the 2019 Budget Law, it will still possible to benefit for the whole 2019 from the "home bonus".
In particular, taxpayers will be able to benefit from the deduction of 50% in relation to those expenses

made for the purchase of furniture, large domestic appliances of category A plus.

Nonetheless, in order to benefit from the above favourable measure it is required to have prior carried out a building renovation project.
Therefore, in order to benefit from the discount, it is necessary that the start date of the mentioned works precedes the one in which the expenses are incurred.
Also in this case the deduction due must be divided into 10 annual installments of the same amount for a maximum cost of 10,000 €.

8.14 IMU on warehouse deductible up to 40%

The above-mentioned measure is part of the package of amendments to the Budget Law 2019.
As a consequence, the municipal tax due on immovable capital goods (*IMU*: for more details please see below paragr. 9.13) can be deducted up to 40%, starting from 2019, from the company and self-employment income.
The main beneficiaries of this favourable measure will be those taxpayers who run shops, warehouses and instrumental laboratories, for which the IMU is considered an excessive burden as th relevant obligation is necessary for the purpose of carrying out the business activity.

8.15 Coupon tax on lease contracts

Another favourable measure set forth by the 2019 Budget Law consists in providing for a coupon tax at 21% to be applied on rental contracts of shops (necessary to carry out the relevant business activity).

In order to benefit from the measure at stake the shop must belong and classified under the C1 category, as resulting from the land register and, in terms of extention, has to be smaller than 600 square meters.

Nonetheless, is also required that the relevant rental contract, as of 15th October 2018, has not been interrupted anyhow with respect to the natural term of expiry

8.16 Loans at zero rate

This particular favourable measure aims to encourage the purchase of abandoned agricultural lands, existing especially in southern Italy, by families who intend to buy them with the scope of building their primary abode on them.
Thus, 50% of agricultural lands belonging to the State already and 50% of left abandoned lands all over the country will be allocated for that specific purpose.
The benefits forsees a zero-loan rate up to 200,000 €. for the families who incur in such purchases.

8.17 Hiring bonus for 2019 - 2020

Companies that will provide for new permanent employment contracts will benefit from the 50% contribution reduction for another two years.
Thus, the new budget law of 2019 provides for an excellent recruitment bonus, that is reserved for young people with excellent university careers, and young researchers under 30.
For employers who will hire them on the basis of a permanent employment contract from 1 January 2019, will benefit of a contribution reduction of 8,000 € per year.
Unlike under the previous provision, the new set of law enviges this favourable meaures for 29 years old only.
The benefits are the following:

- for employers who hire people under 35 years of age and permanently, they will be allowed to have a 50% contribution reduction;
- the bonus will have a maximum duration of three years and a maximum limit of 3000 € for each year;
- the employer, in order to benefit from the 3-year contribution reduction, must not have made dismissals in the previous 6 months, can not dismiss the new employee within the first 6 months and must be provided with DURC.

8.18 Cash payments and transactions

From 2019, changes the threshold within which it is allowed the use of cash money in transactions.
The 2019 Budget Law establishes the increase - from 10,000 to 15,000 euro - of the maximum amount of cash payments that can be made, for the purchase of retail assets and services related to tourism.
As a consequence, the subjects falling within the application of this benefit are all the natural persons who have citizenship other than Italian one and whose residence is outside Italy.

8.19 Tax incentives for listing

In the Budget law 2018, is provided that in case of admission to listing on a regulated market or in multilateral trading systems of a member state of the European Union or the European Economic Area is recognized a tax credit, up to a maximum amount of 500,000 euros, of 50 percent of the consulting costs incurred up to december 31st, 2020.
This is an important incentive since costs for listing result extremely relevant especially for small and medium-sized companies.

9 VAT

9.1 General

Value Added Tax (VAT) is a consumption tax. The tax is due on the increase in value of goods and services in the different phases of production and trade. Each trader is liable to VAT on the goods and services it acquires for the business and in turn charges VAT on the goods and services supplied by the business to customers. This ensures that VAT is paid by the final consumer and not by the business.

9.2 Transactions for VAT purposes

As a general rule, transactions are subject to VAT in the Italian territory if the the following requirements are met:

- objective requirement: a good or service must be transferred or performed
- subjective requirement: the operation must take place within a business activity or the practising of arts or professions;
- territorial requirement: the operation must be carried out within the Italian territory.

