Doing Business Guide

Italy

1st Edition

ADZ Morison

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About This Booklet

This booklet has been produced by ADZ Morison – Chartered accountants and business consultants for the benefit of its clients and associate offices worldwide who are interested in doing business in Italy.

Its main purpose is to provide a broad overview of the various things that should be considered by organisations considering setting up business in Italy.

The information provided cannot be exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend anyone considering doing business in Italy or looking to the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

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Geography

The peninsula of Italy extends from the southernmost part of the continent of Europe for about 1,300 km to the southeast into the Mediterranean Sea. It divides the Adriatic Sea to the northeast from a portion of the Mediterranean named the Tyrrhenian Sea to the southwest. The country covers an area of 301,266 km^2 (approximately 116,300 square miles). Rome is the capital city. Other large cities include Milan, Naples, Turin and Genoa.

Climate varies considerably from the north to the south. In the north of the country the climate is harsh, with very cold winters and very hot, particularly humid summers. In central Italy the climate is milder, with a smaller difference in temperature between summer and winter and a shorter and less intense cold season than in the north. In southern Italy and the islands winters are never particularly harsh, and spring and autumn temperatures are similar to those reached in the summer in other areas of Italy.

Political structure

Italy is a parliamentary republic with regions, provinces and municipalities. The president is head of the state and is elected for a 7-year period by the two chambers of parliament in joint session. The president must be a native-born Italian citizen, at least 50 years old.

The legislative power is exercised by a parliament consisting of two houses, whose members are elected directly by the citizens: the Chamber of Deputies *(Camera dei Deputati)* and the Senate of the Republic *(Senato della Repubblica)*. Both houses are elected for a maximum of 5 years, but may be dissolved before the expiration of their normal term if the government loses the majority of votes in Parliament and it is not possible to form any other government. All bills must be passed by both houses before being turned into laws.

The executive power is exercised by the government under the direction of a prime minister, who is appointed by the president. The government must be supported by parliamentary majority. All ministers are jointly responsible for the implementation of the country's laws and can propose new bills to parliament.

Local governments have legislative power in health services, local taxes, urban planning and transportation.

Economy

Essential industries

Italy is the third largest economy in the eurozone and ranks among the seven most industrialised countries in the world.

The country is a significant net importer of energy, chemicals, ferrous and nonferrous metals and a significant net exporter of manufactured goods.

The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family owned.

The manufacturing industry represents about 30% of gross domestic product (GDP) and includes construction, textiles and apparel, machinery, chemicals, pharmaceuticals, non-metal minerals and transportation vehicles.

Service activities represent about 60% and include commerce, transportation, logistic, communications, property rental, banking and insurance.

The agriculture industry represents about 4%; its principal products are wheat, rice and other cereals, vegetables, fruits, wine, olive oil and dairy produce.

Italy has a diversified industrial economy. The north of the country is highly industrialised with an efficient infrastructure and a highly trained workforce. In the south economy grows more slowly, so there are significant local and national incentives offered to investors to encourage industrialisation.

Employment and inflation rate

The level of employment varies significantly between regions. In April 2013, the official rate of unemployment was 12%. Stabilisation of prices and a decrease in interest rates to historical lows are the results of Italian efforts to meet the Maastricht convergence criteria for the European Monetary Union. In May 2013, the inflation rate in Italy was recorded at 1.13%.

Banking and financial system

The Italian banking system, supervised by the Bank of Italy, consists primarily of ordinary banks *(aziende di credito)*, cooperative banks *(banche popolari)*, and mutual banks *(banche di credito cooperativo)*.

The Bank of Italy checks that banking and financial intermediaries are managed soundly and prudently. It also monitors transparency and correctness of banking and financial transactions and services, to combat money-laundering.

The traditional business model of Italian banks differs sharply from the prevalent British and American models but also from that of other European countries. This model sheltered Italian banks from the explosive crisis of 2007–09, thanks to a series of factors: the large portion of funding consisting in deposits and bonds held by households, low leverage, an appreciably high level of profits by international standards, the central role of banks in the asset management industry (either directly or through subsidiaries) and lending rates that are at or below the prevalent eurozone rates for most products.

Some 20 years ago, Italian banks were largely state-owned and sometimes mismanaged. Privatisation and consolidation has created a stronger bank system that can now respond effectively to the strains affecting the eurozone.

Business Investments and Regulations

Business incentives

Italy encourages business investments by offering national and foreign-owned entities the same incentives – primarily subsidised loans, cash grants, tax credits and subsided labour costs.

The numerous and varied incentives generally aim to enhance the economic development of the country and, in particular, to accelerate the industrialisation of southern Italy, including Sardinia, and of certain depressed areas in central and northern Italy. Incentives are also available to encourage technological innovation and to develop exports.

Investors may obtain other incentives from the European Union (EU) and from regional and provincial authorities. These help to sustain regional development and enhance local competitiveness by supporting business, strengthening initiatives already under way or being launched, providing enterprises with support services and promoting and supporting research, innovation and training.

Movement of capital

In 1990, all capital controls and foreign exchange restrictions were abolished in Italy. Therefore, since then, Italy has had a liberalised system fully compliant with European directives. As a consequence, international banking activity has increased at a rapid pace and the process of international integration of the Italian economy has accelerated.

A financial information centre (*the Unità di informazione finanziaria*, UIF), controlled by the Bank of Italy, manages a system of daily reporting of capital flows, enriching the statistical data that enhance understanding of the workings of foreign exchange markets.

International trade

Italy has been part of the EU since 1958. As a member of the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD), the Organization for Security and Co-operation in Europe (OSCE) and the North Atlantic Treaty Organization (NATO), Italy applies the international agreements signed by these bodies.

