

FOREWORD

This booklet has been prepared for the use of clients, partners and staff of Synergia Consulting Group. It is designed to give some general information to those contemplating doing business in Italy. You should consult one of the Synergia Consulting Group offices listed on the last page therefore, before taking further action. Synergia Consulting Group cannot be held liable for any business decision taken on the basis of information in this booklet.

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1 ABOUT SYNERGIA CONSULTING GROUP

Synergia Consulting Group is an alliance of 14 professional offices based in the main Italian cities, which makes available the services of over 200 highly qualified experts. Founded in early 2001 on the initiative of the law offices Boidi & Palea in Turin and De Vecchi & Holzmiller in Milan, Synergia Consulting Group now offers integrated services of financial consultancy, plus company, organizational and administration support in all parts of Italy.

Apart from services of tax consultancy and compliance, Synergia Consulting Group offers services of company consultancy, assistance regarding the balance sheet and accounting, corporate finance services (M&A, spin-off, company and group reorganizations, creation of real estate investment funds, etc.) also in the field of bankruptcy proceedings, besides fulfilment of statutory and judicial assignments. Each individual study has a wealth of experience and is a point of reference in its regional sphere of activity. The innovative federal organization has enabled the assembly of this patrimony of professional expertise, with development of common services which can face up to the most complex assignments, thanks to competence in the various facets of company, accounting and tax consultancy. Finally, within the alliance, the federal organization ensures traditional personal attention to the services rendered and continuity of the client-consultant relationship.

2. TYPES OF BUSINESS ORGANIZATIONS

2.1 Introduction

Italy offers a wide range of choice of different legal forms for setting up companies. One therefore has to identify the most suitable form of company from an organizational point of view, taking also into account the objects to be pursued, the capital to be committed, the level of liability each legal form involves, the various tax implications and, finally, the complexity of the accounting and organizational measures.

Sole Trader

A sole trader is a business set up by a single holder.

The businessman conducting business is also financially responsible for it, i.e. he is liable for the debts contracted by the firm with his own present and future personal wealth.

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

This legal form is very suitable for small businesses.

Partnerships

Simple partnerships

A simple partnership is the most elementary form of partnership.

The fundamental characteristic is that it can only be set up to perform non-commercial activities.

The scope of simple partnership may therefore be extended to the management of property assets, to conducting professional activities in the form of an association and agricultural activities, with several limitations. In particular, the partnership cannot be involved merely in the use of goods, but in the common and specific exercise of economic activities. Another characteristic is the partners' unlimited liability for partnership obligations, although the liability of partners with no powers of representation may be excluded by suitable agreement that must be adequately communicated to third parties. In the simple partnership, the creditor may receive payments from the partnership assets or from the assets of partners with unlimited liability.

Joint-name partnerships (S.n.c.)

The joint-name partnership (S.n.c.) is a type of partnership that can be used to conduct commercial or non-commercial activities.

For this partnership, there is no minimum capital contribution; all the partners have unlimited liability and they all are directors.

All the partners hold joint and unlimited liability for the business obligations but, unlike the simple partnership, the partners benefit from the preliminary right of execution on the partnership assets. Any agreement to the contrary has no effect vis-à-vis third parties.

Limited partnerships (S.a.s.)

It is possible to set up a partnership with different levels of liability for business obligations by means of a limited partnership (S.a.s.). This partnership is characterized by the presence of two categories of partners:

general partners, who have sole responsibility for the administration and management of the partnership and have unlimited and joint liability for the fulfilment of the company obligations;

sleeping partners, who are liable for the partnership obligations within the limits of the participation they hold, provided they are not involved in the partnership management.

This legal form is suitable for businesses that wish to bring in new partners to contribute capital but with their business risk limited to the amount of the capital contributed.

There is no minimum capital contribution for this kind of partnership.

Limited Liability Companies

Limited company by shares (S.p.A.)

A limited company by shares (S.p.A.) constitutes the model capital company in regulatory terms and is the form of company most suitable for substantial capital investments. It is also the compulsory form for companies wishing to be listed on the stock exchange.

Limited companies by shares are characterized by the presence of two fundamental elements, the limited liability of all the shareholders and the division of capital into shares.

The company has to be set up by a notary deed, indicating the parties to the contract, who may be individuals or legal entities (including not only limited liability companies but also partnerships).

The initial minimum capital of limited companies by shares must not be less than 120.000 euros, but this legal minimum is increased for some companies in relation to the nature, size and effects on the market of the activities the company proposes to conduct.

The holding in the company's capital need not correspond to the contributions made by each shareholder. The proportions of capital payments, profits and administrative rights (votes) do not necessarily have to correspond.

The administration of limited companies by shares may be organized according to three different models:

- traditional
- dualistic
- monistic

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

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

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

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

With regard to the audit of the accounts, the deed of incorporation must provide for the appointment of a Board of Auditors (Collegio Sindacale) or an audit firm or auditor.

Bond issuance is one of the available tools for limited companies by shares (S.p.A.) needing to raise financial resources.

If the law or the company bylaws don't establish differently, the bond issuance must be approved by the directors, with the exception of the convertible bonds, whose responsibility it is of the extraordinary shareholders' meeting.

Partnerships limited by shares (S.a.p.a.)

A partnership limited by shares (S.a.p.a.) is a limited company by shares in which the management power is held by full directors who, in return for their prominent position, hold unlimited liability, even if subsidiarily, for the company obligations.

One peculiar feature consists in the coexistence of two different groups of shareholders:

General shareholders, de jure directors, with personal and unlimited liability;

Sleeping shareholders, excluded from the management, whose liability is limited to their contributions.

Private limited company (S.r.l.)

A private limited company (S.r.l.) is a company model intended for smaller businesses than the limited companies by shares, whose shareholding is denoted by a personal profile.

In fact, the quotas are generally held by a limited number of shareholders, who are not personally liable for the company obligations, even if they have acted for and on behalf of the company.

The minimum capital to be subscribed is 10.000 euros and companies must be set up by a notary deed, indicating the parties to the deed of partnership, who may be individuals or legal entities (including not only limited liability companies but also partnerships).

The quotas in the company need not be proportional to the contributions made by the quota-holders.

The transfer of quotas may be limited and even forbidden; in this case, each quota-holder will be entitled to withdraw from the company, obtaining a reimbursement for his quota.

The management benefits from the same flexibility; it is, in fact, possible to provide for a sole director or a board of directors, with joint or separate management.

It is also possible for a quota-holder to be able to hold special personal management rights.

A board of auditors must be appointed if the capital is equal to or greater than 120.000 euros or other parameters laid down by law are exceeded.

Finally, private limited companies may issue debt instruments similar to bonds (which remain the sole prerogative of private limited companies and partnerships limited by shares).

Unlike bonds, these instruments may only be subscribed for by professional investors.

Simplified private limited company (S.r.l.s)

A new type of corporate model, named Simplified private limited company (S.r.l.s), was introduced by Decree of 24 January 2012 n. 1, ratified with amendments by Law 24 March 2012 n. 27 and modified again by Decree of 28 June 2013 n. 76.

The model of simplified private limited company (S.r.l.s) has been created with the goal of promoting employment and facilitating doing business especially by young people.

For this reason, the most significant difference with private limited company model (S.r.l.) is that the minimum quota held to be subscribed is fixed between 1 and 10 thousand euros.

CHARACTERISTICS OF THE MAIN COMPANY FORMS

	S.p.A.	S.r.l.	S.n.c.	S.a.s.
Type of company	Medium-sized and large companies / listed companies	Small and medium-sized companies with a limited number of shareholders	Partnerships set up to conduct commercial and non-commercial activities	Partnerships set up to conduct commercial and non-commercial activities
Minimum share capital	€ 120.000	€ 10.000	No limit	No limit
Liability for company obligations	Limited to the company assets	Limited to the company assets	Unlimited for all partners	Unlimited for general partners Limited for sleeping partners
Board of Statutory auditors/Audit	Compulsory	Optional / Compulsory if certain limits exceeded and if the company prepared consolidated financial statements	Not provided for	Not provided for

Other types of companies

It is also possible to set up other types of companies, in the form of limited liability cooperative societies, unlimited liability cooperative societies and mutual insurance societies, all for mutual purposes. This means that they are intended to provide goods, services or work for members directly, under more advantageous conditions than those that members would obtain on the market.

Finally, all companies, except for simple partnerships, may unite in a consortium to coordinate economic activities similar or related to those of several businesses or conduct certain stages of production of the respective companies.

Finally, mention must be made of the European Company (S.E.) which allows multinational enterprises to operate in the European Union through joint stock company that have an identical basic legislation and a referral to local legislation, limited to the aspects not governed by the regulations.

The European Company, made up of legal entities and with a minimum capital of 120,000 euros, may be set up in different ways.

The company must be based within the European Union, in the same member state where the administrative body resides and if transferred to another member state, it has not to be dissolved and a new legal entity cannot be set up.

A final requisite for the SE is the special involvement of the employees in the CE business that includes any mechanism including information, consultation and participation by means of which the employees' representatives may exercise influence on company decisions.

The European Company structure includes a general shareholders' assembly and, according to the choice adopted by the articles of association, a management body that works alongside a supervisory body (dualistic system) or an administrative body (monistic system) that includes a management control committee.

2.2 Incorporation of Business Entities

2.2.1 Formalities for the incorporation of business

Limited Liability Companies

Private limited companies (S.r.l.) and limited companies by shares (S.p.A.) may be set up by means of a contract between two or more individuals or legal entities (including not only limited liability companies but also partnerships) or by means of a unilateral instrument (unipersonal S.p.A. and S.r.l.).

In both cases, the deed of incorporation should be drawn up by notarized instrument.

As a general rule, the process of setting up a company with share capital is composed of the following stages:

Drafting company bylaws;

Payment of at least 25% of the share capital (100% in the case of a unipersonal S.r.l. or unipersonal S.p.A.) with a linked bank current account; in the case of an S.r.l. the payment may be replaced by arranging an insurance policy or a bank guarantee for the corresponding amount;

Valuation of any contributions of goods in kind or credits by an expert entered in the register of auditors (the shares corresponding to these contributions should be fully paid-up);

Subscription for the entire share capital and preparation of the notarized deed;

Any government authorizations required for particular activities.