However, even if all the aforesaid requirements are met, some transactions are exempt, while others fall outside the scope of VAT.
The former ones are operations in compliance with the three above requirements, but VAT is not applied by express provision of law - such as medical and financial expenses, insurance premiums etc - the latter ones are instead not compliant at least with one of the requirements, thus, VAT will not be applicable in Italy.

9.3 Rates

In Italy the basic tax rate is 22% percent, which applies to most goods and services. However, medicines, natural gas and electricity for domestic use, private telephone services, and most processed foods are taxed at 10 percent. Agricultural products, some foodstuffs and books are taxed at an even lower rate.

In addition to the ordinary rate, the Budget Law 2018 provides for an increase of the VAT rates starting from the fiscal year 2019, even though increases of the VAT rates could be replaced, in whole or in part, by new regulatory measures that have the same effect on the Public Finances.

9.4 Registration

A taxpayer (individual person practicing an art or profession, sole trader, partnership, company, or institution) carrying out taxable supplies in Italy is required to register for VAT purposes, in order to obtain an Italian 'Partita IVA.'

A foreign operator, thus, is requiret to apply for an Italian VAT number of as national persons, before implementing the operation, unless it has a permanent enstablishment in Italy.

In order to comply with the VAT registration, the foreign operator has two choises:

- appointing an Italian VAT tax representative, responsible for fulfilling the obligations and exercising the rights laid down by the VAT regulations;
- identifying itself directly for VAT purposes in Italy, in order to fulfill and excercise the relevant obligations and rights.

Operators resident in one of the EU countries (or in a non-EU state which ensures the exchange of info with Italian state) can opt for both of the above-mentioned options, while, residents of non-EU states can adopt the VAT tax representation only.

In the event the business is not registered for VAT in Italy and sells and delivers good from another EU member state to customers in Italy who are not VAT- registered (distance sales), it is required to register and account for VAT in Italy, through the direct identification when possible or by appointing a VAT representative, unless the value of the sales during the entire year do not exceed the amount of 35.000 euro.

As a consequence, an Italian taxable person for VAT purposes who sells and delivers good to individuals (not VAT-registered) enstablished in other EU countries will have take into account the value of the foreign threshold, beyond which therein it will be obliged to register and account for VAT.

9.5 **Reverce charge and place of supply**

As a general rule, when goods and services are supplied directly by business operators enstablished in other Member States, customers resident and VAT-registered in Italy are liable to account for Italian VAT under the reverse charge mechanism; for this purpose, customers must complete the invoices issued by their suppliers by adding the relevant VAT rate and the amount of Italian VAT to be paid.

In the event goods and services are supplied by non-EU operators, Italian customers must issue a self-billed invoice, charging Italian VAT to them self.

Self accounting for VAT under the reverse charge principle essentially means that the purchaser charges it self on his/her member state VAT rate on the transaction and also allow itself a corresponding VAT deduction for the VAT suffered. Basically, there is no VAT payment involved.

Given that, the place of supply determines where VAT is charged and therefore what VAT rate is applicable.

The general place of supply for services will be the:

- place where the customer is established in case of the so called B2B transaction
- place where the supplier is established if services are supplied to private consumers
- place where the consumer is resident for telecommunications, broadcasting and e-services supplied to consumers located in UE

While, the place of supply in relation to goods generally follows the physical movement of goods according to the so called “destination principle”.

9.6 **VAT return**

Starting from the 1th of january 2017, taxpayers have to submit to the Italian tax authority’s quarterly communication of VAT settlements returns along with the relevant periodic communication of data invoices received and issue during the tax year.

In general, settlement is carried out on a monthly, quarterly or infra-yearly basis:

- taxpayers who carry out monthly payments must pay the amount due by the 16th day of the month following the one to which the settlement refers or;
- in case of quarterly settlement by the 16th day of the second month following the end of the quarter.

For the last yearly quarter, the payment deadline is march 16th.
An overall annual VAT return must be filed before the end of April of the following tax year.

9.7 **Mandatory domestic e-invoices**

As for 1st January 2019 Italy introduces a mandatory e-invoicing system for domestic invoices. The new e-invoicing obligations will apply to all taxpayer established in Italy and also to non-resident taxpayers registered for VAT purposes in Italy, either through a direct Italian identification or aVAT representative.

This obligation will be extended in general to business to business (B2B) and business to consumer (B2C) supplies of goods and services. However the following exceptions are forseen for:

- invoices issued and received to/from non-established taxpayers who are not VAT registered, nor VAT identified in Italy (for which exists a);
- transactions for which a customs bill is issued;
- taxpayers included in the VAT flat-rate schemes.