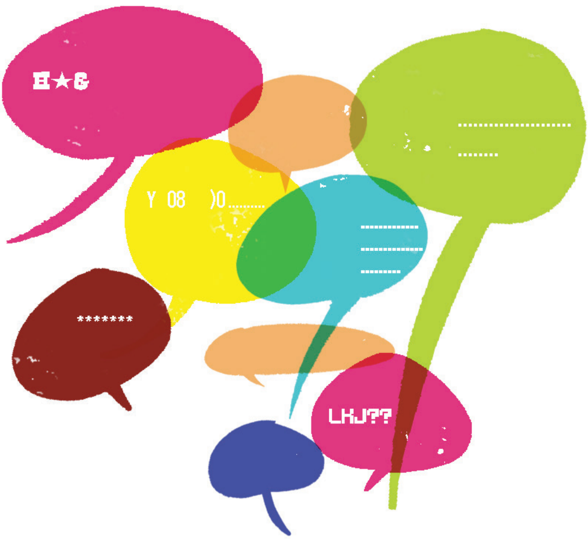
As with all EU members, Italy adapts a common trade policy. The EU has a liberal import regime where import licensing is not common. Import licences are issued with due consideration for the provisions of relevant EU trade agreements and the needs of the specific importing country.

Under the EU's *New Approach to Technical Harmonisation*, certain products are required to meet specific quality standards and must carry a CE mark to indicate compliance, as declared by the manufacturer or importer.

Exports are generally unrestricted. Exporters must comply with the requirements to submit a customs office declaration.

Special export insurance is available from the Agency for Export Credit Insurance (SACE *Servizi Assicurativi del Commercio Estero*) for exports of durable goods – machinery, equipment and transport vehicles – as well as for services, studies and design projects, and for civil engineering works carried out abroad.

To encourage such exports, funding is available from special credit bank departments and state agencies in the form of medium-term loans at low interest rates.



Setting up a Business

Introduction

Italy attracts a great number of foreign investors seeking to set up new business. An important first step is to consider which type of company is most appropriate. Italian corporate law primarily differentiates between partnerships and capital stock companies.

Partnership

This is generally characterised by unlimited joint and several liability of partners for company obligations, hence all partners' current and future assets secure such obligations. There are two types of company:

- General partnership *(Società in nome collettivo*, Snc): all partners are jointly liable for all of the company's debts and obligations
- Limited partnership (*Società in accomandita semplice*, Sas): either silent partners (*soci accomandanti)*, whose liability is limited to the extent of their capital contribution, or general partners (*soci accomandatari*), who are jointly liable for all debts and obligations of the partnership.

Capital stock companies

These are generally characterised by limited liability for company owners – that is, each owner's liability is limited to the cash or assets they have contributed to the company.

- Joint stock company (*Società per Azioni,* S.p.A.): capital stock is represented by shares
- Limited liability company (*Società a responsabilità limitata*, S.r.l.): capital stock is represented by quotas
- Limited partnership by shares (*Società in accomandita per azioni*, Sapa): this combines some of the features of both limited partnership and limited liability company. It is a company in which at least one member has unlimited liability while the liability of remaining members is limited to the extent of their share capital subscriptions.

S.p.A. and S.r.l. (see Table 1) are the most widespread types of companies in Italy. The S.r.l. is the most commonly used corporate form in Italy for small and medium-size enterprises, although the S.p.A. is the corporate form used by major public corporations floated on the Italian stock exchange and tends to be preferred by large private enterprises.

Both types of company are established with a memorandum of association that is complemented by articles of association (by-laws).

The S.p.A. is the most regulated of the two major limited liability companies. The regulations set forth for the S.p.A. also apply to the S.r.l., unless stated otherwise.

Euro 120,000 is the minimum share capital for an S.p.A. or a Sapa and Euro 10,000 for an S.r.l.

Since 2012 a simplified form of S.r.l. has been introduced with a minimum share capital of one euro and costs of incorporation reduced to about euro 200 to register the S.r.l. with the Registrar of companies. Notaries are not allowed to charges their fees on the incorporation of a simplified S.r.l.. The Articles of association of a simplified S.r.l. must be drafted on the basis of a ministerial scheme and all shareholders must be individuals and not companies.

Corporate governance

Following corporate law, three models of corporate governance may currently be adopted when establishing an S.p.A..

Traditional model

Under this model, the corporate structure is made up as follows:

- Board of directors, or sole director (*consiglio di amministrazione /amministratore unico*)
- Board of statutory auditors (*collegio sindacale*)
- Board of statutory auditors, or auditing firm (*collegio sindacale / società di revisione*).

The board of directors, as well as the board of statutory auditors and the auditing firm, are appointed by shareholders' meeting.

The traditional model is the most common form of corporate governance in Italy and offers the highest level of protection, with clear separation between management and control functions.

One-tier model (*modello monistico*)

Under this model, the corporate structure is made up as follows:

- Company management is entrusted to a board of directors, which may delegate some of its administrative powers to one or more of its members
- Management control is entrusted to a management control committee (*comitato di controllo della gestione*), composed by members of the board of directors and appointed by the latter
- Accounts are audited by an external registered auditor or auditing firm.

The board of directors and its chair, as well as the external auditor or auditing firm, are appointed by shareholders' meeting.

The one-tier model facilitates the exchange of information between management body and control body, and thus has a simplified, flexible structure.

Two-tier model (*modello dualistico*)

Under this model, the corporate structure is made up as follows:

- Company management is entrusted to a board of management (*consiglio di gestione*), which may delegate some of its administrative powers to one or more of its members

- Management control is entrusted to a supervisory board (*consiglio di sorveglianza*), which appoints the members of the board of directors. Management board members may not be appointed to the supervisory board
- Accounts are audited by an external registered auditor or auditing firm.

The shareholders' meeting appoints the supervisory board members, as well as the external auditor or the auditing firm.

The supervisory board has some attributions of the shareholders' meeting adopting the traditional model (i.e. approval of the financial statements). As such, the structure proves best suited to larger organisations led by a highly qualified independent management team.