The company will acquire legal status on registration with the register of companies. For operations conducted beforehand, those taking measures and shareholders deciding, authorizing or allowing measures to be taken will have unlimited and joint liability.

Partnerships

Partnerships have to be formed by a notarized instrument or by a private instrument authenticated by a notary. The deed of incorporation has to be entered in the register of companies as a condition of the company's legal acknowledgement of regularity and not of existence.

2.2.2 Company books

Limited Liability Companies

Limited liability companies must keep the following books:

The shareholders register, bearing the name of all share and stake holders, the share and stake transfers and all relating constrictions, as well as the payments performed, is compulsory for shareholding companies (S.p.A.), but not for private limited companies (S.r.l.).

The book of meetings and decisions of the General Meetings (for S.p.A.) or the book of quota-holders' decisions (for S.r.l.), which should also contain the minutes drawn up by notary;

The book of meetings and decisions of the Board of Directors or the Management Board (for S.p.A.) or the book of directors' decisions (for S.r.l.);

The book of meetings and decisions of the board of auditors and/or the book kept by the person responsible for auditing the accounts (for S.p.A.) or the book of decisions of the board of auditors or auditor (for S.r.l.);

The book of meetings and decisions of the Executive Committee (only for S.p.A.), if there is one.

If bonds are issued, the following must be kept:

The book of bonds

The book of meetings and decisions of the General Meetings of Bond Holders.

If an S.p.A. has issued special financial instruments other than shares, a book must be kept indicating their characteristics, the amount of those issued and those cancelled, particulars of the holders of registered bonds and the transfers and constraints relating thereto.

Partnerships

Partnerships are not required to keep company books. In practice, however, a book of meetings and decisions of the General Meeting is certified and the approval of the annual report and most important decisions recorded in it.

2.3 Legal, Accounting and Audit Requirements

2.3.1 Legal requirements

All companies, and individual businesses, must be registered with the register of companies in the place of the principal place of business.

In company documents and correspondence, details of registration with the register of companies must be indicated.

A suitable section should also be provided in the company register containing details of companies conducting management and coordination activities (parent companies) and those subject thereto. The latter, in particular, should indicate in their documents and correspondence the company to whose management and coordination they are subject.

2.3.2 Accounting requirements

All companies, whether companies with share capital or partnerships, are required to keep books and records of accounts and to keep original documents sent and received in order for each concern. The documents underlying the accounting should be archived for ten years.

Companies with share capital are also required to prepare annual financial statements and to file it with the register of companies, within 30 days of its approval by the shareholders. Partnerships are required to draw up an annual report indicating profits and losses, subject to minor formalities, without the obligation to present it to the register of companies.

2.3.3 Audit requirements

The following entities are required to be audited:

All S.p.A., irrespective of the size;

S.r.l. with a share capital above 120.000 euros (the minimum amount required for an S.p.A.) or exceeding two of the following limits in two consecutive years:

- total assets of: 4.400.000 euro;
- sales and services revenue of: 8.800.000 euro;
- average number of employees during the year: 50.
- or if controls a company obliged to statutory audit;
- All companies preparing consolidated financial statements;
- Listed companies;
- Banks, stock broking companies, fund management companies, regulated financial institutions.

The audit should be performed in accordance to the Italian Law and the auditing standards issued by the Italian Institute of Chartered Accountant (CNDEC) that are substantially in line with the ISAs issued by IFAC.

2.3.4 Conduct of the audit

In Italy the statutory audit can be performed by the Board of Statutory auditors (Collegio Sindacale) that can be in charge of both supervision and audit of the financial statements. In the SpA and if the company bylaws allow the option, the two duties can be split and allocated to two different bodies: the supervision to the Collegio Sindacale and the audit of the financial statements including the quarterly controls to an audit firm. The segregation is compulsory for listed companies and companies preparing the consolidated financial statements and the segregation is suggested for independence requirements.

As mentioned in the Civil Code, the Board of Statutory Auditors (Collegio Sindacale) has the duty to ensure:

Compliance with the law and with the company bylaws;

Compliance with the principles of proper administration;

Adequacy of the corporate organization;

Adequacy of the corporate administration;

Adequacy of the accounting procedures adopted by the company;

Statutory audit, if the company bylaws allow it, and if the company is not required to prepare consolidated financial statements (in this case it has to be provided that all members of the board are statutory auditors entered in the appropriate register).

More specifically:

1) S.p.A.

The audit is conducted by:

An audit firm registered with the CONSOB, if the S.p.A. is a listed company or controlled by a listed company;

An audit firms entered in the register of auditors, but to which the regulations on companies registered with the CONSOB apply, solely with regard to that assignment, if the S.p.A. has recourse to venture capital;

An audit firm entered in the register of auditors or an auditor, in other cases.

2) S.p.A. not listed or not controlled by listed companies

The audit may be assigned to the Board of Statutory Auditors. In this case, all the members of the board of auditors must be entered in the register of auditors. If the SpA must prepare consolidated financial statements the audit can't be assigned to the Board of Statutory but it needs to be performed by an audit firm.

3) S.r.l.

When an audit is compulsory or when it is adopted optionally by the company, it may be conducted by the Board of Auditors or by an audit firm or an auditor. If the deed of incorporation does not provide otherwise, the audit may be conducted by the Board of Auditors.

4) Listed companies or subsidiaries of listed companies

The supervision of the operating activities is performed by the Board of Statutory Auditors and the audit of the financial statements including the quarterly controls by an audit firm registered with CONSOB (the Italian Stock Exchange Authority).

Banks, stock broking companies, fund management companies, regulated financial institutions

The supervision of the operating activities is performed by the Board of Statutory Auditors and the audit of the financial statements including the quarterly controls by an audit firm registered with CONSOB (the Italian Stock Exchange Authority).

2.3.5 Term of the audit engagement

The auditors are appointed for a 3 year-term for non-listed companies and for a 9 year-term for listed company and the audit firm can't be appointed for a second 9-year term.

2.4 Set up of a branch in Italy

The branch of a foreign company is regulated by the Italian Civil Code which lays down the general rules and formalities to comply with in this circumstance.

Should the aforementioned formalities not be observed, an unlimited and joint liability will raise on those subjects acting in the name of the branch for the obligations assumed on behalf of the company.

In order to open a branch of a foreign company in Italy, there are some legal procedures that must be followed prior to registration.

In particular the following documents are required to register a branch:

a) Corporate resolution of the parent company resolving:

-to open the branch in Italy;

-to appoint a branch manager and to grant the branch manager some powers necessary in order to enable him to carry on the daily business of the branch;

b) By Laws of the parent company in the latest version,

c) Certificate of good standing of the parent company issued by the competent authorities.

All the above indicated documents must be translated to Italian and notarized and legalized by Apostil.

Following additional documents and procedures are also required to affect such registration:

- application for the VAT code of the branch;

- application for the tax codes of the legal representative of the parent company and of the branch manager;

- photocopies of passports of the legal representative of the parent company and of the branch manager;

- forwarding of all the above documents to an Italian public notary for deposit with the competent authorities;

- registration of the deed of deposit in the Business Register.

A branch takes legal form upon issuance of registration certificate.

To carry on in Italy limited activities (e.g. marketing and sale promotion, storage of goods), which cannot generate profits, is usually incorporated a representative office.

The procedures for its incorporation are similar to those of a branch.

From an Italian legal point of view, neither the representative office nor the branch are deemed as separate legal entities with respect to the parent company.

2 . 4 . 1 Tax aspects

Permanent establishment

Pursuant to the Italian tax regulations, a branch is described as a permanent establishment if:

- there is a permanent business office in Italy;

- there is a non-resident company;

- use is made of the permanent office in Italy by the non-resident company for the purposes of its activities.

All profits made by a permanent establishment in Italy of a foreign company are subject to taxation as if they were made by an Italian company.

A permanent establishment is consequently subject to Corporate Income Tax Irap and to VAT regulations and must keep proper books.

Representative office

If the business office is used solely for the following purposes: storage, display or delivery of goods belonging to the foreign company, purchasing goods or obtaining information for the foreign company or conducting preliminary activities assisting the business activities of the foreign company, permanent establishment does not exist for tax purposes.

Consequently, the company will be taxed, in the event of taxable income, according to the rules applicable to individuals and non-commercial entities.

2.5 Set up of a trust in Italy

Trusts have been recognized in the Italian legal order since the entry into force, in 1992, of Law No. 364 dated 16th of October 1989, ratifying the Hague Convention of the 1st of July, 1985, governing the law applicable to Trusts and their legal recognition.

The main effect of the ratification is the possibility of setting up “internal” Trusts in Italy falling under national regulations with regard to all characteristic factors, except for the governing law, which may be the one of any State issuing its own regulations on the subject (such as United Kingdom, Jersey, Guernsey, Republic of San Marino, etc). As Italy does not have any specific laws governing Trusts, greater freedom of choice is granted with regard to the governing law.

The business of setting up a Trust in a country other than Italy, or arranged in Italy but governed by a foreign law, represents an entirely legitimate deed along the lines of any other contract.

Trusts set up to avoid irrevocable rules or principles of public order in force in Italy, such as rules on inheritance, are not allowed because unlawful.

The disposing party, trustee and beneficiary may be natural or legal persons, public bodies or associations.

Only relations established voluntarily, or with the specific intention of setting up a Trust, may be established as Trusts, and the deed of formation should be drawn up in writing, observing any compulsory forms laid down by law for specific contracts.

There are no limits to the property submitted to Trusts and to the nationality of the persons involved in the relationship (however there are specific laws concerning the Trust's residence connected with nationality of the persons involved). The Trust may also be formed by citizens of a State not recognizing the Trust institution, without prejudice to the obligation to refer to a law governing Trusts in a country where such laws exist.