More precisely, taxpayers are obliged to issue e-invoices through a specific platform of the Italian tax authority, the “Sistema di Interscambio” or (SDI).

It is worth to stress out that the e-invoices should be issued and sent through SDI only, in order to be valid. The Italian tax authorities may consider an

invoice that is issued in another way than through SDI in the mandatory e-invoicing format, for istance, still in hard copy, as not being issued at all and may therefore be subject to penalties.

However, given the several relevant changes, potential penalties may be reduced for the first 6 months of the 2019. Starting from 1th July 2019, instead, penalties will be fully applicable.

9.8 Cross border transactions and data trasmission

In any case, cross border operations will be subject to a specific reporting which will be submitted to the authorities by the end of the month following to the date of issuance or receipt of the invoice.

The obligation enter into force from the 1st January 2019 and its introduction aims at making available to the Revenue Agency the information relevant to the active and passive transactions with foreign countries (EU subjects, non-EU subjects).

The communication must be transmitted in the event in which the operations are not documented with electronic invoices nor with customs bills.

Subjects obliged to proceed with the transmission of cross-border data are those required to comply with the obligation to issue an electronic invoice (both against other taxable persons and towards final consumers) and generally speaking, will be the taxable persons established within the territory of the Italian State, with the exception of:

- non-residents subjects directly identified (as specified by the Revenue Agency with the circular n. 13 / E of 2018);
- non-resident subjects who proceeded with the appointment of their own tax representative in Italy;
- foreign subjects who do not have a VAT number.

9.9 Intrastat.

The Intrastat model, introduced soon after the abolition of customs barriers within the European Community in 1993 is still in force.
Indeed, the obligation to transmit Intrastat lists has not been deleted.
Consequently, the overall statements referring to sales and intra-community acquisitions of goods and services (operated and received) will have to be transmitted, even after 1st January 2019.

9.10 Flat tax for earnings up to 65.000 €.

In the new Budget Law 2019 a flat tax of 15% is envisaged for VAT registered individual already included in the flat-rate regime.
In paticular, the rate of 15% will apply for revenues up to 65,000 euros; nowadays the limit is between 30,000 and 50,000 euros depending on the Ateco classification activity.
Further more, from 2020 the portion of income exceeding the above theshold up to 100,000 euro will be taxed with a 5% surtax.

9.11 VAT grouping

Taxpayers are allowed to opt for VAT grouping from the 1th January 2018 and the regime will be effective as of 2019. Indeed, taxable persons established in Italy carring out business or professional activities, for which financial, economic and organizational links are met, can be treated as one single taxable persons, identified with just one VAT number.As a consequence of the application of this regime then:

- transactions carried out between the taxable persons of the group will not be subject to VAT
- transactions carried out between a group member and a third party will be treated as being made by the group as an entity.

More precisely, to be part of a VAT group in Italy the taxable persons joining the VAT group must be resident for VAT purposes in Italy and have, as already anticipated, a

- Financial link based on common control exercised by an italian resident entity. The requirement is still met if it is based in a country that has an exchange of information agreement with Italy
- Economic link based on the same core business or in activities that are complementary and ancillary
- Coordination between the decision making bodies of the involved entities

A group is set up by all the taxable persons who are enstablished in Italy and have the necessary links. The option is excercised by the representative of the group which (providing all

the documentation and information required) is generally the parent company or, if the parent company is established outside Italy, the representative will be the VAT group member with the highest turnover or revenue.

The option is binding for three years and thereafter is automatically renewed if not revoked.
If one member revokes the option the whole group is dissolved.
Any member that ceaces to meet the necessary requirements above mentionet, ceaces to be a member.

9.12 VAT: penalty regime

The VAT penalty regime provides several penalties according to the specific violation committed. The two main categories of violations regard those regarding to the VAT return and those regarding to failure to record transactions.

The first category concerns:

- Failure to submit an annual VAT return: in this event the penalty ranges from 120 to 240 percent of the amount the taxpayer should have declared in the return.
- Submission of an innacurate VAT return: in this case the penalty ranges from 90 to 180 percent of the amount not declared or of the excess VAT credit declared.