Main rules of the traditional model

- The shareholders' meeting is the sovereign corporate body
- Shareholders' meetings are classified as ordinary (*assemblea ordinaria*) or extraordinary (*assemblea straordinaria*), depending on what decisions can be taken and the necessary legal requirements. In any case, an annual general meeting must be held, within 120 days of the company's financial year end to approve the annual financial statements. In exceptional cases, this deadline can be extended to 180 days
- Members of the board of directors, or the sole director, are appointed by the shareholders' meeting for terms no longer than 3 financial years, which expire on the date of the shareholders' meeting called to approve the financial statements for the final financial year of their term
- Directors may be re-elected unless otherwise specified in the articles of association, and/or removed from office at any time (damages may be claimed by removed directors in the event of termination without right cause)
- Resolutions are passed when approved by the simple majority of those present unless provided otherwise. Directors may not vote by proxy
- The board of directors can delegate some of its members to perform specific tasks. If the delegation is given to one or a few directors, they are appointed as managing directors (*amministratori delegati*)
- The board of directors, or sole director, is responsible for company management. In performing ordinary and extraordinary management tasks, they are not bound to seek approval from shareholders for their actions, except for corporate administration acts expressly subject to shareholders' approval as by law
- The shareholders' meeting shall appoint the members and chairman of the board of statutory auditors or the auditing firm
- The statutory auditors or auditing firm serve terms covering 3 financial years, expiring on the very date of the shareholders' meeting called to approve financial statements for the final year of their term in office

- The board of statutory auditors is composed of both three or five standing auditors and two alternate auditors. At least one standing and one alternate auditor shall be entered in the register of auditors maintained by the Ministry of Economy, whereas the other members of the board shall be registered in their relevant professions (e.g. for lawyers, accountants, labour consultants) or be full university professors in a legal or economic academic subject
- The board of statutory auditors must meet every 90 days. It carries out both control of legitimacy on the company's activity and accounting control.
- Accounts are audited by an external auditor or auditing firm enrolled in the register of auditors. However, provided that an S.p.A. is not publicly listed or not required to issue consolidated financial statements, and whereby expressly allowed by its articles of association, the board of statutory auditors can also perform a periodical 'accounting control' and the examination of the annual financial statements, in accordance with recommended auditing standards, with a view to express an opinion thereon. In such cases, all the members of the board of statutory auditors (both standing and alternates) shall be entered in the register of auditors.

Table 1. A comparison of features: S.p.A. and S.r.l.

	S.p.A.	**S.r.l.**
Legal personality	No	No
Capital	Represented by shares	Represented by quotas
Minimum capital	€120,000	€10,000 for an ordinary S.r.l, €1,00 for a simplified S.r.l.
Transferring of shares/quotas	Generally free	May be restricted by articles of association
Office term of directors	≤3 years	Can be unlimited
Flotation on the stock exchange	Yes	No
Auditors	Board of statutory auditors is mandatory An auditing company can be appointed just for accounting control	Board of statutory auditors is not mandatory, unless: • capital is ≥ €120,000 • at least two of the following thresholds are exceeded in 2 consecutive financial years: – total assets = €4.4 million – revenues from sales and services = €8.8 million – average of 50 employees over the year A sole statutory auditor can be appointed instead of a board of statutory auditors. A sole auditor or an auditing company can be appointed just for accounting control.
Publication of financial statements	No	No

Both a S.p.A. and a S.r.l. can be formed by a sole shareholder. The sole shareholder, whether a legal or natural person, usually has limited liability for the company's obligations. However, the limited liability benefit is lost if certain formalities are not met.

Bookkeeping and financial reporting

Civil and tax law establishes that every natural and legal person who runs a business in Italy must keep certain accounting books, in particular:

- General ledger (*libro giornale*)
- Inventory book (*libro inventari*)
- Control accounts (*mastri contabili*)
- VAT registers (*registri IVA*).

Companies are free to adopt any bookkeeping system they find desirable, and are also free to use all types of processing techniques, as long as they provide all information necessary to prepare statutory financial statements.

Companies are required to apply the accounting rules, presenting a true and fair view of their financial position and financial result. Accounting records must be kept in Euro and in Italian.

Italian accounting rules are based on civil law and accounting principles (Italian GAAP), introduced by the National Councils of Chartered Accountants (*Consiglio Nazionale dei Dottori Commercialisti e degli Esperti contabili*), in line with generally accepted International Accounting Standards (IAS)

The main rules of proper accounting include double-entry method, completeness, materiality, accuracy, continuity, clarity, valuation based on corresponding payments, economic focus, prudence, realisation, individual valuation and measurement at the financial statements' date.

The accounting requirements for capital stock companies (S.p.A., S.r.l., Sapa) are the same, regardless of the size of the company.

Listed companies, issuers of financial instruments among the public, banks and other financial intermediaries, and insurance companies must always apply IAS principles.

The form and content of the financial statements are governed by the provisions of the Italian civil code, which are based on the 4th EU directive.

The company's equity, assets and liabilities must be reflected in the balance sheet and the results for the year in the profit and loss account (together with its notes) in a fair, clear and consistent manner.

The Italian civil code specifies requirements for content, analysis and classification of items in the financial statements.

Abridged financial statements are allowed for capital stock companies, which are not floated on the stock exchange, if for two consecutive accounting periods (or the first accounting period, in the case of a newly incorporated company) the company does not exceed two of the following conditions:

- Net turnover: €8.8 million
- Total balance sheet: €4.4 million
- Average number of employees in the accounting period: 50.

Branches, secondary offices or representative offices of foreign companies

A distinction must be made between a branch proper and a secondary (registered) office, both ruled by the civil code.

A foreign company secondary office is usually managed and represented by a permanent company representative having general power of attorney (known as an *institore*, as invested with a *procura institoria*), who conducts business for the secondary office on behalf of the company and handles its external relations in the country.

Conversely, a branch proper – at least in principle – is administered and legally represented by the administrative body and legal representative of the foreign company, although, in practice, companies frequently appoint a local manager (*institore*) to run the branch.

Secondary offices and branches have specific duties of disclosure; in particular, they must file the annual financial statements of the foreign company (translated into Italian) with the relevant registrar of companies.

Current Italian legislation does not provide an official definition of 'representative office'. It is therefore standard practice to refer to the OECD Model Convention in order to avoid double taxation and prevent tax evasion.

The establishment of a representative office shall be simply reported to the relevant registrar of companies based on the intended location of the office concerned.

Labour

General framework

Rules governing employment relations are contained in the Italian constitution, in some statutes and, for the most part, in national collective agreements (NCA), entered into by and between trade unions and employers' associations.

Individual contracts cannot derogate to the provisions of the relevant NCA, unless the derogation is in favour of the employee.