The Trust is a liable tax subject and if it carries out commercial business, it is obliged to keep accounts books. There are two types of Trust: with identified beneficiaries, whose income is attributed transparently to the beneficiaries themselves; without identified beneficiaries, whose income is taxed directly to the Trust.

There are also specific laws which regulate the indirect taxation of the transfer of assets into the Trust, of the charter and of the disposition and transfer of assets to beneficiaries.

In particular there are different opinions between the tax office and the case-law on indirect taxation of the transfer of the Trust property. The tax office argues that taxation (gift tax) is due in proportion (4%, 6% or 8% depending on the degree of relationship between the settlor and beneficiary) while several judgments of merit have argued to the contrary, stating that the tax is due solely when the goods are allocated from the Trust to the beneficiary.

2.6 Dissolution and liquidation of business entities

The dissolution and liquidation of limited liability company follows a precise procedure that is split into three stages as follows:

- existence of a reason for winding up the company,
- carrying out of the liquidation activities,
- cancellation of the company from the Business Register.

Reasons for winding up that are common to all types of companies are the expiry of the legal duration of the company, the full and final achievement of the company's objectives or the impossibility of achieving them, the will of the shareholders to do so and other reasons for winding up that are foreseen in the corporate by-laws incorporation. Furthermore, there are some reasons that are particular to individual company types. For limited liability companies winding up can be brought

about due to the company's impossibility to function, by the repeated lack of action by its shareholders' meeting, by the declaration of nullity by the company itself, by the reduction of its share capital below the legal minimum, by being unable to pay off the holding of a shareholder who has withdrawn from the company, following a resolution passed to do so by the shareholders' meeting and for all those other reasons that are laid down in the company by-laws.

The effects of the winding up, take place, except for the winding up of the company before its natural expiry date and for the reasons laid down in its incorporation deed, from the date of the publication in the Business Register of the declaration with which the directors ascertain the reason for the liquidation, or from the date of the publication of the resolution passed by the shareholders' meeting regarding the company's liquidation. At this stage the directors keep management in order to safeguard the company's equity and assets, until the company's books are handed over and the statement of account has been drawn up and consigned to the liquidators. In the case of any actions or omissions in violation of these tasks, which damage the company, the directors are personally and jointly liable towards the shareholders, the company's creditors and third parties. Furthermore, it is the responsibility of the directors to call the shareholders' meeting to pass the resolutions regarding the liquidation. The liquidators, who are appointed by the shareholders' meeting, with the majority votes provided for the amendment by the company by-laws, or by the Court, are responsible for the drawing up of the yearly financial statements for presentation for approval to the shareholders' meeting. Attached to them they make available a progress report and the prospects relative to the liquidation and the criteria that have been used regarding it. The liquidators are responsible for any damages caused to the company, as a result of the activities they have carried out, to the same extent as the one provided for the directors. After having made available the required payment for the company's creditors, the liquidators distribute the remaining assets of the company to its shareholders. A final set of liquidation financial statements is drawn up in which there are given the parts that are due to each shareholder. These financial statements are signed by the liquidators and there is attached to them the report of the board of statutory auditors and of the external auditor of the company and the whole package is deposited at the Business Register. After ninety days have passed without any complaint having been made regarding them, these financial statements are considered definitively approved and the liquidators can distribute the assets to the shareholders.

At this moment the tasks and duties of the liquidators are over. As final task the liquidators, after the approval of the final financial statements, must request the company's cancellation from the Business Register. At any time the company, with a resolution of its shareholders' meeting with the majority votes provided for the amendment of the articles of incorporation, can resolve to revoke the state of liquidation, after having eliminated the cause that has brought about the winding up of the company. This decision becomes valid after sixty days from the date of the registration of the relative resolution in the Business Register, but only with the prior agreement of the company's creditors.

3. TAXATION

3.1. General structure

The Italian tax system is based on the following main taxes:

- Company income tax and tax on other legal institutions (IRES);
- Natural persons' income tax (IRPEF);
- Regional tax on production activities (IRAP);
- Value Added Tax (IVA);

- Inheritance and gift tax;
- Local taxes (IMU);
- Registration tax and other indirect taxes on property transfers.

3.2 Taxation of companies and other legal entities

Income produced by companies and other legal entities is subject to IRES (Corporate Income Tax).

Generally speaking, IRES is payable on the worldwide income produced by resident legal entities. In case of income produced abroad, the taxes ultimately paid on it in the Countries of origin may be deducted from the net tax, with specific limitations.

Nonresident companies are taxed only on Italian source income.

The tax, ordinarily charged at a rate of 27.5%, is applied to taxable income and is payable for each tax period. The tax period generally consists of 12 months and corresponds to the calendar year. Any withholdings are deducted from the tax established in the tax return. If the sum of the payments on account made and the withholdings borne exceeds the tax payable, the excess may be deducted from the tax payable for the subsequent tax period, reimbursed or used to offset any other tax and social security debts, at the taxpayer's option.

3.2.1 Persons liable for tax

The following legal entities are liable for IRES:

- Companies with share capital, private limited companies, cooperative societies and mutual insurance companies resident in the Country;
- Public and private commercial institutions, other than companies and trusts, resident in the Country;
- Public and private non-commercial institutions, other than companies and trusts, resident in the Country;
- Nonresident companies and institutions, including trusts, with or without legal personality.

A legal entity is considered "fiscally resident in the territory of the Italian State" if its legal seat or place of effective management or main activity is placed in Italy for most of the tax period (183 days).

3.2.2 Taxable basis

The taxable income is determined by applying some adjustments (for non-deductible costs and/or not imposable proceeds) to the result shown in the profit and loss (P&L) account, according to criteria laid down for tax purposes.

Tax losses may be carried forward indefinitely, but in the following years they can be used only to offset up to 80% of taxable income. Losses formed during the first three years may be carried forward without any time restrictions and in the following years they can be used without any limit.

Specific anti-abuse rules are laid down.

3.2.3 Deductibility of expenses

In determining the taxable income, there is a wide range of expenses that can be deducted from the profit, as it comes out from the profit and loss statement. Some of the expenses above mentioned are 100% deductible, some of them are deductible according to a certain percentage, some other are not deductible at all.

As a general principle, all the expenses made in order to carry on the company are eligible to be deducted from the profit. However, some of these costs are made both for company reasons and for private reasons, so that the percentage of deductibility is less than 100%.

Since January 1st 2008, only the costs indicated in the P&L statement can be deducted from a fiscal point of view. The following list gives some example of deductible costs and of the percentage of their deductibility:

- Depreciations are deductible according to a law (D.M. 31.12.1988) which states, for every different kind of industry and assets, the maximum percentage of deductibility;
- Telephone costs are deductible for the 80% of their amount;
- Costs related to company cars: if the car is exclusively used for the company activity (in a very restrictive sense), they are entirely deductible; otherwise, they can be deducted in different percentages, from 20% to 70%;
- Labor costs: all the costs related to wages, social and health contributions paid by the company are deductible;
- Real Estate Tax (IMU) and Regional Tax on Productive Activities (IRAP) are non-deductible, with some exceptions: IRAP related to labor costs and a lump-sum part (10%) of it related to interest expenses are deductible from IRES;
- Other taxes are deductible in the fiscal year they have been paid;
- Devaluations are not relevant from a fiscal point of view;
- Regarding entertainment expenses, if they are represented by goods of net value amounting to less than 50 euro each, they are entirely deductible; the other entertainment expenses are deductible in different percentages, proportionally to the total annual sales. Restaurant and hotel expenses are deductible for 75% of their amount;
- Net interest expenses may be deducted each year up to 30% of the Gross Operating Margin (a quantity comparable to EBITDA, but with some difference); the non-deductible part can be carried forward indefinitely and deducted in the future, when a part of the 30% of Gross Operating Margin is available; on the other side, the part of 30% of Gross Operating Margin exceeding net interest expenses of a given year may be carried forward to deduct the future interest expenses. In order to apply the system described, the taxpayer has to take into consideration interest payable, interest receivable, assimilated costs and revenue from the following operations:
 - mortgage contracts;
 - financial lease contracts;
 - issue of bonds and similar;
 - any other contract for financial purposes;

Implicit interests on commercial debts are however excluded, while implicit interests on commercial credits can be included.

3.2.4 Dividends

The company income subject to IRES is only taxed when produced: the subsequent distribution of a dividend to shareholders almost does not require further taxation. The company therefore pays IRES permanently and shareholders are not entitled to any tax credit on profits received.

Dividends received by a resident company subject to IRES are 95% exempt from taxation.

Dividends received by a resident individual eligible as qualified shareholder (i.e., share holding more than 20% of voting rights in an ordinary meeting, or more than 25% of capital or corporate assets) are 50.28% exempt from taxation.

Dividends paid to a non-qualified individual are entirely taxable at source with a tax rate of 20%.

3.2.5 Extraordinary transactions

Sale of financial assets

The sale of a financial asset ordinarily requires the taxation of capital gain achieved by the seller in connection with the sale. Capital gain is determined as the difference between the sale price and the cost of the transferred asset. Capital gain can be taxed alternatively:

- in one solution, as a part of the income of the year in which the transaction has taken place, or
- by yearly equal installments, up to a maximum of 5, if the business has been carried on by the seller for over 3 years.

Participation exemption

Capital gains made on the transfer of company holdings, under certain conditions, are 95% exempt from taxation.

Any capital losses are not deductible.

The conditions laid down by law are as follows:

- a) uninterrupted holding as from the first day of the twelfth month preceding that of transfer; holdings acquired more recently will be deemed to be transferred first (LIFO);
- b) participation classified as a financial investment as from the first financial statements closed during the period of ownership;
- c) fiscal residence of the subsidiary in a State or territory other than those with a preferential tax system;
- d) subsidiary performing commercial activities; “real estate” companies are excluded.

The requirements set out in letters c) and d) must uninterruptedly subsist from the beginning of the third fiscal period prior to the transfer.

