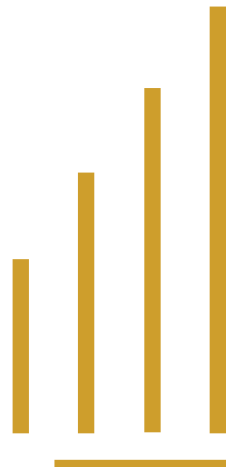


STUDIO DE GIORGI e ASSOCIATI

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THE ITALIAN ADMINISTRATIVE SYSTEM



AGENDA

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INTRODUCTION



INTRODUCTION

Established in 1974, STUDIO DE GIORGI e ASSOCIATI is a professional firm of accountants and auditors focused on providing **administrative assistance to foreign clients**, national and international tax and company law, and individuals' tax planning – as well as to Italian clients investing abroad.

The firm (15 people, based in Milan but assisting clients based all over Italy) employs heterogeneous professionals with different specializations, with a focus on the needs of its **international clientele**.

Although several languages are spoken in the office (Italian among all, but also French, Spanish and Portuguese) **we normally do business in English**, currently spoken by most of our staff.



SETTING UP BUSINESS IN ITALY

GENERAL INFORMATION

The vast majority of the businesses currently operating in Italy are incorporated under either the "**S.R.L.**" (i.e. "Società a Responsabilità Limitata" - limited liability company) or the "S.P.A." (i.e. "Società Per Azioni" - joint stock company) legal form. The former, being the most common corporate tool for small and medium enterprises as well as the most flexible one; the latter being utilized by larger corporations instead, raising funds from the market or banks, or needing to go public. Specific business sectors (i.e. banking, insurance) may require the set up under the S.P.A. form.

Branches of foreign companies are often established when the influence on strategic decisions by the mother company is the main driver of the local business.

Investment in this country is generally possible; there may however be some restrictions (i.e. "golden power" rules; reciprocity regulations) or complications.

REPRESENTATIVE OFFICE

A representative office is a first-tier type of investment in a foreign country, aimed at finding business opportunities, and promoting the products or services of the mother company on the local market.

The set up of such operating unit can be compared to the existence of an "embassy" of the foreign entity in this country.

Products and services can be promoted, sponsored, displayed and demonstrated; the sale or contractualization is however not allowed, as it would breach the provisions of the OECD model.

A rep office has no administrative obligation *per se*, with the exception of the reporting related to the employed personnel, and it basically represents a cost center localized in a foreign country.

REPRESENTATIVE OFFICE

The representative office cannot conduct production or trade like activities; it only is a cost center of the foreign entity.

The **set-up** process is a straightforward registration with the Italian chamber of commerce, at the municipality where the office is based.

As a consequence, it does not generate any **income** in Italy, and, as a result, is not subject to any taxation in the country.

Whilst it can employ **personnel** locally (and local social security and related regulations apply), it cannot register for **VAT**; its costs belong to the profit and loss account of its foreign parent.

Finally, it is **not subject** to any obligation of holding corporate or **accounting** related books, nor to prepare **financial statements** or tax and VAT **returns**.

BRANCH

A branch is a type of permanent establishment in Italy for a foreign entity.

It represents a second-tier establishment in a country, where the business opportunities have been scouted for - and found.

A foreign entity wanting to **set up** a branch will go through a process that is similar to the one that is needed to create an independent subsidiary.

This process involves a notarial meeting, the appointment of a legal representative, the registration of a **VAT** number, the set up of local **accounts**, and all **personnel**-related compliance, in case employees are to be hired. Local **taxes on income** are levied.

In terms of operations, an Italian branch of an alien entity can perform the same activity as its mother company - or a more restricted portion thereof.

A branch shares the same fate of its HQ, given that it is substantially not a different legal entity from the HQ.

SUBSIDIARY

A subsidiary ("società a capitale proprio" in Italian) is a local legal entity that is completely independent from its HQ, has a capital of its own and is not per se subject to the results of its mother company.

Business opportunities have been found and acknowledged, and the market is considered to be mature enough to establish a local entity with investment and market development capabilities.

The entity can be financed (with funds different than share capital) by the motherco; the Italian entity and the alien one can (and should) define their relations within a TP agreement. The motherco may be required to disclose information on its financial statements within those of the Italian entity.

A subsidiary can chose its own scope; can decide whether or not to distribute dividends.

SUBSIDIARY

Although several entity types are allowed according to the local regulations the "limited liability entity" ("SRL" in Italian) is the most popular.

A foreign owned Italian subsidiary is subject to income taxes, VAT, social security obligations and any other regulations applicable under the provisions of Italian law.

LOCAL CONCERNS

Hiring of employees is normally regulated by one of the 922 (as at 31.12.2019) national bargaining contracts, that employers normally refer to in the course of the definition of their relations with prospects.

Dismissal of employees is generally possible (it is however an expensive exercise); most judgmental decisions are favorable to the employees in case of litigations.

The help of a payroll consultant is certainly a requirement.