Article 4 of the constitution indicates that every citizen has the right to work, and Article 36 provides for the right to be paid an adequate compensation for the work performed and for the right to benefit of weekly rest time and annual holidays. Articles 39 and 40 grant union rights and the right to strike.

Labour statutes are mainly oriented towards protecting workers as the weaker party of the contractual relationship. Employees are guaranteed certain mandatory rights relating to health care, union negotiations and notice periods for disciplinary actions or dismissals.

All NCA categorise employees as provided by law:

- Workers (*operai*)
- Low-ranking white-collar workers (*impiegati*)
- High-ranking white-collar workers (*quadri*)
- Executives (*dirigenti*).

In 2012, in response to a letter from the European Central Bank, the Italian government and parliament approved a major reform of labour, aiming to increase employment and open up the labour market, in particular by introducing more flexibility in the rules governing dismissals.

Salaries

Minimum salaries are fixed under collective agreements between unions and employers for each category of workers. The basic salary may be supplemented by an 'above base payment' (*superminimo*), a seniority increase (*scatti di anzianità*), overtime (*straordinari*) and bonuses (*premi e gratificazioni*).

Many employees in Italy are entitled to an additional month's remuneration – the so-called '13th month's salary' (*tredicesima mensilità*) – usually paid in December, when it applies to factory or manual workers. In addition, salaried employees in commercial industry, managers, executives, and those who have worked for many years in the same company usually receive a 14th month's salary (*quattordicesima mensilità*) during the summer, generally in June.

Some employees, such as those in the petroleum and banking industries, receive 15th and even 16th months' salary.

Hours of work

Article 36 of the constitution establishes that maximum working time must be fixed by law. NCA determine the normal weekly working time (never more than 40 hours).

Under Act 623 of 1923, still in force, overtime must be paid with an increase of ≥10% over the regular rate. However, the Italian courts and many NCA have ruled that overtime pay is worth about 30% over the basic rate.

Holidays

Under Article 36 of the constitution, all workers have the right to rest 1 day/week (normally Sunday). They are also entitled to 3 weeks' vacation per year for the first 2 years of employment; thereafter, 4 weeks is the usual allowance for both office and factory personnel.

Holiday dates are in principle chosen by the employee, but the employer can intervene if the preferred dates clash with critical work requirements.

Maternity leave and maternity protection

Female workers have special protection in case of pregnancy and maternity.

From the start of pregnancy to 1 year after the child's birth, the employee cannot be dismissed (except for right cause); during this period, a woman who resigns has the right to the same indemnities due for dismissals.

Maternity leave is compulsory for female workers, from 2 months before until 3 months after childbirth. Pre-childbirth leave can start at an earlier date than 2 months, if the worker's work is dangerous for her health or that of the unborn child. On the other hand, it is possible to postpone pre-childbirth leave in order to increase the leave granted after childbirth.

Some maternity rights have been gradually extended to fathers.

Severance indemnity and pension funds

For any termination of the contract of employment, on whatever ground, even for dismissal for right cause or resignation, the employee is entitled to receive from the employer a severance payment (*trattamento di fine rapporto*) which is considered to be a part of a salary, set aside every year and kept by the employer (for whom it is an important source of self-financing), based on the formula of 7.5% of every year's salary, plus revaluation according to a composed index of 75% of price index increase +1.5%.

Tax legislation encourages pension funds as a complementary scheme to the traditional severance indemnity.

Foreign workers

Procedures for hiring foreign workers largely depend on whether the foreign employee is a national of an EU country. The EU Treaty allows all EU nationals to live and work in any EU country, without any discrimination (the 'freedom of movement' principle). Under Italian immigration rules, EU nationals are required to apply for a permit of stay (if stay in Italy is for >3 months) and for a work permit (if work is being sought). However, the relevant permits cannot be denied. EU nationals can obtain a work permit even when looking for a job, while non-EU nationals may obtain a work permit only to the extent that a job has already been found and in accordance with certain restrictions.

In particular, quota restrictions are applied in the case of non-EU nationals who intend to work in Italy with local employment contracts. The number of foreign workers who are admitted in a given year to Italy is allocated to certain foreign countries, depending on bilateral agreements. In any case, before the expatriate enters Italy, the employer must request authorisation from the competent authorities. This procedure is document-intensive because it is necessary to demonstrate that the expatriate meets the requirements of the immigration code.

Once the authorisations are received, the expatriate may apply for a work visa in their country of residence. Within 8 days of entering Italy, it is necessary to request a permit of stay from the police headquarters. The most important exemption is that permitting the issuance of a work visa to a person who was working abroad for the same company or for another company of the group, provided that the past work relationship has lasted for at least 6 months. This way, it is possible to relocate employees to Italy, without encountering the usual limits of the quota system. This is the exemption that is normally used by multinational companies to assign foreign managers to Italy.

Social security and insurance

Social security contributions for employees are generally paid to the National Institute for Social Security (*Istituto Nazionale della Previdenza Sociale*, INPS) and cover pension, unemployment, maternity, family allowances and illness.

Rates of social contributions may vary depending on a number of factors such as company's industry, number of employees working for a company and employee's placement in a company as determined by the relevant NCA. The average contribution is around 36–42%, of which about 9% is paid by the employee.

Contributions to the National Health Service - NHS (*Servizio Sanitario Nazionale, SSN*), which provides medical assistance to employees and their families, is paid as part of local corporate tax due on income (IRAP). NHS covers hospitalisation in a public hospital, a family doctor, some medicines and certain medical tests and examinations. Medical costs sustained abroad may also be reimbursed by the NHS, if approved in advance.

All workers must be registered with the Italian government agency for insurance against work-related injuries, the INAIL (*Istituto Nazionale Assicurazioni Infortuni sul Lavoro*).

Rates of INPS contributions vary from 0.5% to 1.3% of gross annual salary, depending on the degree of risk incurred by the employee.

Labour incentives

Italian labour legislation offers many incentives for foreign investors.

Job on call

On-call or intermittent work allows a company to call in the worker at any time, if particular production requirements make it necessary.

The worker committed to respond to the call is entitled not only to compensation for the work performed but also to an availability indemnity for the period when he/she is not called to perform any work. And during the availability period, the worker is not entitled to the other benefits given to the company's employees.