Sale of a business

The sale of a business as a going concern requires the taxation of gains achieved by the seller in connection with the sale (determined as the difference between the sale price and the net value of the business). Also in this case, the seller may opt to tax the gain by 5 yearly equal installments, if the business has been carried on by the seller for over 3 years.

Contribution of a business

A contribution of assets requires the taxation of the capital gain achieved by the transferor. The capital gain is determined as the difference between the market value of the assets which are contributed and their fiscally admitted net book value.

However, contribution of a business as a going concern may be realized without any taxation for the transferor (tax neutrality): in this case, the transferor must assume the value of participations received, same of the last taxable value attributed to the business; on the other hand, the transferee takes over the position of the transferor, with regard to the assets and liabilities of the business itself.

In case of a subsequent sale of the participation received, the transferor is entitled to opt for PEX if all the requirements listed above are observed.

The transferee may opt to increase the value of the received assets, up to their market value, by paying a lump-sum tax from 12% up to 16% on the increased asset values.

Mergers and demergers

Mergers and demergers are completely tax neutral. This implies that any capital gains (capital losses) arising in consequence of the aforesaid operations are not taxable on the merging or demerged company. However, the merging company (in case of a merger) or the beneficiary company (in case of a demerger) may opt to increase the value of the received assets, up to their market value, by paying a lump-sum tax from 12% up to 16% on the increased asset value.

3.2.6 Tax transparency option

The tax transparency is a regime under which the company's taxable income is not taxed on the company itself, but it is attributed to each shareholder/quota-holder, irrespective of its actual distribution, in proportion to his share in the profits.

It's an optional system and the option has to be exercised by all the shareholders/quota-holders.

The requirements for exercising the option are as follows:

- the shareholders must all be companies with share capital, cooperative societies or mutual insurance societies resident in the Country;
- each shareholder must hold a percentage of voting rights at the general meeting and profit-sharing of not less than 10% and not more than 50%.

These requirements must exist from the first day of the tax period of the subsidiary in which the option is exercised and remain uninterrupted until the end of the option period. The option is binding for a three-year period.

Under certain conditions, this system may also be opted if one or more shareholders are not resident.

In the event of the distribution of dividends, consisting of profits acquired during the periods included in the period of validity of the option, dividends will not be taxed.

This system is also applicable to S.r.l. or cooperatives, provided that:

- all the shareholders are individuals only, numbering not more than ten for an S.r.l., or 20 for cooperative societies;
- the subsidiary has a volume of income not exceeding 7,500,000 euro;
- the company does not have participations with the participation exemption requirements.

3.2.7 National and world consolidated accounts (fiscal unity)

Companies belonging to the same group may submit to the tax authority a joint application for fiscal unity for corporate income tax purposes..

National fiscal unity

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

The system consists of the consolidation of the taxable income, calculated separately by each company, which is totalled algebraically, irrespective of the percentages of participation of the different companies.

For this purpose, the holding company has to:

- Submit the fiscal unit income tax return, calculating the overall global income based on the algebraic sum of the overall net income declared by each of the companies participating in the system, without making any consolidation adjustment;
- Proceed with payment of the group liability (IRES).

Any excess net interest expense and non-deductible assimilated cost formed by a subject who takes part in the consolidated financial statements can be deducted from the group's overall income if and within the limits in which the other participating subjects submit an income tax return with an available part of 30% of Gross Operating Margin (i.e. the part exceeding its net interest expenses; see chapter 3.2.3) for the same taxation period.

These rules can be applied with reference to excesses carried forward, excluding any formed prior to entering the national consolidated financial statements.

The option is exercised by forwarding suitable notification to the inland revenue.

Companies belonging to the group and using reductions in the rate of IRES may not exercise the option.

The following requirements must also be met:

- Residence in the State of all companies participating to the "fiscal unit";
- Identity of tax period;
- Election of domicile by each subsidiary with the controlling company.

World fiscal unity

World fiscal unity is an optional system with a five-year period, based on which a controlling company resident in Italy may consolidate the income made by all non-resident subsidiaries proportionately, for which the control requirement exists as defined by the law based on the percentage of participation held in the subsidiaries.

The following requirements must be met:

- Residence of the controlling company in Italy;
- Identity of tax period, unless not permitted by foreign legislation;
- Inspection of the financial statements of the controlling and subsidiary companies;
- Compulsory consolidation of all foreign subsidiary companies;
- Certification by non-resident subsidiaries of their consent to the audit of the financial statements and undertaking to provide any collaboration required to establish the tax assessment basis and to comply with the requests of the inland revenue.

A suitable appeal should be made to the inland revenue to check the existence of the requirements needed for valid exercise of the option.

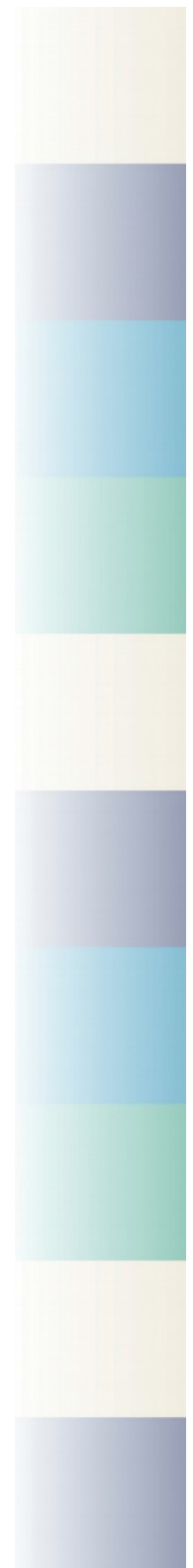
3.2.8 International ruling

Businesses with international activities may implement a suitable international standard ruling procedure, mainly with regard to the system of transfer pricing, interests, dividends and royalties, in order to reach an agreement with the inland revenue, valid for three tax periods, without prejudice to any changes in the "de facto" and "de jure" circumstances resulting from the agreement signed.

3.2.9 International agreements

Italy has arranged approximately 90 international treaties, based on the OECD model treaty, to avoid the double taxation of income produced in different Countries, as in the following table:

COUNTRY	INFORCEMENT LAW	APPLICABLE FROM
Albania	L. 21.05.1998, n.175	21.12.1999
Algeria	L. 14.12.1994, n.711	30.06.1995
Argentina	L. 27.04.1982, n.282	15.12.1983
Armenia	L.25.10.2007, n.190	05.05.2008
Australia	L. 27.05.1985, n.292	05.11.1985
Austria	L. 18.10.1984, n.762	06.04.1985
Bangladesh	L. 05.07.1995, n.301	07.07.1996
Belarus	L. 29.05.2009, n. 74	30.11.2009
Belgium	L. 03.04.1989, n.148	29.07.1989
Brazil	L. 29.11.1980, n.844	24.04.1981
Bulgaria	L. 29.11.1990, n.389	10.06.1991
Canada	L. 21.12.1978, n.912	24.12.1980
China	L. 31.10.1989, n.376	13.12.1990
Croatia	L. 29.05.2009, n.75	15.12.2010
Cyprus	L. 10.07.1982, n.564	09.06.1983
Czech Republic	L. 02.05.1983, n.303	26.06.1984
Denmark	L. 11.07.2002, n.745	27.01.2003
Ecuador	L. 31.10.1989, n.377	01.02.1990
Egypt	L. 25.05.1981, n.387	28.04.1982
Estonia	L.19.10.1999, n.427	22.02.2000
Ethiopia	L. 19.08.2003, n.242	09.08.2005
Finland	L. 25.01.1983, n.38	23.10.1983
France	L. 07.01.1992, n.20	01.05.1992
Georgia	L.11.07.2003, n.205	19.02.2004
Germany	L. 24.11.1992, n.459	26.12.1992
Ghana	L. 06.02.2006, n.48	05.07.2006
Greece	L.30.12.1989, n.445	20.09.1991
Hungary	L. 23.07.1980, n.509	01.12.1980
Iceland	L. 04.08.2008, n.138	14.10.2008
India	L. 14.07.1995, n.319	23.11.1995
Indonesia	L. 14.12.1994, n.707	02.09.1995
Ireland	L. 09.10.1974, n.583	14.02.1975
Israel	L. 09.10.1997, n.371	06.08.1998
Ivory Coast	L. 27.05.1985, n.293	15.05.1987
Japan	L. 18.12.1972, n.855	17.03.1973
Jordan	L. 23.10.2009, n.160	10.05.2010
Kazakhstan	L. 12.03.1996, n.174	26.02.1997
South Korea	L. 10.02.1992, n.199	14.07.1992
Kuwait	L. 07.01.1992, n.53	11.01.1993



Latvia	L. 18.03.2008, n.73	16.04.2008
Lebanon	L. 03.06.2011, n.87	21.11.2011
Lithuania	L.09.02.1999, n.31	03.06.1999
Luxembourg	L.14.08.1982, n.747	04.02.1983
Macedonia	L. 19.10.1999, n.482	08.06.2000
Malaysia	L. 14.10.1985, n.607	18.04.1986
Malta	L. 02.05.1983, n.304	08.05.1985
Mauritius	L. 14.12.1994, n.712	28.04.1995
Mexico	L. 14.12.1994, n.710	12.03.1995
Moldova	L.03.02.2011, n.8	14.07.2011
Morocco	L. 05.08.1981, n.504	10.03.1983
Mozambique	L.23.04.2003, n.110	06.08.2004
Netherlands	L. 26.07.1993, n.305	03.10.1993
New Zealand	L. 10.07.1982, n.566	23.03.1983
Norway	L. 02.03.1987, n.108	25.05.1987
Oman	L. 11.03.2002, n.50	22.10.2002
Pakistan	L. 28.08.1989, n.313	27.02.1992
Philippines	L. 28.08.1989, n.312	15.06.1990
Poland	L. 21.02.1989, n.97	26.09.1989
Portugal	L. 10.07.1982, n.562	15.01.1983
Qatar	L. 02.07.2010, n.118	07.02.2011
Romania	L. 18.10.1978, n.680	06.02.1979
Russia	L. 09.10.1997, n.370	30.11.1998
San Marino	L. 19.07.2013, n. 88	31.07.2013
Saudi Arabia	L. 22.10.2009, n.159	01.12.2009
Senegal	L. 20.12.2000, n.417	24.10.2001
Singapore	L. 26.07.1978, n.575	12.01.1979
Slovakia	L. 02.05.1983, n.303	26.06.1984
Slovenia	L. 29.05.2009, n.76	12.01.2010
South Africa	L. 15.12.1998, n.473	02.03.1999
(Ex) Soviet Union (1)	L. 19.07.1988, n.311	13.07.1989
Spain	L. 29.09.1980, n.663	24.11.1980
Sri Lanka	L. 28.08.1989, n.314	09.05.1991
Sweden	L. 04.06.1982, n.439	05.07.1983
Switzerland	L. 23.12.1978, n.943	27.03.1979
Syria	L. 28.04.2004, n.130	15.01.2007
Tanzania	L. 07.10.1981, n.667	06.05.1983
Thailand	L. 02.04.1980, n.202	31.05.1980
Trinidad and Tobago	L. 20.03.1973, n.167	19.04.1974
Tunisia	L. 25.05.1981, n.388	17.09.1981