In general, compliance with local formalities is very time consuming and demanding, as the country is highly bureaucratized.

The world bank (last report, 2020) ranks Italy at # 58 out of 190 in the "starting a business" classification (Denmark ranks #4; France #32; Germany #22).

ITALY-SPECIFIC PECULIARITIES

1. Anti Money Laundering (i.e. "KYC") procedures will require to acknowledge and identify the ultimate beneficial owner of a business, by means of statements and copies of ID's. They may take long to complete.

2. The payment of taxes can only happen through local, specific software (no bank drafts or direct debit procedures are allowed).

A local bank account is necessary to perform payments of taxes. Not all international banks are authorized by the authorities to perform payments (i.e. JP Morgan is not).

3. Salaries are paid net, every month, once a month; tax on employees' salary is withheld on a monthly basis, and it generates monthly and yearly reporting dues.

ITALY-SPECIFIC PECULIARITIES

4. A business registered with the chamber of commerce has to have a certified e-mail address, i.e. "PEC", that must be registered with one of the allowed (Italian) e-mail providers. Such e-mail address is only used for statutory communications, and is normally maintained in addition to the business' normal e-mail address.
5. Some of the accounting compliance rules are very specific and require local expertise.
6. Communications and filings with the authorities have specific deadlines, all normally falling under the standard term of "30 days after the event". Some items, however, must be dealt with prior to commencement (i.e.: employment of personnel).
7. Very specific rules apply to issuing and receiving invoices, which have to flow through a tax authority managed portal ("SDI").

ITALY-SPECIFIC PECULIARITIES

8. The mother-daughter directive may apply (Directive no. 2011/96/EU) which, under certain circumstances, allows the exemption from withholding tax of inter-company dividends, interests and royalties.
9. Anti tax avoidance rules apply, to countervail the fictitious establishment of tax residence abroad of companies for the sole purpose of benefiting from a more advantageous tax regime
10. CFC (Controlled Foreign Company) regulations apply, aimed at hindering the creation of passive companies for the sole purpose of establishing intangible and financial assets in countries that offer particularly favorable taxation.

ITALY-SPECIFIC PECULIARITIES

11. E-SIGNATURE many public offices accept documents only if digitally signed, with an Italian-specific digital signature device that differs from most of the products available on the market.

12. CBCR (Country by country reporting) regulations apply, like in most countries around the world.

AS SEEN ON

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02-2020

ASSISTANCE

The services provided by an Italian CPA can cover all the areas in the company formation and set-up processes, even most of those that abroad are normally by lawyers.

Areas of assistance normally involve:

ACCOUNTING

FINANCIAL STATEMENTS PREPARATION and COMPANY SECRETARIAL

INVOICING

PAYROLL

REPORTING

TAX CONSULTING and COMPLIANCE

DOMICILIATION

A panoramic view of a city at dusk, featuring a large dome and a tall tower, with mountains in the background. The city is illuminated by streetlights and building lights, creating a warm glow against the twilight sky. The foreground shows a river and some buildings, with the city lights reflecting in the water.

ACCOUNTING

ACCOUNTING

Accounting is performed, worldwide, for the purpose of understanding the going concern of a business and its profitability.

The performance of accounting entries, therefore, does not need to be localized in Italy for the sole above purpose. Debit and credit entries have been first adopted in Italy in the XV century, but work seamlessly in the rest of the world, too.

There are however reasons for which keeping the accounts abroad makes things more complicated (and expensive), and brings along the risk of non-compliance with local regulations.

ACCOUNTING

There is no mandatory standard Chart of Accounts (CoA), however local compliance rules require the extraction and electronic filing (in a local format) of massive / specific amount of data from the accounting procedures, tailored to the local regulations.

In addition to the above, books / ledgers, documentation related to operations, as well as accounting records, entries, evidence and vouchers have to be made available, in Italian, immediately upon request of the authorities (tax police and/or tax inspectors) at the company's premises.

No preliminary notice will be given in case of an inspection, and the documentation required can be as extensive as a full year's worth of transactions.

ACCOUNTING

We have been asked many times for assistance, by those of our customers that belong to multinational groups, in projects involving the centralization of administrative processes throughout Europe.

Such requests are mainly aimed at keeping the accounts of Italian branches and / or subsidiaries - and, consequently, carrying out some basic tax and administrative services - outside of Italy.

Although domestic legislation includes no specific prohibition to keep books abroad, it provides for more than one rule indirectly presuming that books are kept in Italy.

AS SEEN ON

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04-2021

ACCOUNTING

Keeping books abroad is generally allowed and, as long as the obligation is performed in compliance with the general principles regulating reports to the tax office, it is common practice.

Since the jurisdiction of Italian tax officers is limited to the territory of the State, not holding documents locally would impair the timeliness required for audits, compromising their correct procedure and results.

Finally, an independent audit does not preclude the right for the tax authorities to examine the books of account.