Intermittent work can be useful not only to meet production requirements but also to facilitate entry into the working world for the unemployed under 25 years of age and the return to work of those older than 45.

Job sharing

A single job position is shared by two or more people, who perform their activity at different times of the day (such as morning or afternoon), or each working certain days of the week or even alternating weeks. Each shares equal responsibility for the overall performance of duties. Unless otherwise agreed, the termination of the employment relationship of one of the signatories results in termination of the entire contract.

Staff leasing

For particular technical and organisational needs, companies can 'lease' workers on an open-end basis from specialised agencies. The workers are employed by the agency and not by the companies that utilise them, which are responsible for organisational aspects of the performance of duties.

Apprenticeship

The aim of this work situation is to achieve professional qualification. Apprentices are trained both on the job and through courses outside the company, which may be considered part of their compensation, while the other part is a wage equal to a percentage of that received by qualified workers at the same level. The wage is that established in the NCA for the individual worker categories. Social contributions are reduced to minimum level.

Fixed-term contract

This is an employment relationship that specifies a termination date in the contract. The law permits employers to specify a fixed term for technical, production, organisational or replacement reasons.

According to the law, a worker with a fixed-term contract cannot work for the same employer for >36 months if the tasks carried out remain unchanged. However, there is no such limit to supply contracts; so after 36 months the employer can continue to employ the same worker by drawing up a supply contract.

Temporary work

This form of work is utilised by companies needing to cope for a limited period with an above-normal workload or to replace absent workers. A temporary work agency can help by selecting a suitable worker and sending them to the company for a brief (sometimes very brief) period.

Part-time work

Part-time work involves a working week of shorter duration than the full working week, defined as:

- Horizontal (reduced daily working time)
- Vertical (full-time, but for limited periods with reference to weeks, months or years)
- Mixed (a combination of both).

Collaborations

These are work relationships midway between employment and freelance work. The basic characteristic of the collaboration relationship lies in the fact that the worker performs their duties based on an assignment given by the employer (principal), but does so autonomously.

There are two types of collaboration:

- Occasional – the collaborator concludes their work relationship with the principal once the assigned tasks have been completed
- Project-based – the collaborator is linked to the employer by a relationship that extends over time.

Project-based collaborators are also not linked by an exclusive relationship and are therefore free to undertake other collaborative relationships (though the contract may include an exclusive arrangement).

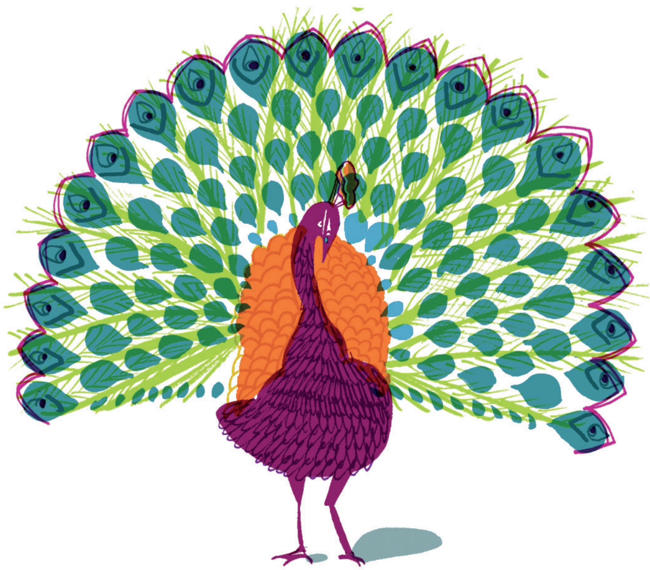
The reform of 2012 introduced some restrictions to these types of contracts, to ensure that collaborative workers are fully protected.

Home-based work

Home-based workers are those who, under an employment relationship, perform their duties at home, or on available premises, usually without the assistance of family members or dependents, for compensation on behalf of one or more employers, using materials and accessories of their own or supplied by the employer (perhaps through third parties).

Internship

Young people can undertake an internship, which allows them to alternate work and study. This gives them valuable insight into the work environment, while also enhancing their prospects in the labour market.



Taxation

Individuals

Italy has a self-assessment tax system that requires taxpayers to calculate and then pay their tax liability.

The extent of taxation is determined according the taxpayer's tax residency status. Specifically, those considered as tax residents are subject to Italian taxation on their worldwide income, while non-residents are taxed exclusively on their Italian-sourced income.

As a general rule, incomes of individuals are taxed on the basis of progressive tax rates corresponding to income brackets (see Table 2).

Table 2. Progressive tax rates effective for fiscal year 2013.

Income brackets (€)	Tax rates
0–15,000	23%
15,001–28,000	27%
28,001–55,000	38%
55,001–75,000	41%
>75,001	43%

Two more tax liabilities are calculated on the ordinary taxable basis:

- Regional tax (1.23–2.63%, depending on the region)
- Municipal tax (0.8–1.1%, depending on the municipality [*comune*]).

Professionals (and companies) are submitted also to IRAP – a regional tax on productive activities, whose flat tax rate is 3.9%, applied on a taxable basis which is obtained from the difference between sales and production costs (excluding labour costs, interests and contingency costs).

Tax residence

An individual is considered tax resident upon meeting any one of the following conditions for at least half of the tax year, which ends on 31 December:

- Registration with the Office of the Resident Population (*Anagrafe*)
- Facts demonstrating a centre of vital interests in Italy
- Facts demonstrating a habitual abode in Italy.

Given that the second and third points require an interpretation of the individual's factual situation, this issue is frequently revisited by the Italian judicial system. However, in general, the analysis focuses on the location of family, real estate and investments.

Categories of income

The Italian tax code sets out six categories of income, each with specific rules for quantifying the taxable basis. Below is a summary of the types of income most commonly encountered by expatriates.

Employment income

The definition of employment income is quite broad in that it encompasses all value, whether in cash or in kind, that is provided to an employee as a result of the employment relationship.

Examples of types of employment income that are frequently included in an expatriate package include salary, bonus, stock options, foreign service premium, goods and services premium, children's schooling, home leave, company-provided housing and company car. These are all included in the ordinary taxable basis at their normal value unless the tax code provides with beneficial tax treatment.