Turkey	L. 07.06.1993, n.195	01.12.1993
Uganda	L. 10.02.2005, n.18	18.11.2005
Ukraine	L. 11.07.2002, n.169	25.02.2003
United Arab Emirates	L.28.08.1997, n.309	05.11.1997
United Kingdom	L. 05.11.1990, n.329	31.12.1990
Czech Republic	L. 02.05.1983, n.303	26.06.1984
United States	L. 11.12.1985, n.763	30.12.1985
Uzbekistan	L.10.01.2004, n.22	26.05.2004
Venezuela	L. 10.02.1992, n.200	14.09.1993
Vietnam	L. 15.12.1998, n.474	22.02.1999
(Ex) Yugoslavia (2)	L. 18.12.1984, n.974	03.07.1985
Zambia	L. 27.04.1982, n.286	30.03.1990

(1) The treaty is now applicable to Kirghisistan, Tagikistan e Turkmenistan.

(2) The treaty is now applicable to Bosnia-Herzegovina, Montenegro and Serbia.

3.2.10 General anti avoidance rule

Anti-avoidance rule

A transaction that lacks valid economic purposes and that is aimed at avoiding legal obligations, in order to obtain a tax reduction or an unjustified refund of taxes, can be disregarded for tax purposes by Tax Authorities. This rule applies to extraordinary transactions, such as mergers and demergers; contributions; transactions related to shares, financial instruments, business, etc.

Abuse of law

The Italian Supreme Court ruled that it constitutes an abuse of law the situation in which a taxpayer carries out transactions which, although formally compliant with the law, aim at obtaining undue tax advantages. Unlike under anti-avoidance provisions, the abuse of law principle can be applied by the tax authority to all the taxes and it can be objected in every transaction.

3.2.11 Controlled Foreign Companies (CFC)

The income produced by an entity resident or placed in States with a preferential tax system (i.e. Tax Havens), directly or indirectly controlled by a resident person, is attributed directly to the resident person, in proportion to the participation held. This rule also applies if the subsidiary has a permanent establishment in one of the aforesaid countries.

The CFC Rules do not apply in the event of a positive response given by the inland revenue, following a preliminary request (questioning), intended to prove the existence of specific conditions.

3.2.12 Transfer pricing

Transfer pricing rules, that are in line with OECD Guidelines, are applicable in Italy.

More in detail the rule applies to the following subjects: foreign company which controls an Italian enterprise it makes transactions with; Italian enterprise which controls a foreign company it makes transactions with; Italian or foreign company which controls both entities (Italian enterprise and foreign company) involved in the transaction.

The Italian practice defines "foreign company" as every kind of business entity, legally recognized in the foreign country, even if it has only one partner. With the expression "Italian enterprise" it is meant companies with share capital, limited liability companies, partnerships, sole traders and permanent establishments of foreign companies set up in Italy.

The intercompany transactions are to be performed at arm's length, which is the principle recommended by OECD Guidelines, according to which the price is negotiated by independent entities.

In the course of the year 2010 Law Decree n. 78/2010 and Tax Revenues Paper n. 58/2010 gave additional information in relation to transfer pricing and introduced de facto some documentation requirements in the matter of intercompany transactions.

The scope of the enacted legislation on transfer pricing documentation establishes the type and the content of the documentation on inter-company transactions for tax purposes that, should the Italian Tax Authorities consider incorrect the transfer pricing applied by an Italian resident company (controlled or connected to a multinational group), would prevent the Tax Authorities from charging penalties on the additional tax claimed.

According to the new regulations, keeping a "proper" documentation duly prepared and "promptly handing it over" to the Tax Authorities in case of a tax investigation could avoid the application of administrative penalties (which range between 100% and 200% of the additional tax assessed) should, further to the tax investigation, the Authorities make a transfer pricing adjustment.

The new regulations make explicit reference to the OECD Guidelines (and, namely, to the recent edition approved by the OECD Council on 22 July 2010), and the documentation requirements broadly replicate the recommendations of the EU Code of Conduct on transfer pricing documentation for associated enterprises in the EU (so called "European Union Transfer Pricing Documentation" or "EU TPD", including the Master File and Country File concepts), although with some differentiations, some of which are noteworthy, toward a more comprehensive informative package.

The regulations distinguish the businesses by their situation in respect to the rest of the multinational group they belong to, and require different sets of documentation for each category:

- Italian holdings and sub-holdings: they are requested to have both a Master File and the relevant domestic documentation (as a matter of fact, the "Country File" under the "EU TPD").
- Italian subsidiaries of foreign MNEs: they are required to maintain only domestic documentation.
- Permanent establishments of foreign enterprises: they are requested to maintain either the Master File and the domestic documentation or just the domestic documentation depending on the foreign enterprise's qualification either as holding / sub-holding or as a simple subsidiary.

The documentation will have to be very detailed, and must include information additional to that indicated in the Code of Conduct.

The documentation must also:

- be in Italian language, with the only exception allowed for the Master File prepared abroad for a foreign holding, if it is applicable also to an Italian sub-holding, provided the Master Files includes or is integrated with all the information required by the regulations;
- cover all inter-company transactions undertaken by the enterprise, including those not relevant to the taxpayer's ordinary business activity;

- be updated annually, except for “small and medium sized enterprises” (enterprises with an annual turnover of less than 50 million euros) which are free to update the economic analyses (e.g. the benchmark studies) included in the documentation every 3 years, if no significant modifications have occurred;
- be signed by the taxpayer’s legal representative on every page and, in full, in the last page;
- be made available to the Tax Authorities in electronic format, within 10 days of a request being made.

If the relevant documentation is in place, a specific box of the income tax return has also to be filled in every fiscal year.

3.2.13 IRAP (Regional Tax on Productive Activities)

This tax is applied on the net value of the production derived in each Italian region by the legal entity. The ordinary tax rate is 3.9%, although the competent region may increase or decrease the rate up to 1%. The IRAP tax basis is mainly determined according to the P&L, with the exclusion of some item.

For manufacturing companies, the taxable basis is obtained by reducing the revenue from sales and services with the production costs, subject to certain exceptions (e.g. a part of salaries and other personnel costs, provisions for bad debt and other risks , etc.). Specific rules apply for banks and other financial companies, and for insurance companies.

3.2.14 Tax surcharges

Non-operating companies rules

According to these rules, all the legal entities must declare a minimum taxable income. In particular, the legal entities are considered to be “non-operating” if their total revenue (other than extraordinary one) and increase in inventory are lower than the aggregate amount of a given percentage of the value of participations and other financial assets (2%), real estates and ships (6%) and other assets (15%) owned or leased by them. The calculation mentioned above is carried out on a three-year average.

As from 2012, the non-operating companies rule includes also entities that declare tax losses for three consecutive fiscal years.

If an entity is deemed to be non-operating, its income may not be lower than a certain amount (given by the sum of 1.5% of the value of participations, 4.75% of real estate and ships and 12% of other assets).

As from 2012, the IRES tax rate for non-operating companies is equal to 38%.

Non-operating rules are excluded for the following companies: companies whose shares or bonds are listed on an Italian or foreign stock market; companies which are under the control, directly or indirectly, of a listed company; companies which in the two preceding years have employed an average of at least 10 individuals. Holding companies are allowed to exclude participations in companies that cannot be considered as non-operating companies.

There are also other causes of automatic exclusion or disapplication.

Finally, the non-operating companies rules also do not apply in the event of a positive response given by the inland revenue, following the request of disapplication (“questioning”) made by the taxpayer, based on the existence of specific extraordinary situations.

“Robin Hood tax”

An IRES tax surcharge applies to the following companies:

- whose revenue exceeds Eur 3 million and that declared taxable income higher than Eur 300,000 in the previous fiscal year, and
- that perform their main activities in the energy industries (e.g. research and exploitation of hydrocarbons ; oil refining, production and trading of petrol; production and sale of electricity; etc.).

The ordinary surcharge is equal to 6.5% (to be added to the 27.5% of IRES), although a 10.5% rate applies for the fiscal years 2011, 2012 and 2013.

3.3 Personal Income Tax (IRPEF)

This tax is personal and progressive.

The requirement for this tax is the possession of income, in cash or in kind, falling into one of the categories laid down by the law. The tax period corresponds to the calendar year.

3.3.1 Individuals liable for tax

The following subjects are liable for tax:

- Resident individuals for their worldwide income;
- Non-resident individuals, only for the income produced in Italy.

Residents in Italy are deemed to comprise individuals who, for most of the tax period, meet at least one of the following requirements:

- they are registered in the Italian registers of the resident population; or
- they are domiciled in the Italian State (domicile is the main place of business and interests of the individual, including the moral and social ones); or
- they are resident in the Italian State (ordinary residence, within the meaning of the Italian Civil Code).