ACCOUNTING

It is therefore currently possible for a taxpayer residing or domiciled in Italy to establish the place of electronic storage of invoices, registers and other documents provided for by Presidential Decree No. 633 of 26 October 1972 and other provisions, in a foreign country, provided that accounts are kept in observance of Italian GAAP and that

- a legal instrument governing mutual assistance in the field of indirect taxation exists with that foreign country,
- the communication of the place where the accounting records are kept is made pursuant to Article 35 para 2, letter d) of the Presidential Decree; and
- that the controls by the tax authorities pursuant to Article 52 of Presidential Decree 633/72 be allowed.

ACCOUNTING

Software investments: Country-specific packages - Companies that use systems such as SAP or Oracle on a worldwide basis, purchase country-specific modules / packages - sometimes customized and integrated with the needs of the entities of the group - that are prepared specifically and updated constantly.

These such investments are generally relevant, and imply constant updating in order to comply with the very-so-often changing local legislation.

ACCOUNTING

Human resources investments: specific skills - Although accounting is basically performed the same way worldwide, Italian bookkeeping standards, formalistic requirements and related tax implications are generally much more complex, awkward and elaborate than in other Countries.

According to the size and the structure of the multinational groups willing to relocate the administrative services abroad, usually Italian native or mother tongue personnel with an accounting degree and several years of experience is employed.

The underlying assumption is that administrative personnel must be able to understand not only the content and the meaning of the documents under the linguistic point of view, but also the consequent tax and accounting implications thereof.



FINANCIAL STATEMENT - COMPANY SECRETARIAL



CORPORATE LIFE

The milestones in the life of an Italian representative office, branch or subsidiary are events that have an impact on their relations with third parties.

Corporate happenings that are subject to disclosure (i.e.: the appointment of a BoD; the change of controllership; the yearly financial statement), have to be represented publicly, and the chamber of commerce is the ultimate recipient of this information, as it is the keeper of all data related to entrepreneurial effort.

MINUTES OF CORP DECISIONS

A subsidiary, by law, has to maintain corporate books to detail the decisions of the quota / share holders, of the administrative body and, if applicable, of its auditors.

Corporate books should be registered by a notary public, upon creation, and updated periodically, to ensure that all minutes are well reported. The contents of corporate books is normally private; however some disclosures may have to be made public or by means of a notarial (public) meeting.

The creation of Italian corporate books does not apply to rep offices and branches, that will instead have to publish notarized and sworn-translated minuted decisions of the alien entity.

DISCLOSURE

Disclosure of corporate happenings can be recurrent or non-recurrent.

A typical example of recurrent disclosure is the yearly filing of the financial statements.

Non-recurrent disclosure, instead, is required when exceptional events take place, like the appointment of a new board of directors, or the change of control in the first-level quota / share holder.

RECURRENT DISCLOSURE

Whilst representative offices have no periodic corporate disclosure requirements, the law has specific assignments for branches and subsidiaries.

In fact, a branch has to file the accounts of the alien entity, translated into Italian, that incorporate its economic result; a subsidiary has to prepare and publish, on a fiscal year basis, their financial statements.

There is a general publicity requirement; in the sense that the approved financial statements and the legal auditors' report have to be filed by the competent Registrar of Companies Office. Capital market companies shall make the approved financial statements available to the public at their registered office and at the offices of the Italian stock exchange management company (Borsa Italiana).

Filings are subject to local special electronic standards and procedures.

FINANCIAL STATEMENTS

Italian commercial law provides for a specific format for balance sheet and income statement mandatory for corporations (this obligation does not apply to partnerships).

Smaller-sized companies can draw up financial statements in the abbreviated form; specifically, this is the case for companies which in the first fiscal year, or thereafter for two successive years, did not exceed any two of the following thresholds:

Total balance sheet assets: € 4,400,000

Total revenue from sales and services: € 8,800,000

Average staff during the year: 50

AS SEEN ON

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08-2024

AUDIT REQUIREMENTS

Italian entities are not subject to compulsory audit, per se; an entity must however undergo audit if certain thresholds are exceeded.

Namely, if at least one of the following thresholds is exceeded for two consecutive years, the company is subject to the stat audit obligation:

Total balance sheet assets: € 4,000,000

Total revenue from sales and services: € 4,000,000

Average staff during the year: 20

HALF YEAR REPORTS

The Corporate Crisis and Insolvency Code, enacted at the beginning of 2019, provided for the adoption of amendments to the Civil Code and the introduction of new specific and more stringent provisions for directors, already in force as of 16 March 2019, i.e. the obligation that managing directors report periodically to the board of directors and the board of statutory auditors on the developments of corporate administration. Therefore, the administrative body, when endowed with management powers, is called upon to liaise with the company's collegiate bodies - in a systematic manner - on the adequacy of the company's organisational, administrative and accounting structure.

The topics on which communications must focus concern:

- the most significant operations, and
- foreseeable evolution of corporate life.



NON-RECURRENT DISCLOSURE

Representative offices, branches and subsidiaries are all subject to non-periodic disclosure obligations.

