

Italy



 **Capital city:**
Rome

 **Language:**
Italian

 **GDP/capita**
2015:
USD 29 958

 **Telephone code:**
+39

 **Superficy:**
30 528 km²

 **Political system:**
Parliamentary
republic

 **Currency:**
Euro

 **National day:**
April 25th,
june 2nd and
november 4th

 **Population:**
60'796 M.

 **ISO Code:**
ITA

1. Corporate taxation

1.1 Taxes on entities

Legal entities are subject to corporate income tax on their profits.

1.2 Residence and non-residence

For taxation purposes, a company is treated as resident if any one of the following conditions is fulfilled:

- the major part of the activities of the company are carried out in Italy;
- the company is incorporated in Italy;
- the administrative control of the company is in Italy;
- the principal activity of the company is in Italy.

If a company is resident in Italy, the tax charge is on worldwide income, unless restricted by a double taxation agreement.

A company not resident in Italy is subject to Italian tax on income arising from a fixed base in Italy. Where the company has no fixed base in Italy, a charge to Italian tax is levied on income that arises in Italy (for example, income from investments in Italy) in accordance with the provisions applying to each category of income.

1.3 Tax year and filing

The tax year in Italy is the calendar year. However, a company may file a return based on its own financial year. For capital companies, the tax return must be filed online before the ninth month following the end of the financial year.

Tax is payable as follows:

- a first payment on account (calculated as 40% of the tax payable for the preceding year) on 16 June for partnerships, and on the 30th of the sixth month after the closing of the accounting period for companies; the balancing payment can also be settled with the first payment on account on 30 July for partnerships or 30 days after the delay here above mentioned for companies, which will result in a 0.4% penalty;

- a second payment on account (calculated as 60% of the tax payable for the preceding year) on 30 November for partnerships, and 11 months after the start of the current accounting period for companies.

The balancing payment on 30 June the following year for partnerships, and sixth month after the closing of the accounting period for companies.

1.4 Types of income

The principles for the drawing up of financial statements are:

- income and expenditure can only be recognised if it relates to the business carried on;
- income and expenditure must be allocated to the accounting period to which it relates. If the benefit of expenditure is enjoyed over several accounting periods, the expenditure must be spread over those periods.

Profits

Some rules are:

- Profit: this is the profit from sale of goods and provision of services relating to the company's activity.
- Capital gains: this is measured as the difference between the sale consideration for land and buildings sold less than cost price and associated costs, after deducting depreciation that has been charged during the period of ownership.
- Closing stock: the general rule is that during a period of inflation closing stock is to be valued on a LIFO basis, with provisions required for prudence, in accordance with the civil code.

Charges

- Purchases: they are the acquisition price and other charges of raw materials and goods produced by the company's activity.
- Employee costs: these include employers' social security contributions.
- Interest paid: interest must be allocated to the taxable benefit arising from the expense and only up to the amount of 30% of the ROL (Reddito Operativo Lordo – Gross profit less depreciation).
- Other taxes and contributions: these are a deductible expenses, with the exception of tax on profit (IRES, IRAP), VAT and tax penalties.
- Capital losses: the equivalent treatment is applied as for capital gains.
- Depreciation of land and buildings: the tax law specifies rates of depreciation to be used, which vary according to the type of activity of the company and the type of building. Land may not be depreciated.
- Depreciation of intangible assets: goodwill, royalties and know-how pur-

chased are reduced over ten years. Most other intangible assets are reduced over five years.

- Provisions: tax legislation specifies that only certain provisions are deductible. These are:
 - provisions for retirement payments and termination benefits to staff;
 - provisions for bad debts, a charge against income for a year is allowable up to 0.5% of the year end debtors in the balance sheet, subject to the accumulated bad debt provision not exceeding 5% of the current debtors;
 - provisions for exchange rate risk.

Determination of tax income

The income must always be determined in accordance with accounting principles. Adjustments (increase or decrease) defined by the tax rules must be shown when the tax return is filed. However expenditure and other charges may be considered as deductible only if they are posted on the profit and loss account of the related period. Consequently certain items or valuations, which are not provided for in the accounting principles, must be shown in the preparation of the balance sheet.

1.5 Group income and grouping arrangements

A national and worldwide tax consolidation is planned.