The second main category concerns:

- Failure to record transaction subject to VAT: in this event the penlty ranges from 90 to 180 percent of the VAT due;
- failure to record transactions that are VAT exempt or non- taxable: in this case the penalty ranges from 5 to 10 percent of the unrecorded amount, and with specific regar to the second one (failure to invoice certain out of scope transaction) will not be lower than 500 euro per violation;
- failure to record VAT-exempt or non-taxable transactions, which does not result in corporate income tax violations:
  in this case there is a reduced penalty that ranges from 250 to 2000 euro;
- violations concerning domestic reverse charge, if VAT has been paid by one of the parties, the penalty ranges from 250 to 10.000 euro.

9.13 Other taxes: Local tax on real estates (IMU)

Real estate is subject to a specific tax, the municipal tax levied on the ownership of buildings, buildable areas and agricultural lands situated within the Italian territory.

The taxable base is the notional value of the property determined by the land register multiplied for the relevant coefficients ("multiplier"), which gives the rate due. An exemption is currently granted for:

- immovable considered to be primary residence, if it is not classified as a luxury property;
- strating from 2016 the agricultural land, cultivated, owned and run bu farmers and professional agricultural entrepreneurs.

9.14 Other taxes: stamp tax

Stamp duty is an indirect tax on levied on certain paper documents (i.e. documents and books of account) of a civil, administrative or judicial nature. Some documents are required to be stamped in all cases while others just "in case of use", for istance when the document is filed to the register office.

The applicable rates for every document are set forth in the relevant schedules set forth by law. The most common tax for official papers and documents is the fixed tax of 16 euro. There two main payments constist in:

- using paper stamps, the so called "marca da bollo";
- making the payment to the register office (or other authorised offices or to a postal account). In such cases the receipt of payment must be attached to the document it refers to.

9.15 Other taxes: gift and inheritance tax

After been abolished, the inheritance and gift tax has been reintroduced in Italy.

The tax is applicable to all Italian residents and also to non-residents who have properties in Italy. The tax rates are as follows.

- 4 percent for recipients in a direct relationship (wife and children) with the donor. An exemption is given for the first

1 million of euro of assets and cash transferred to each beneficiary (threshold raises to 1,500,000.00 euro for disabled).
- 6 percent for brothers or sisters of the donor. An exemption is given for the first 100,000 of euro of assets and cash transferred to each beneficiary.
- 6 percent for other relatives; no tax exemption is granted.
- 8 percent for recipients with no relationship to the donor; no tax exemption is granted.

The follow scheduale sintetize the above-mentioned rule:

Relationship with the donor	Exemption	Rate
Wife and children	€ 1.000.000	4%
Siblins	€ 100.00	6%
Relatives	-	6%
Others	-	8%
Serious disabled persons	€ 1.500.000	Depending on degree of relationship

When immovables are inherited or given as a gift, the cadastral tax and the mortgage tax is applicable with tax rates of 1 percent and 2 percent respectively.

In case the immovable is the the principal dwelling of the taxpayer, the cadastral and mortgage taxes are substituted with a fixed tax of 200 euro.

9.16 Other taxes: registration tax

Registration tax is a tax levied on certain legal documents proving the constitution or transferring of real rights. The tax is paid to the register office, which records the document in appropriate registers and retains a copy, therefore, returning the original to the party requesting the registration.

Registration certifies the existence of documents, gives them a definite date as regards third parties, and assures their preservation. The failure to register when required does not invalidate documents but limits their legal effectiveness before government agencies in certain instances.

All parties to a document that must be registered within 20 days of execution are jointly and severally liable for the tax. For documents subject to registration only 'in case of use," only the person requesting registration is obligated to pay. The tax is paid to the register office at the time of registration.

10 CUSTOMS

10.1 The European Union custom law

The process of unification in costums matter has been implemented through the enactment of the Union Customs Code adopted on 9 October 2013 and entered into force on 1 may 2016.

As a consequence of the unification on internal market, the reduction of barriers to international investment and trade and the need to ensure security and safety inside and outside the external borders of the Union, in Italy, as for the rest of th other EU countries, will be relevant:

- the classification of goods which is necessary as to select and apply the customs rules for each movement of goods and therefore to quote the import duty;
- the origin of goods (mentioned in label);
- the value of the transaction that is the price actually paid or payable for the goods once sold for export to the customs territory of the Union.

10.2 Custom declaration

All goods originating from third countries intended to go through customs procedure need a specific declaration for that purpose. More over, the declarant, in other to allow customs authorities do determine the dutiable amount, must provide specific information about transaction; indeed, he/she must indicate the classification code, origin, value, quantity, the consignor and consignee and, as said, the relevant customs procedure.

Thanks to UCC Community, in order to implement a quicker coordination between companies and customs authorities is required paperless exchange of information, in liu of submitting all data exchanges by using electronic data-processing systems.