3.3.2 Taxable basis

Tax is applied to the overall income, i.e. the sum of the income of each category.

The categories contributing towards forming the overall income are as follows:

- Income from land, relating to lands and buildings situated in the Italian territory;
- Income from capital investments;
- Income from employment;
- Self-employment Income;
- Business income;
- Other incomes (not included in the other categories and specifically listed by the law).

3.3.3 Tax calculation

Once the gross overall income has been determined, any deductions laid down by law are applied. The gross tax is calculated by applying the increasing rates by income increments to the net overall income.

The rates currently in force (year 2013) are as follows:

INCOME LEVEL	RATES
Up to Eur 15,000	23%
From Eur 15,001 to Eur 28,000	27%
From Eur 28,001 to Eur 55,000	38%
From Eur 55,001 to Eur 75,000	41%
Exceeding Eur 75,000	43%

As regards years 2012 and 2013, a temporary solidarity surcharge of 3% applies to individuals with annual income exceeding Eur 300,000.

For tax calculation purposes, taxable income deductions are provided for on overall income; moreover, there are some tax deductions, usually equal to 19% of the charge borne, reducing the gross taxation as calculated.

3.3.4 Regional and Municipal IRPEF surcharges

In addition to the tax calculated, there are some payments to be made to the local authorities (Region and Municipality) in which the taxpayer is resident:

- a regional surcharge whose yearly rate, decided annually by the relevant Region, falls between a minimum of 1.23% and a maximum of 2.23% ;
- a municipal surcharge , determined by every municipality at a yearly rate not exceeding 0.9%.

3.4 Taxation of non resident.

According to article 2 of the Income Tax Act, and as it has been already said in previous paragraphs 3.2. and 3.3., taxpayers of the individual income tax “are the individuals that are resident and non-resident in the territory of Italy” and about the residence, the law explains that “residents are the individuals that for most of the tax year are recorded in the registers of the population residing in Italy or that have in Italy a domicile or a residence according to the civil code.”

Therefore, if an individual is not recorded in the registers of the population residing in Italy or is not domiciled or residing in Italy, according to the civil code, such individual is considered a non-resident. In this regard, it is appropriate to underline that the notion of “domicile,” under the Italian legislation, refers to the place where an individual has established the main place of his/her business and interests, included their personal business.

Under article 3 of the Income Tax Act, the tax base for the individual income tax depends on the residence. In particular, as above said, for residents, the tax base is the total income of the individual, calculated on all the incomes earned regardless of the place of production (world wide income taxation principle); on the contrary, for non-residents, the tax base consists of just the income earned in Italy (source income taxation principle).

Obviously, in such case, the risk for a non-resident is to suffer a double taxation, that can be levied by his/her State of residence, or by a double tax conventions signed between Italy and the residence State that provides the exemption of the income earned abroad in the residence State or that provides a tax credit to use in the residence State. In this regard, it should be noted that the Italian legislation allows the taxpayers to choose to apply the double tax conventions instead of national legislation. In particular, article 169 of the Income Tax Act regulates that “if more favourable for the taxpayer, the provisions of the Italian Income Tax Act are applied even in derogation of international tax treaties”.

Therefore, in absence of a double tax convention, or in case of choice to not apply double tax conventions, a non-resident taxpayer will be subject to the Italian taxation.

Notwithstanding the above, in Italy a non-resident taxpayer may be subject to the following taxes:

- Personal income tax (and some surtax related to the income tax);
- Taxes on real estate.

If a non-resident taxpayer produces income in Italy, he/she shall submit a tax return in relation to the personal income tax (called "IRPEF") and shall pay the relevant taxes. In addition, if he/she owns real estate, he/she shall pay the real estate taxation (called "IMU") and some other local taxes.

In particular, the incomes produced by non-residents are taxable in Italy if they derive from:

- a self-employed job, an employee, an enterprise activity, etc.;
- pensions and other allowances (for instance, maternity benefit; etc.);
- real estate in Italy.

In the first two cases, who pays the salary, or the fee, shall withhold a rate of 30% that will correspond to the taxation in Italy, according to art. 25 of D.P.R. 600/1973. In such cases, the non-resident taxpayer may ask his/her resident State to obtain a tax credit in order to eliminate (or reduce) the suffered double taxation.

In relation to the income derived from dividends paid to a non-resident taxpayer, on the dividends the payer shall apply a withholding tax of 27%. Such withholding tax is reduced to 1.375% if the dividends are paid to entities which are subject to a corporate income tax in EU Member States or in European Economic Area's States included in a list issued by the Italian Ministry of Finance. In this regard, it should be pointed out that, according to Art. 27-bis of D.P.R. 600/1973, the non-resident company which has shareholding not less than 20% in the company that distributes profits, can ask, and has the right to obtain, the reimbursement of the withholding taxes if the non-resident company is an EU parent company of the subsidiary, under the EU legislation (Directive 435/90/CE) and has some requirements provided by the Italian law, i.e.,

- the parent company resides in an EU Member State and it cannot be considered resident in a non-EU Member State under the rules of a Double Tax Conventions signed with a non-EU Member State;
- is subject to one of the taxes indicated in the above-mentioned EU Directive;
- has had shareholding for more than 12 months.

We should also note that there are other reduced withholding taxes (11%) in case of profits distributed to pension funds located in EU Member States or in European Economic Area's States included in a list issued by the Italian Ministry of Finance. In addition, if the non-resident taxpayer carries on his/her business activity through a permanent establishment in Italy, it should be noted that all the income produced in Italy shall be taxed according to the corporate income tax, because in such case the permanent establishment is considered an Italian company. Obviously, even in this situation, if the non-resident taxpayer will suffer a double taxation, he/she may ask his/her resident State to eliminate (or reduce) it with a tax credit.

3.5 Withholding taxes.

As mentioned in the previous paragraph, usually non-resident taxpayers are subject to a withholding tax applied to incomes produced in Italy.

Such withholding tax, and especially its rate, depends on the nature of the incomes and also on the presence of double tax conventions signed between Italy (as source State) and the State where the non-resident taxpayer resides. In fact, in this latter situation, the rate of the withholdings is different from the rate provided by the Italian legislation (explained above). In this regard, it should be noted that the withholding taxes provided by the Double Tax Conventions are applied for dividends, royalties and interests, according to the OECD Model Tax Conventions.

In particular, the main withholding taxes applied under the Double Tax Conventions signed by the Italy are the following:

DTC signed between Italy and	Withholding tax rate for dividends	Withholding tax rate for royalties	Withholding tax rate for interests
Albania	10	5	5
Algeria	15	5 - 15	15
Arabia Saudita	5 – 10	10	5
Argentina	15	10 – 18	20
Armenia	5 – 10	7	10
Australia	15	10	10
Austria	15	10	10
Azerbaijan	10	10	5 – 10
Bangladesh	10 – 15	10	10 – 15
Belgio	15	5	15
Bielorussia	5 – 15	6	8
Brasile	15	25 – 15	15
Bulgaria	10	5	
Canada	5 – 10 – 15	5 – 10	10
Cina	10	10	10
South Korea	10 – 15	10	10
Ivory Cost	18 – 15	10	15
Croazia	15	5	10
Denmark	0 – 15	5	10
Ecuador	15	5	10
Egypt	20	15	25
United Arab Emirates	5 – 15	10	
Estonia	5 – 15	5 – 10	10
Etiopia	10	20	10
Russian Federation	5 – 10		10
Philippines		15 – 25	10 – 15
Finland	10 – 15	5	15
France	5 – 15	5	10
Georgia	5 – 10		
Ghana	5 – 15	10	10
Germania	15	5	10
Japan	10 – 15	10	10
Jordan	10	10	10
Greece	15	5	10
India	15 – 25	15	20
Indonesia	10 – 15	10 – 15	10
Ireland	15		10
Iceland	5 – 15		5
Israel	10 – 15	10	10
Kazakhstan	5 – 15	10	10
Kuwait	25	10	
Latvia	5 – 15	5 – 10	10
Lebanon	5 – 15		
Lithuania	5 – 15	5 – 10	10

Luxemburg	15	10	10
Macedonia	5 – 15		10
Malaysia	10	15	15
Malta	15	10	10
Mauritius	5 – 15	15	
Mexico	15		15
Moldova	5 – 15	5	5
Mozambique	15	10	10
Norway	15	15	5
New Zeland	15	10	10
Oman	5 – 10	10	5
Nederland	5 – 10 – 15	5	10
Pakistan	15 – 25	30	30
Poland	10	10	10
Portugal	15	12	15
Qatar	5 – 15	5	5
United Kingdom	5 – 15	8	10
Česká republika	15	5	
Slovenská republika	15	5	
Romania	10	10	10
Senegal	15	15	15
Siria	5 – 10	18	10
Singapore	10	15 – 20	12,5
Republika Slovenija	5 – 15	5	10
Spain	15	4 – 8	12
United States of America	5 – 15	5 – 8	10
South Africa	5 – 15	6	10
Sweden	10 – 15	5	15
Switzerland	15	5	12,5
Tanzania	10	15	15
Thailandia	20 – 15	5 – 15	10
Trinidad e Tobago	10 – 20	5	10
Tunisia	15	16 – 5	12
Turkey	15	10	15
Ukraina	5 – 15	7	10
Uganda	15	10	15
Ungheria	10		
Uzbekistan	10	5	5
Venezuela	10	7 – 10	10
Vietnam	5 – 10 – 15	10	10
Zambia	5 – 15	10	10

However, it must be stressed that not all the above-mentioned incomes are subjected to a withholding tax, because the application of such withholding tax depends on the existence of some requirement provided by every single Double Tax Conventions. So, it is clear that before applying the withholding tax it is necessary to verify the provisions of the Double Tax Convention signed between Italy as source State and the State where the non-resident taxpayer resides.

3.6. Value added tax (VAT), registration tax and inheritance and gift tax.

3.6.1. V.A.T.

Operations liable for VAT

VAT (or “Imposta sul Valore Aggiunto” – IVA) is a general tax on consumptions, which applies to supplies of goods or services effected for consideration within the territory of the Italian State in running business or in practicing arts and professions, as well as on imports of goods from non-EU countries, made by anyone.