Employment income is included in the ordinary taxable basis and subject to progressive taxation.

Under certain circumstances, foreign-earned employment incomes are excluded from the ordinary taxable basis of tax residents and determined in accordance with conventional income levels, specific to each industry sector and employment level that are issued annually by ministerial decree.

Self-employment income

This category of income refers to income earned through the performance of a working activity but without the element of subordination that characterises an employment activity.

This category is broken down into two subcategories:

- Professionals, such as attorneys and engineers, may deduct costs related to the performance of their activity. They are subject to value added tax, IRAP and bookkeeping requirements
- Collaborators, performing a coordinated and continuous activity (e.g., members of the board of directors) may not deduct any related costs due to the fact that this category of income has been assimilated into the category of employment income, so that it is subject to the same tax treatment.

Self-employment income is included in the ordinary taxable basis and is subject to progressive taxation.

Investment income

Investment income arises from the use or investment of capital resources. Consequently, this category would include dividends and interests but it would not include the gains realised from the sale of capital, which are included in the category of 'other income' (see below).

The general principle is that the total amount of dividends or interests received is included in the ordinary taxable basis; however, there are a number of circumstances where a flat tax rate of 20% may be applied.

Income from real estate property.

If a property is rented, the taxable base is calculated as rental income less a standard deduction of 15%. This income is included in the ordinary taxable basis and is subject to progressive taxation.

Tax payers have the option (binding for three years) to apply on rents of property, a flat, tax whose rate is 19% or 21%, depending on certain conditions.

The basic property tax in Italy is the IMU (*Imposta Municipale Unica*), which is collected by the municipalities where the properties are located. IMU was first introduced in 2012 to decentralise taxation, increase resources to local authorities and empower local people in the running of their own district. Contrary to the original plan, a 50% share of all the revenue is devolved to the central government.

Until recently, this tax was levied at two rates: 0.4% on the value of main residences and 0.76% on the value of most other properties. In 2013, payment of IMU on properties used as main residence has been suspended. For commercial buildings, the rate is 0.2%.

The value of property is calculated on the basis of a notional value referred to as cadastral value (*rendita catastale*), which is revaluated according to specific rules.

The taxation of buildings located in foreign countries falls into the category of 'other income'.

Other income

This category of income includes a variety of types of income such as gains arising from the sale of assets, income from occasional autonomous working activity, lottery winnings and income from buildings located abroad.

Sale of investments (i.e. shares, quotas, holdings) is categorised as other income. As a general rule, the taxable basis for gains resulting from the sale of a shareholding is calculated as the difference between the proceeds of the sale and the acquisition cost, increased for any costs related to the production of the gain.

Once the taxable base has been determined, the appropriate tax rate must be applied. Depending on whether the shareholding is qualified or non-qualified, gains are subject to a flat tax or they are added to the ordinary taxable base and taxed progressively.

However, only 49.72% of the capital gains (and dividends) of qualified shareholding are included in the taxable basis and are submitted to the progressive tax rates.

A qualified shareholding is one that guarantees >2% of the voting rights in the general meeting or 5% of the issued capital for a listed company or, in case of an unlisted company, one that guarantees >20% of voting rights in the general meeting or 25% of the issued capital.

Capital gains (and dividends) of non-qualified shareholdings are submitted to a flat rate of 20%.

Deductions and credits

The Italian tax code allows for both cost deductions from the taxable basis and tax credits that reduce tax liability. The most common deductible costs are:

- Social security contributions
- Charitable contributions
- Alimony paid in accordance with judicial measures,

The most common tax credits are:

- Tax credits for dependent family members who earn less than €2,840.51 per tax year
- Employees and self-employed workers may reduce their tax liabilities with a credit related to these activities that varies according to income level
- 19% of medical expenses in excess of €129.11
- 19% of interests paid to entities resident in Italy or other EU member states for loans secured by a real estate mortgage for the purchase of a main residence (limited to €4,000/year)
- 19% of secondary school and university tuition expenses, within the limit of the tuition established for public schools.

Partnership and tax transparency option

Italian tax law makes a distinction between partnerships and capital stock companies.

In case of partnerships, whose partners may be physical or legal persons, a 'transparency system' is applied that considers partners the earners of income generated by the company. Partners are therefore liable to pay personal income tax. They are automatically taxed in relation to the volume of shares they hold, independently of their effective receipt of company's dividends.

Under certain conditions, the same tax regime is available through an option for resident or non-resident capital stock companies, controlling a capital stock company (both S.p.A. and S.r.l.). After the option for tax transparency, the shareholders will be subject to income taxation, regardless of distribution of dividends. This option can be chosen only if all partners are capital stock companies, with a participation level ≥10% and ≤50%; it is irrevocable for a minimum period of 3 years. The option must be exercised by the controlling companies and by their subsidiary.

The same option can be exercised also by an S.r.l. of ≤10 partners who are all individuals.

Corporate tax

Capital stocks companies (S.p.A., S.r.l., Sapa) are liable to corporate income tax (IRES) at a rate of 27.5% and to regional income tax (IRAP) at a rate of 3.9%.

The IRAP taxable basis is calculated as difference between sales and costs of production, excluding labour costs (salaries, social charges, provision for employees' severance indemnity, passive interests and contingency costs); 10% of IRAP can be deducted for IRES purposes. Payment deadlines are shown in Table 3.

Losses can be carried forward and offset with 80% of future profits, except for losses realised in the first 3 years from the incorporation of the company, which can be offset with 100% of the future profits.

Table 3. Deadlines for IRES and IRAP payments.

	Calculation	Deadlines
Balances	IRES: 27.5% of taxable basis less advances paid during the previous year; IRAP: 3.9% of taxable basis less advances paid during the previous year.	Within the 16th day of 6th month of each financial year; 16 June for companies whose financial year ends on 31 December.
IRES/IRAP advances: 1st installments.	40% of tax debt (gross to advances) of the previous year.	
IRES/IRAP advances: 2nd installments.	60% of tax debt (gross to advances) of the previous year.	Within the 11th month of each financial year; 30 November for companies whose financial year ends on 31 December.