1.6 Capital gains

Capital gains made by a company are treated as part of the profits of the business of the company.

Capital gains arising from transfers of shares in resident or non-resident companies are not considered as a taxable income by the capital gains of 95% if:

- the holding is reported on the balance sheet during the period of ownership as a financial asset;
- the company is a trading entity;
- the company is not resident in a country which appears on the «*black list*»;
- the shares have been continuously held for at least twelve months.

1.7 Losses

Losses may be carried forward with no time limits, but each future profit can be reduced only for the 80% of the available loss (i.e.: in case of EUR 1.000 loss in the year 2012 and EUR 1.000 profit in the year 2013, we can reduce the profit 2013 only by EUR 800. The remaining EUR 200 loss could be used in the future).

1.8 Exemptions

Dividends paid to a corporate shareholder (except for those received from an offshore company) carry a 95% exemption, leaving just 5% chargeable to tax. Furthermore, costs incurred in respect of the shareholding, such as portfolio management costs, are deductible.

1.9 Rates

Corporate income tax is levied at a national (IRES) and regional (IRAP) level.

Category	Rate %	
	IRAP	IRES
Partnerships	3.90	–
Companies	3.90	24.00

As of 1 January 2017, the IRES rate is decreased to 24%.

In some Italian regions, the IRAP is applied at a higher rate, up to 4.82%. Income is apportioned to partners in proportion to their relative interest in the partnership capital. Each individual partner is then subject to IRPEF/IRE.

1.10 Double tax relief

A credit is given for withholding taxes on dividends, interest and royalties.

2. Personal income taxation

2.1 Taxes on income

In Italy, the personal income tax is called Imposta sul Reddito delle Persone Fisiche (IRE or IRPEF), and it is regulated by the Decree of the President of the Republic n. 917, 22 December 1986, modified by the 2009 Tax Act on 22 December 2008 n. 203

2.2 Residence and non-residence

For taxation purposes, any individual who spends the larger part of the fiscal year in Italy is considered as resident. The same rule applies for registration; that individual will, therefore, also be entered in the civil register for the area in which he resides. The civil code requires that any one individual has only one residence. If an individual is considered as resident, IRPEF subjects the total income of the individual, whether arising in Italy or abroad to Italian taxation.

An individual who is not resident in Italy is subject to Italian tax on incomes arising from:

- land and buildings in Italy;
- a business in Italy;
- wages from employment exercised in Italy;
- any branch established in Italy.

As of 2017, a non-resident company which generates at least the 75% of its profit in Italy and which resides in a country of the EU, or a country with which information is exchanged, will be entitled to all the deductions that an Italian resident company enjoys. Otherwise it will be able only to deduct from its income the interests paid for purchasing its private residence in Italy. The tax rate on the income is 30%, except for double taxation treaties and it can be deducted at source in certain circumstances.

2.3 Tax year and filing

The tax year is the calendar year. A declaration of income has to be submitted between 1 May and 30 September following the tax year. The declaration is submitted via internet, only for people without supplement income can submit by paper.

The payment of tax is required as following:

- a first payment on account on 30 June (computed as 39.60% of the previous year's liability);
- a second payment on account on 30 November (computed as 56.40% of the previous year's liability);
- the balancing payment is paid on 30 June in the following year; the balancing payment can also be settled with the first payment on account, on 30 July, which will result in a 0.4% penalty.

2.4 Types of income

There are more types of income:

Income from Land

Income tax in respect of land is imposed whether or not income arises from the ownership of land. The income is determined on the basis of the value shown in the Cadastral Register, irrespective of any rent that is actually paid. The Cadastral Register is a government resource which provides the complete identification and definition of real estate for fiscal purposes. Leasehold property attracts a reduction in respect of maintenance and repair, this reduction being up to a maximum of 15%.

The principal private residence is not subject to tax. When an individual has a second residence, the value on the Cadastral Register is increased by a third. This treatment does not apply to property owned by companies; rent arising from property owned by a company is treated as part of the income of the company. Industrial and commercial property is assessed on the basis of the effective return from the property. If it concerns a block of flats, it is necessary to present rental income like an income and we can deduct the justified expenses till 15% on rental income.

Investment Income

Income from investments is taxed with respect to the year in which it arises. The charge covers interest on loans, interest on bank deposits, on bonds, on dividends and other distributions from companies. No deduction is available against such income.