VAT is applicable to a given transaction which meets the following conditions:

- 1) it must be transfers of goods or provisions of services;
- 2) the aforesaid operations must be carried out by a taxable person acting as such. “Taxable person” shall mean any person who independently carries out in any place activities of producers, traders, and persons supplying services including mining and agricultural activities and activities of professions;
- 3) the aforesaid operations must be effected in the territory of the Italian State. For VAT purposes, “Italy” is considered to be the territory of the Italian Republic, excluding Livigno, Campione d’ Italia, and the waters of Lugano Lake.

In the event that one of these conditions is missing, VAT shall not apply on the relating transaction.

An exception to this rule is represented by imports, which are always taxed, regardless of the party who carries out the transaction.

Rates applicable

General rate is 22%, with reduced rates of 10% (e.g. tourism services, certain foodstuffs or special operations of building restoration, etc.) and 4% (e.g. food, newspapers and magazines, etc.).

Measures

Registration for VAT purposes

If a person (individual, partnership, limited liability company) intends to carry out a transaction that falls within the scope of VAT, it is required to apply for an Italian VAT number before implementing the operation.

For non-residents, the application of VAT is set as following:

1. if the foreign operator has a permanent establishment in Italy, it should apply for an Italian VAT number and take all necessary measures provided by law for resident taxable persons;
2. if the foreign operator does not have a permanent establishment in Italy, it may alternatively:
 - appoint a tax representative for the purposes of VAT;
 - identify itself directly in Italy for VAT purposes (if resident in one of the EU countries or in one of the non-EU countries with which Italy has arranged reciprocal assistance agreements with regard to indirect taxation).

The appointment of the tax representative or direct identification should follow a special procedure and should be notified to the other contracting party before making the first relevant operation for the purposes of Italian VAT.

Taxpayers’ obligations

Italian regulations lay down very detailed rules on the following:

- Procedure and timing for the issue of invoices;
- Content of invoices;
- Procedure for the registration of invoices issued and received;

- Procedure for the issue of credit and debit notes;
- Calculation of VAT payable;
- Periods of settlements and payments of VAT;
- Procedure for the completion and submission of VAT returns;
- Retention and submission of Intrastat lists for operations conducted with other EU persons;
- Conditions and procedure for requesting the reimbursement of any VAT credits.

A person with an Italian VAT number is required to submit a VAT return in Italy once a year. The obligation still remains when no relevant operations for VAT purposes have been conducted during the year. There are a few special cases that are exempt from this obligation.

Other VAT systems

Special VAT systems

There are several special VAT systems that apply to anyone operating in particular sectors of activities (e.g. agricultural producers, publishers, travel and tourist agencies, etc.)

Customs and VAT warehouses

Special rules provide the conditions to be able to set up and use customs warehouses where products are held without payment of custom duties and VAT until they are removed from the warehouse and VAT warehouses (where products are held without payment of VAT only).

Group VAT settlement

Groups of national companies are able to make group VAT payments, offsetting the VAT debits and credits of the various companies. In certain conditions a EU holding is also eligible for the above indicated procedure with reference to his Italian subsidiaries.

3.6.2. Registration tax

Registration tax applies to documents. Accordingly, if no formal documents exist, it shall not apply. In particular, the tax must be paid for documents in relation to which registration is mandatory and documents that are voluntarily registered.

Documents concerning estate or assets formed in writing in Italy, verbal contracts, documents relating to corporate transactions and documents stipulated abroad that have the purpose of constituting or transferring real rights on intangible assets or companies located in Italy, the lease or rent of such assets are compulsorily registered.

With regard to the time at which the obligation to register an instrument arises, a distinction is made between documents subject to registration “within a specified period”

and documents subject to registration only “in the event of use”.

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

Persons liable for taxes and periods

Persons required to apply for registration include the parties to the contract, notaries and public officers and the clerks and employees of the inland revenue.

For documents subject to registration “within a specified period”, registration must be completed within 20 days as from the date of the document (60 days if the document is drawn up abroad) or 30 days for the leasing of immovable property in Italy. For documents subject to registration “in the event of use”, registration must only be carried out if the documents are deposited at court clerk’s offices for the purpose of administrative responsibilities, or with Public Administration offices, territorial public entities and relating supervisory entities.

Application of tax

Tax is settled by the competent tax office through the application of a rate determined by the value of the registered document, or by the service provided therein. The rate is stated in the “rates sheet” attached to the Presidential Decree 131/86.

In any case, tax determined in this way cannot be less than 200.00 Euro (effective from January 1st, 2014).

For documents relating to the sale of assets and provision of services subject to VAT (including non taxable provisions due to the lack of territorial premises and exempt), the tax is always applied as a fixed amount. An exception to the above is represented by the leasing of instrumental assets that although subject to VAT, pay registration tax proportionally (1%).

The tax must be paid to the Inland Revenue at the time of requesting registration. Public officials who have drawn up, received or authenticated the document, subjects in whose interest the registration is completed (contracting parties or assignees) and real estate agents are all liable for the payment of taxes.

Concessions

Deeds of purchase, relating to non-luxury residential buildings, drawn up by individuals setting up residence therein, are subject to the reduced rate of 2% (effective from January 1st, 2014).

Deeds for the purchase of property of historic or artistic interest are subject to the reduced rate of 3%.

The transfer of agricultural land to persons who are agricultural businessmen or agricultural cooperatives/associations are subject to the reduced rate of 8%.

3.6.3. Inheritance and gift tax.

Tax is applied to the transfer of assets and rights “mortis causa”, by donation, free of charge and on the setting of restraints on destinations (estate fund, trust, etc).

The tax due is calculated using a combined system of rate and different allowances depending on the degree of relationship between the assignee and the assignor.

In details:

SUBJECTS	ALLOWANCE	TAX RATE
Spouse and relatives in direct line	€ 1.000.000	4%
Brothers and sisters	€ 100.000	6%
Other relatives up to the 4th degree, similar in direct line and similar side lines up to the 3rd degree	-	6%
Other subjects	-	8%

A special allowance of 1,500,000 Euro has also been introduced for transfers to subjects with a recognised serious disability, pursuant to Law 104/1992.

Transfers made via “family pacts”, to spouses and descendants, of companies, company branches, company shares and stock are also exempted from inheritance and gift tax. In the event of capital company shares and stock, the benefit is only for shareholdings which provide a majority holding in the votes to be exercised in an ordinary shareholders’ meeting. Exemption is applied on the condition that the assignees continue with the enterprise or maintain control of the company for a period of at least five years.

Formal obligations

Inheritance declaration must be presented to the relevant local Inland Revenue Office (of the fiscal residence of the de cuius) within 12 months of his death. Heirs, legatees, estate executors for remaining inheritance and estate administrators must present the declaration. The office will settle taxation based on the information declared and notifies the amount to the obligees. Payment must be made by heirs and legatees within 60 days.

Gifts must be registered according to the dispositions foreseen for registration tax. Request for registration must be filed to the Inland Revenue office by the notary public drawing up the document. The tax must be paid as of registration request and is proportional to the overall value of activities, net of any debt or other liability related to assets and rights resulting from the document.

With reference to inheritance and gift tax many treaties are currently in force.

3.7 Real estate taxation

3.7.1 Income from owning and renting immovable property

For individuals, income deriving from the ownership, use or other real rights to immovable properties is subject to tax based on their revalued cadastral value, depending on the period of possession during the calendar year, the percentage of possession and the type of use made of the property. This income contributes to forming the overall income chargeable to tax of the holder according to the general rules (see paragraph 3.3). If the owner’s principal residence is in the property, the relevant income is not taxed.

All income from property belonging to companies or relating to commercial businesses assumes the nature of business income and contributes towards forming the overall income (see paragraph 3.2).

Income from property rental contributes towards forming the overall income of the holder.

In particular, income from non-instrumental property contributes towards forming the business income based on the cadastral value or, if rented, based on the rent received.

Individuals, as an alternative of the general rule of taxation of income from property rental, only for housing properties, may opt for a flat tax (“cedolare secca”) levied on the revalued cadastral value of the property at the rate of 19% or 21% depending on the type of rental contract.

3.7.2 Property rental indirect taxes

Rental contracts should be registered within 30 days and are subject to the application of proportional registration tax, amounting to 2% of the annual rent (1% for instrumental property) with a minimum of € 67; all property leasing and rental contracts of any amount must be registered, whenever they are arranged for a total period of more than 30 days in the year.

For contracts subject to VAT, the registration tax is due at the reduced rate of 1% for instrumental properties or fixed (€ 168 until 31st December 2013) for housing properties.

3.7.3 I.M.U. (Municipality real estate tax)

The municipalities levy a tax on immovable property owned both by individuals and by commercial entities. The rate ranges from 0.4% to 0.76%, depending on the type of property and the municipalities where the asset is located, and calculated on the basis of the revalued cadastral value of the property (or, for companies, from the book value of the asset if the cadastral value is not available). Individual's main residence are exempt from the tax. Special tax provisions and/or exemptions are granted for agricultural land and property, for assets owned by the State and other institutional entities and by non-profit organizations.

For commercial organizations, the Municipality real estate tax is not deductible both for corporate income tax and for Regional tax (IRAP) purposes.

I.M.U. and IRPEF are alternative ,i.e. for vacant properties (including those loaned and those used by the professional mixed use) is only due the IMU, while for those leased or rented are due to both the IMU and the personal income tax.

3.7.4 Taxes on property transfer instruments

Instruments transferring property are subject to the payment of both indirect (VAT, registration, land and mortgage tax) and direct taxes. Indirect taxes are determined proportionately based on the purchase price of the property itself.

If the vendor is a private individual, indirect taxes payable on the sale/purchase are as follows:

VAT	n/a
Registration tax	7% (3% if first house)
Mortgage tax	2% (Euro 168 if first house)
Land tax	1% (Euro 168 if first house)

For individuals, the capital gain made on the transfer of property is taxed only if the possession of the house, or the land has been held for less than five years.