Participation exemption and intra-group dividends

According to Italian tax law, gains on the alienation of shares, financial instruments assimilated to shares and interests in Italian resident companies or partnerships are tax exempt for 95% of their amount under a participation exemption regime, provided that the following conditions are all met:

- The participation has been held for ≥12 months
- The participation is classified as a financial asset in the first balance sheet closed after the acquisition
- The participating company is engaged in a business activity.

Altogether, 95% of dividends received by a resident company from another resident or non-resident company are excluded from taxable income.

If dividends come from subsidiaries based in countries that have privileged tax systems (blacklisted countries), they are fully taxable.

Treatment of groups

Under Italian tax law, both domestic and worldwide consolidation is available for groups. The option for consolidation must be exercised by the controlling company and the controlled companies included in the consolidation.

For domestic consolidation, a non-resident company may only exercise the option as controlling company, and provided that it is resident in a tax treaty country and carries on a business activity through a permanent establishment in Italy in whose books the participation is recorded. Once exercised, the option is irrevocable for a period of 3 tax years.

A company is controlled by another company if the latter has directly or indirectly the majority of voting rights in the general shareholders' meeting of the former and directly or indirectly holds >50% of the shares of the former company and is entitled to ≤50% of the profits of the former.

The option for worldwide consolidation may be exercised only by controlling companies, which are floated on the stock market; it is irrevocable for 5 years.

The effect of the domestic and worldwide consolidation is that, with certain adjustments, all taxable income (or losses) of the controlled companies is aggregated and taxed at the level of the controlling company.

In the worldwide consolidation, the income resulting from the certified financial statements of the non-resident companies is, however, recalculated under the Italian rules, with certain simplifications:

- Losses incurred before the exercise of the option are not taken into account for tax purposes
- Dividends paid by companies within the group are not taken into account for tax purposes in the hands of the controlling company that will accordingly reduce its taxable income.

Branches

For tax purposes, both secondary offices and branches are considered as permanent establishments and are therefore subject to IRES and IRAP on all income arising or deemed to have arisen in Italy. They must therefore keep their own books and submit tax returns to the tax authorities (IRS) each year.

A representative office of a foreign company is not considered a permanent establishment, provided that it is engaged exclusively in marketing and promotional activities or scientific or market research, or other information-gathering activities. In other words, a representative office is not subject to taxation if it merely plays an auxiliary or preparatory role for the foreign company to enter the Italian market, and may not conduct production-related or commercial activities.

Other taxes

Value added tax - VAT (IVA - *Imposta sul valore aggiunto*).

Sales of goods or services and imports of goods are subject to VAT, except in case of derogations for certain activities and transactions.

The ordinary rate is 22% and it is applied to all transactions (except those which are exempt, non-taxable, or submitted to reduced rates of 4% and 10%).

- 4% (minimum rate) is applied to basic products (e.g. food, newspapers)
- 10% (reduced rate) is applied to tourism services (hotels, bars, restaurants and other tourism products), certain foods and in certain conditions relating to building renovation
- 22% (ordinary rate) is applied in all cases where the legislation does not provide one of the two previous rates.

VAT is usually paid monthly; quarterly payments (with a surcharge of 1%) are allowed if a company's annual turnover is not higher than €400,000 (for service activities) or €700,000 (for other activities).

By 27 December, a VAT advance of 88% of the final VAT debt (as at December/Q4 of the previous year) must be paid.

Inheritance and gift tax (*Imposta sulle successioni e donazioni*)

Inheritance tax is paid, in respect of worldwide assets, by heirs or legatees on the net amount inherited by each recipient from the estate of any deceased person who is considered to be a resident in Italy. The amount payable depends on the heir's relationship to the deceased and ranges between 4% and 8%.

Some exemptions, up to a maximum of €1 million, are granted to immediate relatives and to brothers and sisters.

Similar rules apply to gift tax.

Registration tax (*imposta di registro*)

Registration tax is applied at the time of registration of documents for specific transactions (such as transfer of property, contracts, leases) at a fixed or proportional rate, depending on the circumstances.

Business Organisations

General organisations

AICE (Italian Association of Foreign Trade)

www.aicebiz.com

CNA (National Confederation for the Craft Sector and Small and Medium Enterprise of Italy)

www.cna.it

CONFAPI (Italian Confederation of Small and Medium-sized Industry)

http://web.confapi.org/index.php

Confindustria (Italian General Industry Federation)

www.confindustria.it/conf2004/hp.nsf/hp?readform

FITANET (Federation of Professional Industry & Service Organizations in Italy)

www.confindustriasi.it

The Italian Districts Club (Association for Development of Local Enterprise Systems)

www.distretti.org

Chambers of commerce

Unioncamere (Association of Italian Chambers of Commerce)

www.unioncamere.gov.it

Export consortia

Federexport (Association of Export Consortia)

www.federexportonline.it

Apiexport (Association of SMEs operating in the Reggio Emilia Province)

www.apiexport.it

Como Export (Export Consortium in the Province of Como)

www.comoexport.it/index_eng.php

Italy Export (Association of SMEs operating in the Novara and VCO Provinces)

www.italyexport.it

Lodi Export (Association of SMEs operating in the Lodi Province)

www.lodiexport.it

Mantova Export (Association of SMEs operating in the Mantova Province)

www.export.mantova.it/defaulteng.asp

Pavia Export (Association of SMEs operating in the Pavia Province)

www.pvexp.it

Provex (Association of SMEs operating in the Varese Province)

www.univa.va.it/discoe/provex.nsf

Production and protection consortia

Asiago Cheese (Consortium for the Protection of Asiago Cheese)
www.asiagocheese.it

Brunello di Montalcino Consortium (Wine Producers Association)
www.consorziobrunellodimontalcino.it

Chianti Classico (Consortium for the Historic Brand of Chianti Classico)
www.chianticlassico.com/en/

Consorzio dell'Asti (Consortium for the Protection of the Asti)
www.astidocg.info

Gorgonzola Cheese (Consortium for the Protection of Gorgonzola Cheese)
www.gorgonzola.com

Lambrusco (Consortium for the Historic Mark of Modenese Lambrusco)
www.lambrusco.net/english/cucina.htm