The rate of income tax varies according to the type of income, for example: for bank interest, the charge is 26% as IRPEF and as a payment on account for companies. Disposal of shares or contribution of capital are taxed as capital gains (see § 15.15).

Share dividends by the companies of capital, not taken up residence in a tax haven are only imposed on 49,72% of their amount.

If the dividends are paid to physical persons who are not taxable as companies, the taxation changes according to the type of interest held:

- if the holding is 5% or above in a listed company, or 25% or above in an unlisted company, the 49.72%, of the income simply forms part of the individual's statutory total income and is subject to the normal income tax rates applying to the gross taxable income;
- if the holding is below these percentages, the tax rate will be a flat tax of 26%.

Employment Income

Employment income is taxable in respect of the year in which it is received. This includes pension income, scholarships, parliamentary emoluments and directors' fees. In addition, it also covers benefits in kind, reimbursed expenses and luncheon vouchers. Receipts of social security benefit and insurances are subject to special taxation rules, as are redundancy payments.

Self-Employment Income

Income from self-employment is subject to tax in respect of the tax year in which it arises. The charge extends to income arising from professions, from artistic work, from intellectual research, and from writing and journalism.

For the self-employed, deductions are available in respect of the costs suffered

by the business, and this includes the depreciation of assets. However, certain costs are excluded, such as those relating to cars, conference expenses and entertainment expenses. A charge of 20% is deducted at source by the taxpayers' customers and this is taken as a payment on account when computing that particular years tax liability.

Business Income

In principle, business income is measured in accordance with the accounts drawn up on correct accountancy principles (known in the Italian code as the principles of "economic competence").

Deductions are available in respect of the costs suffered by the business, and this includes depreciation of assets. However, deductions are limited on certain costs, such as costs relating to cars (only 20% deductible from 1 January 2013) and entertainment expenses.

In the case of disposal of the enterprise, tax on the gain is calculated under a simplified system. For an individual selling his business there are two options:

- if he owns other enterprises (and thus is still considered as an entrepreneur) and the business being sold has been held for five years or more, he may elect to average the gain over the following 5 years, so that one-fifth becomes chargeable to income tax each year. Alternatively, he may elect to have the whole gain taxed in the year of sale;
- if he has just one business which is sold, and he owned it for less than five years, the whole gain is taxable in the year of sale. In similar circumstances, but where the sole business was owned for five years or more, there are further provisions available which may mitigate the tax arising on the gain.

Income from Partnership

An individual partner is subject to income tax in respect of the profits generated by his partnership, the proportion of the profits being treated as arising to him being the same as the proportion of the partnership's capital to which he is entitled. Regional income tax (IRAP) at 3.90% is also imposed on partnership income.

Other Income

This category consists of income that is not within the preceding categories. It includes capital gains arising from the sale of building land and any other land or building that has been held for less than five years.

The charge extends to gains made on the sale of land outside Italy, when the disposal has been made by a resident of Italy. In this case, a reduction of 15% is made from the gain before it is subjected to tax.

2.5 Capital Gains

There is a distinction made between:

- capital gains made by a person who does not carry on a business;
- capital gains made by an individual involved in a business;
- capital gains realised by disposal (even partially) of land or buildings in the course of development;
- capital gains realised by disposal of land or buildings that have been owned for less than five years, except those owned via inheritance or gift and those which were the main residence of the seller or his/her family;
- a disposal of shares by an individual who has the advantage of a special tax regime.

Taxation of capital gains arising from business activities is subject to two different rates of tax, depending on the participation of the individual in the business:

- where the individual transfers more than 5% of the issued share capital of a listed company, or more than 25% of the share capital of an unlisted company; 49.72% of the capital gain is taxed under the IRE system;
- 12.5%: this applies in all other cases.

A capital gain is calculated as the difference between the value at the time of disposal and the value at the time of acquisition. The 2017 Financial Law allows revaluing the cost of acquisition to the market value.

For certain categories of assets that have been held for a substantial number of years, there are particular rules for determination of the tax charge. The tax charge is calculated separately from the charge on income, in order to avoid higher rates of tax that would result from the table of progressive rates.