Any change in the life of the entity (corporate name, legal seat, address of the office, officers, auditors, etc.) mentioned in the local registration should be disclosed publicly within specific deadlines.



PAYROLL & EMPLOYEES

WORKING IN ITALY

Employees working in Italy will generally fall under the scope of Italian employment law, regardless of the presence of a permanent establishment of their alien employer in this country.

National bargaining contracts, employee protection rules, employment schedules, working time regulations and employment equality legislation are therefore applied to the employment relations.

It is first of all mandatory to check if the employee is authorized to work in Italy, especially when he is not of Italian nationality. It is always wise to refer to bilateral treaties between employee's country of origin and Italy to determine if the employee can benefit from the secondment regime and stay on the payroll of the foreign parent company.

CONTRACTS

Secondment rules can apply; however most of the times having an Italian employee may mean having to set up an Italian entity (representative office, branch or subsidiary) to fulfill local obligations.

Employment contracts are normally capped under the provisions of a national bargaining contract, that regulates the general principles of employment and varies according to the cluster of activity / market in which the company operates. There are some 400 different national bargaining contracts, each with specific regulatory peculiarities. They are only available in Italian, registered with the National Economy and Labour Council (i.e.: CNEL), and are normally some hundred-page legalese-written booklets.

SPECS

Employees can be hired full-time, part-time, or on term contracts (if conditions apply) or for an indefinite and unlimited period of time (which is the normal regime of employment).

Each employment relation will then have to be integrated by individual negotiations between parties, to regulate start dates, salary level, ad personam incentives and bonuses, special conditions.

If any of the contractualized items has been defined at a national bargaining contract level (for instance, minimum wage, or trial period), modifications to such clauses can only happen in the direction of most favorable conditions for the employee.

SALARY, TAX, SOCIAL SECURITY

Salary is negotiated gross with employees, as a complex withholding tax system applies to the local payroll calculations.

Social security legislation is also specific and reflects the reality of a very complex system of national subsidies.

Each month, whilst net salary is paid to an employee, the state receives – via their employer – taxes and social charges that are withheld by means of the payroll calculations.

Not only this is an articulate system, but it is also ever-changing and makes it virtually impossible to work without local professional assistance.

AS SEEN ON

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04-2024

SALARY, TAX, SOCIAL SECURITY

On a monthly basis, reports are filed to the authorities, to certify the salary payments and taxes withheld, as well as social security payments to be perfected.

Furthermore, a plethora of yearly reports is required, from salary-related reports to compulsory employment requirements, to night workers.

AS SEEN ON

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05-2024

REIMBURSEMENT OF EXPENSES

In the performance of their duties and tasks within the company, it sometimes happens that employees provide their services at a place other than the place of work indicated in their contracts, at the request of the employer. In these cases, a type of work performance normally referred to as 'business trip' takes place.

Typically, the posted employee pays sums of money - paid personally, but spent for work-related reasons - of which he is entitled to obtain reimbursement.

Reimbursements can be made at the same time as the salary is paid by the company to the employee, or at different times, as the reimbursement frequency is a liberal decision of the employer.

AS SEEN ON

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09-2023

SAFETY & SECURITY ON THE JOB

Companies and professionals that recruit employees, or that use collaborators and workers who operate on their behalf or perform an activity - including training - at their premises, must fulfil numerous requirements in relation to workplace health and safety regulations.

Employer obligations can be significant and complex, given that the health and safety requirements included in Italian Legislative Decree 81/2008 do not take into account the size of workforce; in fact, an entity employing one worker is required to comply with all applicable obligations.

SAFETY & SECURITY ON THE JOB

In addition, employers are not bound solely by the requirements linked to appointments, training courses and the preparation of documentation; they must also deal with set up and physical organization of the entity so that the premises, systems and equipment comply fully with the health and safety rules. In other words, all harm / risks existing in the company must be eliminated or reduced to a minimum.

AS SEEN ON

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07-2022

POSTED WORKERS

Employers that assign staff to work in other EU Member States, even for short periods, are obliged to fulfil several compliance obligations, such as providing information, observing the "equal pay" principle and respecting the working conditions of the foreign country of work.

Freedom of establishment, a fundamental principle of the European Market, allows companies established in one EU Member State to operate in other Member States through the posting of their own employees, to provide services.

AS SEEN ON

**DGTAX
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12-2023



THE TAX CALCULATION SYSTEM

NAT'L AND REGIONAL TAXES

Income generated on national sourced revenue is subject to two different types of taxes on income – IRES and IRAP – calculated on the basis of two different schemes. An entity's fiscal year is normally the calendar year, but can be set to any other 365-day period at the discretion of the taxpayer.

Both IRES (national income tax, levied at 24%) and IRAP (regional income tax, about 4%, specific to each region) are paid on a "two-advance-payments-and-a-balance-payment" scheme.

When the balance for a given tax year is paid (end of the 6th month after the closing of the fiscal year), the 1st advance payment for the current year is also due. The 2nd advance payment is due at the end of the 11th month after the closing of the fiscal year.