10.3 European customs system: warehouse and VAT warehouse

Under the UCC specific procedures are provided as regards non-EU imported goods, in detail:

- Transit can be divided into internal and external transit.
  The internal transit consists in moving the goods from one point to another of the customs territory, crossing a country or territory that is not part of the European Community, without undergoing into any change in their customs status.
  The external transit consists in moving non-Union goods from one point to another inside the customs territory without falling into: import duties, other charges and trade policy measures;

- Storage: non-Union goods may be stored in the customs territory without being subject to: import duties, other charges and trade policy measure.
  Instead, Union goods are likely to be placed in the free zone procedure waiting for the decision to allow remission of import duties;

- Specific use - temporary admission: non-Union goods may be used in the customs territory with total or partial relief from import duties without involving any trade policy measure or other charges.
  The end-use procedure let goods be released for free movement on account of their specific use under a duty exemption or a reduced duty rate;

- Processing can be divided into the inward and the outward. Under the inward processing procedure, the non-Union goods may be used in the customs territory falling into: import duties, other charges and trade policy measures.
  Under the outward processing procedure Union goods can be exported in the customs territory with total or partial relief from duties.

10.4 Imports and VAT

All imports are subject to VAT. In Italy VAT is due when goods are introduced in the territory. VAT must be paid by the owner of the goods or by the holder of the goods at the crossing of the customs bord.

Transactions that are considered imports are:

- the release of goods for free movement under a customs-duty suspension arrangement;
- inward processing (temporary import), these operations are liable to VAT if the goods are introduced for sale or house use;
- the temporary admission of goods for re-export without processing;
- re-imports for temporary export;
- the re-introduction of goods previously exported;

The taxable base for VAT on imports is calculated in accordance with Italian VAT law and customs law.

11 LISTING IN ITALIAN MARKET

11.1 European definition of SME's

Small and medium-sized enterprises (SMEs) represent 99% of all businesses in the EU.
The main factors determining whether an enterprise is an SME are:

- personnel hired
- either turnover or balance sheet total

Type of Company	Personnel hired	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m	≤ € 43 m	
Small	< 50	≤ € 10 m	≤ € 10 m	
Micro	< 10	≤ € 2 m	≤ € 2 m	

Generally the above threshold apply to single enterprises only. Thus, if an enterprice is part of a larger group, it shall indicate the staff hired, turnover or balance sheet information of that group.

11.1.1 Italian SME's

While the presence of a vast majority of SME's is a common feature of many EU countries, a peculiarity of the Italian industry is the presence of a large number of micro-firms. The Italian economic structure is based almost entirely on micro, small and medium-sized enterprices: approximately 95% of companies have less than 9 employees, 3% of the companies have from 10 to

19 employees and approximately 2% of companies employ more than 20 individuals.

As easy to understand, SME's are the backbone of the Italian manufacturing system; with specific regard to the industrial sector, they provide around 2/3 of added value for the entire sector and almost the 80% of overall employment.

In Europe they play a main role; solely the valued added provided by Italian SME's ranks second place at the European level. The Italian small and medium enterprices are infact well known for being export oriented and holding position of global leadership in niche sectors.

11.1.2 Opportunity for listing: AIM Italia

This market was created on 1 March 2012 in order to propose a single market for dynamic and competitive SME's amd represents already a bridge between capital and small and medium-sized enterprises.

AIM Italia - Mercato Alternativo del Capitale - is the portion of the Borsa Italiana market dedicated to the Italian small and medium-sized enterprises with inner high potentiality, that intend to raise capital to finance their investment and their growth.

AIM Italia offers a simplified listing process and less post-listing formalities, which reduce the burden, in terms of costs and time, SME's have to face for listing.

As regards the admission criteria, unlike the regulated market, there are no requirements for a minimum or maximum size of the company in terms of capitalization, nor in terms of corporte governance adopted.
With respect to the free float, a minimum threshold of 10% will be sufficient.

11.2 MNE's and MTA-Borsa Italiana: general

Unlike SME's, mutinationals enterprices are those business entities which conduct business operations in various countries through their subsidiaries and branches. MNEs hold considerable and wide human resources, finance, expertise and technology as well as enjoy substantial competitive advantage.
Either being a resident o non-resident company, they may list their shares on one of the markets managed by Borsa Italiana, through a primary or secondary listing, depending if the company is listed on its national or other stock market.
In this event, specific regulations apply to the foreign company.