Capital gains subject to such special treatment include: payments on termination of a contract of employment, payments on liquidation of a business, where there has been participation for more than five years and payments made to partners from partnerships where the individual has been a partner for more than five years. In these cases the rate of tax is determined by reference to the income arising from the business during the two preceding years.

Capital gains made by partnerships and other businesses in the course of business activities are not available for the reduced charge. However, they may be spread over five years, including the year in which they are realised, in order to lighten the tax burden.

2.6 Losses

Losses are treated as for Corporate taxation.

2.7 Exemptions

There are no exemptions in respect of personal income taxation.

2.8 Allowances and rates

The taxable income is the total income. The income tax is calculated by applying the rate shown to each band of income:

Band of income (EUR)	Rate on band (%)
below 15,000	23
from 15,001 to 28,000	27
from 28,001 to 55,000	38
from 55,001 to 75,000	41
above 75,000	43

An additional charge from 0.9% to 1.4% is levied to the benefit of regions.

There are tax allowances for children and spouse:

- maximum of EUR 800 for the spouse;
- maximum EUR 950 for each child;
- maximum EUR 1,350 for each disabled child;
- maximum EUR 1,220 for each child below the age of 3;
- EUR 200 in addition for each child if there are more than three children;
- a maximum of EUR 750 for other members of the family.

Other tax allowances are previewed for certain incomes (salaries, pension income).

The main deductions that can be made in computing an individual's total income are:

- interest paid on a loan to purchase and build the principal private residence;
- medical expenses;
- insurance premium to cover accidents at work;
- compulsory social security charges.

The gross tax liability is calculated on taxable income, which is total income less any allowable deductions. From these allowable deductions, tax allowances will be subtracted.

2.9 Social security

The Italian Social Security System provides a wide range of benefits including old-age pensions and disability benefits. The amount of benefits depends on the length of time the worker has contributed to the Italian welfare system and to the level of their earnings.

The Italian Social Security offers all people working in Italy (E.U. citizens or workers from outside the EU), whether they are employed, self-employed, professionals or entrepreneurs, the opportunity to obtain the following benefits by paying national insurance contributions:

- illness and maternity leave;
- unemployment benefit;
- mobility benefit;
- family allowances;
- pensions.

These opportunities depend on whether the person concerned has a permit of stay or residence papers. A general scheme managed by the Istituto Nazionale della Previdenza Sociale (INPS) covers the majority of workers in the private sector and those of the public sector (from 1 January 2012 INPDAP is managed by INPS).

Employment relationship (staff)

Social security contributions are made by both the employee and the employer. The total social security rate is around 40% of the employee's gross compensation (the rate depends on the work-activity performed by the company, the number of employees of the company, the employee's position), and is shared as follows:

- employer's charge is around 30%;
- employee's charge is around 10%.

Self-employed individuals

Self-employed individuals, who are value-added tax (VAT) number holders, must be registered in a 'social security regime' (Gestione Artigiani e Gestione Commercianti Inps). The percentage, about 28.72% on the profit, is wholly charged to the individuals, and the payment of the contributions follows the same deadline applied for taxes.

Self-employed individuals, who are not VAT number holders, must be registered in a separate social security regime (Gestione separata Inps). The separate social security regime provides for different rates:

- individuals enrolled in other mandatory contribution regimes: 22%;
- all others individuals enrolled in an exclusive way into the separate social security regime: 28.72%.

The percentages due are:

- a two-thirds charge to the company;
- while one-third is charged to the collaborators.

2.10 Expatriates

There are no special facilities for expatriates.

2.11 Options

Income resulting from the stock-options are considered as employment income. They are liable for withholding at source of 26%.

2.12 Partnerships

Partnerships are treated as transparent entities. An individual partner is subject to income tax in respect of the profits generated by his partnership, the proportion of the profits being treated as arising to him being the same as the proportion of the partnership's capital to which he is entitled.

Regional income tax (IRAP) at 3.90% is also imposed on partnership income.

2.13 Pensions

Pension income is taxable in respect of the year in which it is received.