ITALIAN TAX CALC SYSTEM

The amount of the advance payments is calculated on the basis of the last available tax burden information: 50% of the last tax amount paid is due together with the balance payment; 50% of such amount is due as a second instalment and will be paid according to the deadlines set out above.

The calculation of the tax base for both taxes make it so, that even if a company incurs in a loss during a given period, it may have to pay taxes on the income derived by the tax base adjustment procedure.

AS SEEN ON

**DGTAX
FLASH**

09-2024

IRES – NATIONAL INCOME TAX

IRES tax is calculated by applying tax law corrections to the costs and revenues found in the accounting trial balance, following a "parallel trial balance" type of scheme. Such corrections may increase or decrease the economic result of the period (for example, by disallowing cost classes in given percentages - phone costs will be deductible at a standardized rate of 80%), thus defining the tax result - or tax base, i.e. a "parallel trial balance" that will determine a "parallel result".

The IRES income tax percentage, at the rate of 24% is applied to this new "parallel result".

IRES – NATIONAL INCOME TAX

From 2011, tax losses may be carried forward for an indefinite period of time but may be used to offset only 80% of taxable profit.

Income produced abroad contributes to the creation of the taxable profit; however, in order to avoid double taxation any foreign tax withheld at the source may be deducted, with specific limitations, from the net Italian tax due.

There is no tax relief for foreign underlying tax. Specific anti-abuse regulations have been established.

As previously mentioned, some expenses in the P&L are fully deductible, some of them are partially deductible and others are non-deductible.

IRES – NATIONAL INCOME TAX

As a general principle, all the expenses incurred to carry out the company activity are eligible to be fully deducted from the profit. However, if some of these costs are incurred both for company and for private purposes, the percentage of deductibility is less than 100%.

Only the costs booked in the P&L statement can be deducted for tax purposes.

The following list provides some examples of deductible costs and extent of their deductibility, updated as at May 2018.

IRES – NATIONAL INCOME TAX

- depreciation: they are deductible pursuant to a Ministerial decree (Min. Decree 31.12.1988) which establishes the different percentages of annual deductible depreciation for specific assets;
- cost of labor: all the costs related to wages, social and health contributions paid by the company are deductible;
- other taxes: apart from IRAP (deductible only up to 10% of the amount paid), other taxes are deductible in the fiscal year they have been paid;
- provisions: most provisions cannot be deducted for tax purposes since they are not relevant from a tax perspective;
- telephone costs: 80% of their amount is deductible;

IRES – NATIONAL INCOME TAX

- costs related to cars: if a car is used exclusively for business purposes, the costs are entirely deductible, otherwise they can be deducted in different percentages (70% or 20%) depending on the user and the conditions for use;
- gifts: they are entirely deductible if their value is less than EUR 50 each (gross VAT);
- entertainment expenses: deductible within the following limits:
 - 1.5% of the annual sales (for annual sales below EUR 10 million)
 - 0.6% of the annual sales (for annual sales within EUR 10 million and EUR 50 million)
 - 0.4% of the annual sales (for annual sales of more than EUR 10 million)

IRAP – REGIONAL INCOME TAX

The regional tax on production activities (IRAP) is a local tax collected by the Region where the production activities liable for tax are carried out.

If taxpayers perform their activities in establishments and offices located in multiple regions, the distribution of the taxable income is made in proportion to the cost of the employees working in the various regional establishments and offices.

IRAP tax base is calculated by deducting certain types of costs from the revenues generated in a given fiscal year, following a "profit and loss account" type of calculation scheme.

IRAP – REGIONAL INCOME TAX

The determination of the tax base differs, depending on whether the taxpayer is a commercial company, an agricultural producer, public or private non-commercial institutions or public administration offices.

If the taxpayer performs different activities, the tax base on which the rate applies is made up of only the sum of the positive figures.

For example, if a taxpayer has a tax base of EUR 100,000 relating to a commercial company and is also an agricultural producer using a tax base equal to EUR -20,000, the rate will be applied to a tax base of EUR 100,000.

IRAP – REGIONAL INCOME TAX

IRAP tax applies to the net production value, which is the difference between:

- positive components, consisting of the income from sales or provision of services, variations in stocks (if positive) and other operating income and revenues, and
- negative components, consisting solely of the cost of purchasing goods and services, the cost incurred for using third party goods, variations in stocks (if negative), depreciation, and amortization of fixed assets and sundry management charges.

The main category of excluded costs is that related to personnel, which is not considered directly but by a "standardized" deduction type of scheme, defined by law and allowing an adjusted amount of costs of personnel to be deducted from the total generated revenues.

CLUSTER ANALISYS SOFTWARE

The Italian tax authorities have an automatic tax burden calculation system called "ISA", issued by the tax agency, that assesses the income of companies - on the basis of statistical calculations - in a given fiscal year.

Most companies are subject to this system, although exceptions apply (in case of revenues exceeding certain thresholds).