If the vendor is a commercial organisation, indirect taxes payable on the sale/purchase are as follows:

Sale of housing property:

VAT	4-10-22% or exempt (depending on the type of house, there are exceptions)
Registration tax	7% (3% if first house, fixed amount if VAT is applicable)
Mortgage tax	2% (fixed amount if first house and if VAT is applicable)
Land tax	1% (fixed amount if first house and if VAT is applicable)

Sale of instrumental property:

VAT	22% or exempt
Registration tax	fixed at 168 euro
Mortgage tax	3%
Land tax	1%

For sale at business to business level, in some cases the "reverse charge" is the general rule.

For commercial organisations, the capital gain made on the transfer of property is always part of its profit chargeable to tax.

From the 1st of January 2014, are provided for major changes in the taxation of real estate that will profoundly change the rules currently in force.

3.8 Tobin Tax

3.8.1 Introduction

Tobin Tax, named after the economist James Tobin who first proposed it, it's a new tax on financial transactions.

It has been introduced by the Law of 24th December 2012, n. 228 (named also "Stability Law 2013") with effect from 1st March 2013, for certain types of transactions and from 1st September 2013, for the remaining.

3.8.2 Subject Matter

As mentioned in Article 1, paragraphs 491 to 500 of the Law, the Tobin Tax is applied to any financial transaction involving the ownership transfer of:

- shares or other equity instruments issued by companies based in Italy; or any other financial instrument representative of them (for example: deposit certificate) regardless of the issuer location;
- derivatives concerning shares or other equity instruments issued by companies based in Italy; or any other financial instrument representative of them regardless of the issuer location;
- "high-frequency" operations of the same financial instruments as described in the two previous points; which basically means transactions generated by an automatic algorithm that determines decisions related to sending, deletion and modification of orders, with a minimum interval (not more than half of a second).

3.8.3 Taxable Persons

Taxpayers are different depending on the above type of financial transaction.

Transactions of shares and other equity instruments:

Tobin tax is payable by the buyer regardless of his residence or the place of contract conclusion.

Transaction of derivative financial instruments:

The taxable persons are the counterparties of the transactions regardless of their residence or the place of contract conclusion.

"High-frequency" transactions:

The tax is payable by the person on whose behalf the orders are executed.

However the payment is made by banks or trust corporations authorized to perform professional services and investment activities.

3.8.4 Tax Base And Tax Rate

Transactions of shares and other equity instruments

Tobin Tax is payable pro-rata on the transaction value, with different rates over time:

2013	From 2014	Notes
0,22%	0,20%	Transactions not made on regulated markets
0,12%	0,10%	Transactions made on regulated markets

Transaction of derivative financial instruments

Different fixed tax rates are applied depending on the type of instrument and the notional value of the contract.

"High-frequency" transactions

The tax base in the case of operations involving "high frequency" is the value of canceled and modified orders exceeding the threshold of 60 per cent compared to the value of entered orders, concerning the specific financial instrument and for each trading day .

The tax is applied at the rate of 0,02%.

3.8.5 Payment Deadline

The tax payment must be made within the day 16th of the month after the transaction date.

3.9 Assessments and tax litigations

3.9.1 Assessments

In Italy, taxpayers settle the tax due independently, by means of the Income Tax Return. The Tax Authorities' interventions are thus only aimed at adjusting inaccurate returns or deal with their failed submission. Tax assessments may focus on any or all elements of the Italian tax system: both direct and/or indirect taxes and national and/or local taxes.

In general, all taxpayers may be subject to assessment. Nonetheless, the system may provide for more detailed checks if and where a greater risk of tax evasion has been statistically registered.

The monitoring activity over the aspects above mentioned has been assigned to the Italian Tax Police and the Italian Revenue Agency.

In particular, the Italian Revenue Agency performs all control activities through its territorially competent offices, according to the taxpayer's residence/tax domicile; larger taxpayers, with revenues exceeding 100 million euro, are subject to investigation by the Regional Directorates of the Revenue Agency. The Italian Tax Police, apart from having similar powers to the Revenue Agency, performs investigations on more serious cases of tax evasion.

The revenue inspection consists in two different types of verification activities: "formal" and "substantive inspection".

The so-called "formal inspection" consists in verifying the consistency of the data entered by the taxpayer in the income tax return with the data indicated in previous years and with data that come from other parties' returns (withholding agents, banks, insurance companies, etc..).

On the other hand, the "substantive inspection" is an additional and more in-depth assessment that the Revenue Agency may be led to perform so as to assess potential anomalies encountered or make controls according to selective lists or voluntary initiatives.

The tax check can be performed by accessing the premises or place where the taxpayer conducts his/her/its business; the outcome of this operation is detailed in a Report of Verification (it. "Processo Verbale di Costatazione" - PVC). Moreover, inspections and document verifications can be made at the premises of the competent Revenue Agency office.

In the case of "formal inspection", the potential assessment must take place by December 31st of the 2nd year following the year of submission of the Income Tax Return.

As for the "substantive inspection", the terms for the assessment are as follows:

- if the return was submitted, by December 31st of the 4th year following the submission;

- in case of failed submission or null return, by December 31st of the 5th following the year in which should have been submitted.

Moreover, if the breaches constitute a tax crime (i.e. cases of inaccurate or omitted return, issuance of invoices for non-existent transactions or failed payment of VAT for more than 50,000 euro), the terms here above are doubled.

The substantive inspection may give rise to the following types of assessment:

- Analytical Assessment: the Tax Authorities rebuild and possibly correct the overall taxable income of the taxpayer, taking into account every single income component.
- Inductive Assessment: provides the Revenue Agency with the possibility, in certain cases (regardless of the accounting records), to determine the taxable income on the basis of presumptions.

This assessment type also includes findings from “Studi di Settore” (Activity Category Models), a tool which, based on statistical analysis, verifies the consistency of the reported revenue and expenses borne with respect to predetermined parameters, broken down by commodity sector.

- Partial assessment: it is a control tool applied only to certain income of the taxpayer, as well as to VAT, with the possibility of later extending it to further investigations.

At last, Synthetic Assessment, in certain cases, aims to newly determine the total income of individuals, based on the purchasing power manifested by the person, through the ownership or use of goods or services (“spesometro” and “redditometro”).

In particular, the “Spesometro” allows to assess the spending capacity of taxpayers without the use of any benchmark, while the “Redditometro” is a method based on the application of specific coefficients which allow to estimate the income.

Following the "substantive inspection" phase, the Tax Authorities claim and support the adjustments made by means of a specific deed called Notice of Assessment (“Avviso di Accertamento”) in which detailed information as to the higher tax claimed and related penalties is provided.

Here below you may find the main penalties applied in case the declared income is lower to the one assessed:

Tax	Rate	Penalties
IRES (Corporate income tax)	27,5%	From 100% to 200% of the higher tax
IRAP (Regional tax on productive activities)	Base 3,9%	From 100% to 200% of the higher tax
IRPEF (Personal income tax)	Brackets from 23% to 43%	From 100% to 200% of the difference
IVA	4% 10% 22%	From 100% to 200% of the tax relating to the tax base challenged

After the assessment phase, if the taxpayer does not make the payment voluntarily, the Revenue Agency uses a Collecting Agency (at present, Equitalia Spa).

The collection procedures are detailed here below.

- entry in the tax roll and notice of payment : consists of lists in which the Revenue Agency enters debtor taxpayers with the respective amounts due. Such registration is followed by the issuance of a formal notice of payment. The relating payment must be performed within 60 days, unless opposed.
- executive assessment notice: enforceable notices of assessment issued on or after October 1st, 2011 in relation to VAT and income tax, relating to tax years from 2007 onwards, that do not need notification of payment order. The relating payment must be performed within 60 days.

In case of temporary objective difficulty to pay, an extension may be requested. Moreover, in case of exceptional circumstances, the instalment of the collection may be granted for no more than 72 months (in specific cases no more than 120 months).

It should be considered that both the executive assessment notice and the roll (notified with payment order) represents the necessary writ of execution for the compulsory expropriation once the 60 day payment period has expired.

3.9.2 Tax litigations

Generally, in the case of notification of verification notices issued by the Tax Authorities and/or payment orders, the taxpayer has the right to appeal, as part of the tax litigation process.

Tax litigation is entered into by the taxpayer's appeal to the Provincial Tax Commission and consists of the contestation of the imposition deeds issued by the Tax Authorities.

Subsequently, the taxpayer can appeal both before the Regional Tax Commission.

In case of Regional Commissions' rulings, an appeal may be submitted to the Supreme Court.

Finally, in the presence of specific and serious reasons, the judgments in appeal may be revoked.

Since the first stages of the tax trial, the parties must be assisted by qualified defenders (either CPA or lawyers).

In certain cases, the law provides for the possibility to define or prevent disputes with the tax authorities without initiating litigation, but by taking some alternative action instead, as exemplified here below:

- The first procedure consists in accepting the Report of Verification (it. "Processo Verbale di Constatazione" - PVC) by which the taxpayer can obtain a reduction of penalties of 1/6 of the minimum amount determined for the specific violation.
- Alternatively, there is the possibility of acceding to cross-examination, by which the taxpayer has the right to define the opposition even before initiating litigation, by accepting the information contained in the invitation and benefiting from a reduction of 1/6 of the minimum penalty.

- In addition, a tax settlement may be made in order to reach an agreement with the tax authorities for a reduction of the tax due and of the relevant penalties before issuing an explicit tax request or after the receipt of a notice of assessment or adjustment.
- An additional tool is the acquiescence (“acceptance of the judgement”), by which the taxpayer may choose to pay the additional amounts claimed, benefiting from the reduction of the sanctions (1/6 or 1/3), provided that he/she/it waives the appeal.
- Finally, by Judicial Settlement, the parties may negotiate the taxes and civil penalties due, without benefitting from the 2/5 reduction of the financial penalties that may be imposed.

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