Moscato d'Asti (Wine Producers Association)
www.produttorimoscato.it

Parmigiano Reggiano (Parmesan Cheese)
www.parmigiano-reggiano.it

Pecorino Romano Cheese (Consortium for the Protection of Pecorino Romano Cheese)
www.pecorinoromano.com

Prosecco (Consortium for the Protection of Prosecco of Conegliano-Valdobbiadene)
www.prosecco.it

Taleggio Cheese (Consortium for the Protection of Taleggio Cheese)
www.taleggio.it

TEXBIMA (Textile Biella Machinery Consortium)
www.texbima.it

Vero Legno - Real Wood (The Quality Trademark for Real Wood Products)
www.verolegno.it

Vialone Nano Veronese Rice (Consortium for the Protection of Vialone Nano Veronese Rice)
http://risovialonenanoveronese.it

Industry associations by sector

Chemicals and pharmaceuticals

Aschimfarma (Association of Italian Bulk Pharmaceutical Chemical Producers)
http://aschimfarma.federchimica.it

Federchimica (National Chemical Industry Federation)
www.federchimica.it/index_eng.aspx

Clothing, textiles and footwear

ANCI (National Association of Italian Shoes Manufacturers)
www.assocalzaturifici.it

SMI (Italian Association of Textile and Apparel Manufacturers and Related Industries)
www.sistemamodaitalia.com

Culture and leisure

AFI (Italian Record Producers Association)
www.afi.mi.it

AIE (Italian Publishers Association)
www.aie.it

Mechanical engineering and foundry products

ACIMAC (Association of Italian Manufactures of Machinery and Equipment for Ceramics)
www.acimac.it

ACIMAF (Italian Wire Machinery Manufacturers Association)
www.acimaf.com

ACIMALL (Italian Woodworking Machinery and Tools Manufacturers' Association)
www.acimall.com

ACIMIT (Italian Association of Textile Machinery Producers)
www.acimit.it

AFEMO (Association of Jewellery Machinery Manufacturers and Exporters)
www.afemo.it

AIAD (Italian Industries Association for Aerospace Systems and Defense)
www.aiad.it

AICE (Italian Cables and Energy Cables Manufacturers Association)
www.aiceweb.it

AMAFOND (Italian Association Producers of Foundry Products and Machines)
www.amafond.com

ANCMA (Italian Cycle, Motorbike and Accessories Manufacturers Association)
www.ancma.it

ANFIA (Italian Motor Industry Association)
www.anfia.it

ANIMA (Federation of the Italian Associations of Mechanical and Engineering Industries)
www.anima.it

ASSIOT (Italian Association of Gears and Transmission Elements Manufacturers)
www.assiot.it

ASSOCOMAPLAST (Italian Plastics and Rubber Processing Machinery and Moulds Manufacturers' Association)
www.assocomaplast.org

ASSOFLUID (Italian Association of Manufacturing and Trading Companies in Fluid Power Equipment and Components)
www.assofluid.it

ASSOFOND (Italian Association of Foundries)
www.assofond.it

ASSOMAC (Italian Association of Manufacturers of Machines for Footwear, Leather Goods and Tanneries)
www.assomac.it

AVR (Italian Valve and Fitting Manufacturers' Association)
www.anima.it/ass/avr

COMAMOTER (Italian Association of Earthmoving Machinery Manufacturers)
www.comamoter.it

FEDERACCIAI (Italian Steel Makers and Transformers Association)
www.federacciai.it

GIMAV (Italian Glass-Processing Machinery and Accessories Suppliers' Association)
www.gimav.it/en

ITALIANMEC.COM (The Portal of Italian Mechanic: a web site of ANIMA, Federation of the Italian Mechanical and Engineering Industry Associations)
www.anima.it/en

MARMOMACCHINE (Italian Ornamental Stones and Stone Processing Machinery and Equipment Producers Association)
www.assomarmomacchine.com

OICE (Association of Engineering, Architectural and Technical-Economic Consulting Organizations)
www.oice.it/eng

UCIMU (Association of Italian Manufacturers of Machine Tools, Robots, Automation Systems and Ancillary Products)
www.ucimu.it

UCISAP (Italian Association of Precision Moulds, Dies and Tooling Manufacturers)
www.ucisap.it

UNACOMA (National Federation of Italian Manufacturers of Tractors, Agricultural Machinery, Gardening Machinery and Earth Moving Machinery)
www.federunacoma.it

UPIVEB (Italian Association of Fasteners Manufacturers)
www.upiveb.org

Furniture

FEDERLEGNO – ARREDO (Italian Federation of Wood, Cork and Furnishing Industry)
www.federlegnoarredo.it

Infrastructure

AISCAT (Italian Association of Motorways and Tunnels Concessionaires)
www.aiscat.it

ASSINFORM (Italian ICT Companies Association)
www.assinform.it

ASSOELETTRICA (National Association of Electricity Enterprises)
www.assoelettrica.it

Marble products

TELEMATIC STONE WAREHOUSE (Association of Manufacturers of Marble Products)
www.marmo-on-line.com

Packaging, graphics and paper

ACIMGA (Italian Association of Manufacturers of Machinery for the Graphic, Converting and Paper Industry)
www.acimga.it

ANFIMA (Italian Metal Packaging Manufacturers Association)
www.anfima.it

ASSOCARTA (Italian Paper and Board Industry Association)
www.assocarta.it

GIFLEX (Italian Association of Printed Flexible Packaging Converters)
www.giflex.it

UCIMA (Italian Association of Automatic Packing and Packaging Machinery Manufacturers)
www.ucima.it

UNIONGRAFICI LOMBARDIA (Organization of the Printing, Graphic Arts, Packaging, Paper Products, Converting Industries working in the Area of Milan)
www.gct.mi.it

Bibliography

Italia.it - Offical Italian tourism website

www.italia.it

Ministry of Foreign Affairs

www.esteri.it/mae/it

ISTAT (Italian Institute of Statistics)

www.istat.it

Bank of Italy

www.bancaditalia.it

Italian Revenue

www.agenziaentrate.gov.it

Italtrade.com (The Made in Italy Official Portal)

www.italtrade.com

Invest in Milan

www.investinmilan.com

The Next Step

Contact ADZ Morison to discuss your needs.

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