CLUSTER ANALISYS SOFTWARE

Market analysis software performs a generic, statistical, national benchmark analysis of the performance of the companies belonging to a given activity cluster, based on their income tax returns/financial statements and on their operational and organizational characters, and defines - by means of assumptions - the income that a company should generate in that given tax year.

The general purpose of such market analysis software is to detect undeclared revenues, and updates to the software are normally released just up to until a few days before the deadline of the payment of taxes.

CLUSTER ANALISYS SOFTWARE

Practically, all revenue and cost data, combined with other information related to the business model structure of each company (number of employees, worked hours, square feet dedicated to the activity, but even more specific information, such as type of clientele, services/goods sold, etc.) are compared with a benchmark provided by the tax agency.

Companies not matching the benchmarks are given the option to pay taxes on the assessed result or to ignore the benchmark and be prepared to receive a tax assessment based on the level of income calculated according to the abovementioned market analysis software.

CLUSTER ANALISYS SOFTWARE

When the software is made available by the authorities, a simulation of the tax burden arising from the result of the market analysis can be performed, and if the company decides to artificially increase its turnover by the figures announced by the tax calculation software, VAT and income taxes in excess are calculated together with an additional penalty (that applies in case the difference between real values and calculated values exceeds certain percentages).

TRANSFER PRICING

Transfer pricing rules in Italy play a pivotal role in regulating transactions between related entities to ensure that they are conducted at arm's length, mimicking the conditions that would prevail in transactions between independent, unrelated parties.

These rules are designed to prevent the manipulation of prices and profit allocations within multinational enterprises, ultimately safeguarding the integrity of the Italian tax system.

Italy, like many other countries, has adopted transfer pricing regulations in alignment with international standards, particularly the guidelines provided by the Organisation for Economic Co-operation and Development (OECD).

TRANSFER PRICING

The rules regulating intercompany relations can be in the form of a "simple" intercompany agreement - that defines the conditions under which the local subsidiary invoices the mother company for its services, or in that of a more complex transfer pricing package, made up by a "master file", relating to the general rules applied by the group and a "country file", relating to the local peculiarities.

AS SEEN ON

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06-2022

TRANSFER PRICING

The preparation of appropriate TP documentation activates the so-called "penalty protection" regime, a scheme of exemption from administrative penalties for misrepresentation related to transfer pricing adjustments, where the taxpayer is in possession of documentation that allows the finding of compliance with the arm's length principle of transfer pricing practiced.

Taxpayers are called to flag a special option in the yearly tax return, when the appropriate TP documents are digitally signed and timestamped – form is crucial, as much as substance!

TRANSFER PRICING

Tax authorities have drawn their attention on intercompany relations, and in case of companies operating on international grounds among entities of the same group, they insist that these operations be performed "at current market values". This means that they expect that transactions with group companies be negotiated and settled at conditions comparable to those that are applied when working with third-party companies.

The purpose underlying such interest is the avoidance of fictitious transition of revenues to countries where the level of taxation is more favorable than that applicable in the country where business is actually carried out.



VAT AND ITALY

VAT SCOPE

VAT is due on any taxable supply of goods or services made in Italy by a taxable person in the course of their business. Supply means all forms of supply, but does not normally include anything done for anything other than a consideration. However, certain transactions without consideration are deemed to be supplies, e.g. the private use of business assets (or, more generally, their use for purposes other than those of the business).

In principle, VAT is also due on all imports of goods.

For VAT purposes, the financial year is the calendar year (1 January – 31 December).

AS SEEN ON

**DGTAX
FLASH**

03-2024

VAT RATES

The standard rate of VAT, in principle both for supply of goods and services, is 22%, but there are reduced rates of VAT for certain goods and services, as well as zero rates and exemptions for others.

In principle it is possible to recover input VAT on all supplies of goods and services (with specific limitations) used within the business activity, also to carry out zero-rated transactions; but it is not possible to recover VAT in case of performing of exempt supplies.

In the following table please find a quick recap and overview of the main Italian VAT rates.

10%	5%	4%	Zero rated	Exempt
Certain food items	Certain medical and social-care services	Basic food	Exports and EU supplies of goods	Financial services
Hotel accomodation	Authorized water passenger transports services	Books, Newspapers, e-books	International transport services	Insurance services
Public transport		Certain pharmaceutical products	Services directly connected with exports or imports	Certain real-estate transactions
Domestic fuel and power		Medical equipments and aid for disabled		Cultural services

VAT REGISTRATION

- ITALIAN ENTITIES

If a business makes taxable supplies in Italy, it is required to register and account for Italian VAT. There are no VAT registration thresholds in Italy.

- NON ITALIAN ENTITIES

The registration rules that apply to the Italian entities also apply to non-Italian entities which make taxable supplies in Italy, that are not subject to reverse charge mechanism (e.g. if a business is not registered for VAT in Italy and sells and delivers goods from another EU State to private customers that are not VAT-registered - so called "distance sales" - it is required to register and account for VAT in Italy, when the value of these sales exceeds Euro 35,000).