3. Inheritance and gift tax

Gifts and inheritances are subject to tax in Italy as follows:

Beneficiary	Inheritance and gift	Mortgage tax	Property tax
Spouse and lineal descendants	4% Exemption EUR 1,000,000 Exemption EUR 1,500,000 if the beneficiary is handicapped	2% Or €200 if the beneficiary has received a property which has become his or her principal private residence	1%
Brothers and sisters	6% Exemption EUR 100,000 Exemption EUR 1,500,000 if the beneficiary is handicapped	2% Or €200	EUR 168 if the beneficiary receives a real estate becoming principal private residence
Other parents of the fourth degree, different of the spouse, parents in direct line, brother or sister	6% Exemption EUR 1,500,000 only if the beneficiary is handicapped	2% or €200 if the beneficiary has received a property which has become his or her principal private residence un bien immobilier qui devient sa principale résidence privée.	
Others	8% Exemption EUR 1,500,000 only if the beneficiary is handicapped		

4. Wealth Tax

There is no wealth tax.

5. Value Added Tax

5.1 Rates

The Value Added taxes applies on transfers of goods, provisions of services made in Italy in connection with the operations of an enterprise, professional activities and imports.

However, the following business activities are exempt from IVA:

- credit and finance;
- insurance;
- foreign currency transactions;
- transfers of shares, bonds or other securities;
- tax collection;
- lotteries;
- bets, events, and competitions;
- acting as a representative or agent for the above operations;
- non-financial lettings;
- transfers of gold;
- urban public transport and ambulances;
- postal and telegraph services;
- medical services.

Exports of goods are not taxable.

The Rates of Tax are as follows:

- standard rate 22%;
- reduced rate 10% :
 - hotel services;
 - restaurants, etc.;
 - certain food products.
- reduced rate 5% :
 - services regarding health-social cooperatives, disabled or very elderly people.

- reduced rate 4% :
 - agricultural products;
 - basic foods;
 - housing;
 - publishing;
 - principal residence.

The declaration has to be presented on the same dates as the declaration of income is filed by partnerships and companies, and by individuals.

Payment of tax is as following:

- periodic payments: an organisation providing services and having an annual turnover in excess of EUR 400,000 and a commercial or industrial organisation with an annual turnover in excess of EUR 700,000 are required to pay IVA monthly. Organisations with an annual turnover below the figures above can pay IVA quarterly with a 1% increase;
- final payment: for all taxpayers the payment has to be made on 16 March.

6. Other taxes

Stamp duty

Stamp duty is payable on any document produced to transfer ownership of land and buildings or the transfer of a business. Civil law requires registration of such documents. Stamp duty payable varies from 1 to 8% depending on the type of transfer. It is also possible to voluntarily register a document that is not required under the civil code. For voluntary registration and operations liable to VAT, stamp duty of EUR 168 is levied.

Imposta regionale sulle attività produttive (IRAP) at the rate of 3.90%

This tax is calculated on the value added by the activity of the business (commercial or professional). The following charges are not deductible:

- managing partners' costs;
- interest on leasing;
- communal tax on real assets,
- loss on debts.

Deductions are available to reduce the taxable income:

Band of income (EUR)	Deduction in EUR For companies
Below 180,759.91	5,000
180,759.92 to 180,839.91	3,750
180,839.92 to 180,919.91	2,500
180,919.92 to 180,999.91	1,250

From 2015 the labour cost is full deductible.

Imposta Municipale Unica (IMU)

That annual tax, which has superseded the municipal tax on real property (ICI), this annual tax is calculated on ownership of land and buildings. Rates are determined by municipalities and vary between 0,4% and 0,7%. Tax liability is calculated on the value of land and buildings.

Stamp tax

This tax varies between EUR 2 and EUR 16 and is payable on certain legal document and accounting books.

Taxes on mortgages and registration of land (cadastre)

Taxes are payable on transfers, inheritance and gifts of land and buildings and also on mortgages. The rate of tax on mortgages is 2%, on registration of land 1%. In some cases, a fixed amount of EUR 168 is paid for each tax.

7. Foreign income

Tax residents of Italy are subject to tax on their worldwide income. Individuals who are not tax resident in Italy are subject to tax on their Italian-source income only. Foreign taxes that can be considered to be definitively paid by resident taxpayers on foreign-source income may be credited against personal income tax. The maximum amount of foreign tax that may be credited is the full amount of Italian tax attributable to the foreign-source income, based on the proportion of the foreign-source income to the aggregate income. However, the foreign tax credit cannot exceed the net income tax due from the taxpayer. Italy has entered into double tax treaties with 91 countries.

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