VAT SIMPLIFICATIONS

Certain simplification schemes may apply in order to avoid that non Italian entities should register in Italy for VAT purposes.

- Triangulations;
- Call-off stock;
- Domestic reverse charge.

With reference to the domestic reverse charge mechanism, in general the obligation to account for VAT must be shifted to the customer if:

- i) the customer is established in Italy and registered there for Italian VAT purposes and
- ii) the supplier is a non-established entity.

VAT RETURNS AND PAYMENTS

All registered businesses are required to submit to the Italian Tax Authorities VAT returns annually.

The annual VAT returns must be filed between 1 February and 30 April of the following year (e.g. within 30 April 2023 for fiscal year 2022).

Failure to file VAT returns may result in the application of penalties according to the Italian VAT law.

VAT is paid to the Italian tax authorities on a monthly or quarterly basis, depending on the amount of the turnover carried out.

Payments are executed by means of F24 forms within the 16th day of the following month (i.e. the debt VAT of January should be paid within 16 February etc.), or within the 16th day of the second month following to the reference quarter (i.e. 16 May for the VAT relating to the first quarter - January/March – etc.).

VAT CREDIT REFUND

A VAT credit refund application can be filed with the Italian tax authorities on an annual basis, by means of the filing of the annual VAT return itself.

Quarterly refund claims are admitted only in certain cases.

Taxpayers who claim for VAT refunds higher than 30,000 Euro should in principle submit also a guarantee in order to obtain the repayment.

Such procedure can be time consuming and expensive; it generally takes up to 2 years to be finalized, depending on several circumstances.

As an alternative to the VAT refund claim, it is possible to set-off VAT credits against other tax payables (i.e. income taxes, employee related taxes, withholding tax, etc...).

Certain conditions apply.

VAT CREDIT AUDIT

The evolution of the local VAT legislation has seen, starting from the fiscal year 2010, a substantial change in the VAT credit set-off system.

The tax authorities have introduced the need of a VAT credit audit report, to be performed on any VAT receivable arising from the yearly return before the credit is set off against any other tax debt.

Such audit report is compulsory to be able to set off of any VAT credit in excess of Euro 5,000.

VAT CREDIT AUDIT

A registered accountant should perform such audit report on the VAT credit and countersign the VAT return, and the accountant will be liable - jointly with the client company - for the use of that credit.

In case of non-compliance to the local legislation (i.e. fraudulent use of the receivable, or even, usage without such report) very high penalties would be levied to both parties.

VAT INVOICE REPORTING

Since fiscal year 2017, VAT reporting obligations to the Italian tax authorities have included the quarterly communications of periodical VAT liquidations, due by the end of the second month following the relevant quarter (i.e. end of May for the first quarter January/Marc, etc.).

From 1 January 2019 Italian taxpayers have to report the details of cross-border transactions by the end of the month following the relevant quarter (i.e. end of April for the first quarter January/March, etc.), other than file e-documents via the SDI (e-invoicing), as well as those documented by customs bills.

ELECTRONIC INVOICING

The 2018 budget law established the obligation for businesses to issue B2B and B2C "electronic invoices", starting from 1st January 2019.

An electronic invoice is a structured computer document submitted electronically - in a nutshell, it is an invoice document prepared according to a set of Italian-specific tax authority-approved instructions.

The obligation to issue electronic invoices concerns all supplies of goods and services (including adjustments) carried out between subjects being resident, established or identified for VAT purposes within the territory of the Italian state - including private individuals.

AS SEEN ON

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VIES

In order to carry out intra-EU operations, all VAT registered businesses must be included in the VIES (VAT information exchange system) registry. The option to carry out these operations can be expressed directly in the declaration of commencement of activity or, subsequently, electronically, either directly or through the a proxy-holder.

In any case, taxpayers may at any time communicate their wish to withdraw from the option (i.e. to be excluded from VIES) because they no longer intend to carry out Intra-EU transactions).

The revocation of the option can be made exclusively through the electronic services.

INTRASTAT

In Italy, European sales listings and statistical report forms (INTRASTAT) have been combined. They are normally referred to collectively as INTRASTAT returns.

There is one return for output supplies of goods and another one for output supplies of services.

The INTRASTAT returns for input supplies of goods and services are no longer due for tax purposes but are required for statistical purposes only, if certain thresholds are exceeded.

INTRASTAT returns may be submitted on a monthly or quarterly basis, depending on levels of EU transactions over the previous four quarters.

Failure to submit INTRASTAT returns on time may result in a penalty ranging from Euro 500 to Euro 1,000.

A wide-angle, nighttime photograph of a hillside town. The buildings are densely packed and built into the slope. A prominent church tower with a spire is illuminated and stands out against the dark blue twilight sky. The town's lights are visible, creating a warm glow against the cool tones of the evening.

OTHER

A closer, nighttime view of a town square or courtyard. The square is paved and contains several parked cars. The surrounding buildings are made of stone and have tiled roofs. The scene is lit by streetlights and building lights, creating a warm, intimate atmosphere.

OTHER

ELECTRONIC SIGNATURE

More and more often are authorities requiring e-signature on official documentation, an e-signature that is Italian specific by features designed by the national authority.

Digital signatures enable legal value to digitally signed documents, by means of an IT process that gives three fundamental qualities an e-signed document:

- Authenticity (the signatory assumes responsibility for the content of the document);
- Integrity (the document is unchangeable after the effectiveness of the signature);
- Non-repudiation (the document cannot be disowned by the signatory).

Therefore, once signed a computer document can be used for legal purposes and opposed to third parties.

AS SEEN ON

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TAILORED REPORTING

Tailored Financial Statements reporting refers to the practice of customizing financial reports to meet the specific needs and requirements of a company or organization. While traditional financial statements, such as the balance sheet, income statement, and cash flow statement, provide a standardized view of an organization's financial performance, tailored financial statements reporting allows for greater customization and focus on specific areas or metrics and takes customization to a higher level.

With tailored reporting, companies can design reports that focus on specific metrics, key performance indicators (KPIs), or segments of their business. This customization allows management and stakeholders to gain deeper insights into the financial health and performance of the organization, enabling better decision-making.

TAILORED REPORTING

Here are a few aspects and benefits of tailored accounting reporting:

1. Stakeholder communication: Tailored accounting reports can be designed to effectively communicate financial information to various stakeholders, such as investors, lenders, or regulatory bodies. By presenting relevant data in a clear and concise manner, organizations can enhance transparency and build trust with their stakeholders.
2. Granular analysis: By tailoring reports, companies can analyze financial information at a more detailed level. This can include segment-specific reports, departmental performance reports, or project-level analysis, providing a comprehensive view of the organization's financial performance.

TAILORED REPORTING

3. Key performance indicators (KPIs): Tailored reports can focus on specific KPIs that are critical to measuring success in a particular industry or business function. By highlighting these key metrics, management can monitor performance, identify trends, and make informed decisions to drive growth and profitability.
4. Decision-making support: Customized reports provide management with accurate and timely information for strategic decision-making. By analyzing tailored financial reports, executives can identify areas of improvement, assess the effectiveness of strategies, and allocate resources more efficiently.
5. Flexibility: Tailored accounting reporting allows organizations to adapt financial reports to their unique requirements. They can choose the format, level of detail, and specific metrics that matter most to their business operations and goals.

TAX AND SOC SEC PAYMENTS

Italian taxes, in a broader sense, are generally paid via a special payment channel, the so-called "F24".

The Italian F24 form is a document used for the payment of various taxes, contributions, duties, and fees.

It is a multi-purpose form that allows individuals and businesses to make payments to the Italian government, local authorities, and other public entities such as social security, national insurance institute and other.

Some of the items that can be paid are for instance national income tax (IRES or IRPEF), regional income tax (IRAP), stamp duty, municipal property tax (IMU), value-added tax (IVA), social security dues (INPS), national compulsory insurance premiums (INAIL) etc.

TAX AND SOC SEC PAYMENTS

Late or incorrect payments will result in penalties, charged at different brackets, and interest by the day.

Typically, a consultant can be appointed to make payments on behalf of their clients, via a three way proxy on the client's bank account with the tax authorities' authorization.

An Italian IBAN code is mandatory to process these such payments.

THE TAX BOX

The "tax box" in Italy is an online platform operated by the tax authorities.

The term "cassetto fiscale" (i.e. the Italian name of the tax box) refers to a personal virtual space where taxpayers and their consultants can access and consult their tax information, including documents, returns, payments made and received, and other official communications sent by the Internal Revenue Service.

Some of the common features of the tax box include:

Tax Documents: download important documents such as pre-filed tax returns, tax return filing receipts, and other relevant documents.

Payments: Info on payments made and received.

Official Communications: Official communication is sent within the tax box, providing important information or requests for clarifications.

AS SEEN ON

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01-2020

DGTAX NEWS

We assist our clients, 360 degrees in the Italian administrative world.

During the course of time, we've developed 5 different flows of communication for our clients:

DGTAX FLASH – flash news on the Italian administrative world. You can read one in 5 minutes and stay up to date on the day-by-day changes.

NEWSLETTERS – deeper dives into hot topics of the current tax periods. For interested readers.

FOCUS REPORTS – evergreen topics deserve attention. Read these, they will never fade.

LINKEDIN CAROUSELS – the newborn. Pills on important current tax news.

DGTAX HOW-TO – sometimes, a practical advice is all it takes. See how Italian things work, with step-by-step assistance.

DGTAX NEWS

Within the slides of this presentation, we have marked topics that have been covered within our periodic newsletters.

Please do not hesitate to contact us and ask us for copies of these reports, as they may have an influence on the life of your Italian entity and we rely on those to provide effective information to our clients on all-things-Italian.

WANT TO KNOW MORE?

KNOCK ON OUR DOOR!

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