This report provides helpful information on the current business environment in Italy. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on the Italian Republic

Contents

RBC Royal Bank®

Important to Know

Official language

- Italian

Currency

- Euro (EUR)

Bank holidays

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December	8, 25, 26

Source: www.goodbusinessday.com.

Types of Business Structure

Under Italian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established.

Limited by share company

SpA (*Società per azioni*). This is a company whose shareholders' liability is restricted to the amount of their investment. Its shares are tradable on a public stock market. The minimum share capital required is EUR 120,000.

Limited liability company

Srl (*Società a responsabilità limitata*). This is Italy's most popular business structure. This is a company that operates as a legal entity separate from its owners and shareholders. Its shares are not tradable on a public stock market. The minimum share capital required is EUR 10,000.

General partnership

Snc (*Società in nome collettivo*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Ordinary limited partnership

Sas (*Società in accomandita semplice*). In a limited partnership, some partners enjoy limited liability (limited partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

Sapa (*Società in accomandita per azioni*). A partnership limited by shares allows some partners (limited partners) to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Cooperatives

A cooperative is a registered legal entity that is owned and controlled by its members, who have equal voting rights.

Other organizational types

Italian companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europeae* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and Representative Offices

Non-Italian companies are entitled to establish a branch or a representative office in Italy. A branch's activities are subject to Italian company law, although it is considered part of the company's head office and thus not a separate legal entity. They require no minimum share capital. The parent company bears unlimited liability for their debts. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Italy.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in Italy or have its headquarters located in Italy.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EUR) accounts outside Italy and foreign currency accounts both within and outside Italy.

Non-residents are permitted to hold local currency and foreign currency accounts in Italy.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder.
- Financial institutions, in the broadest sense (with the exceptions of credit reference services), are required to record and report to the Financial Intelligence Unit (FIU) suspicious transactions plus all occasional transactions above EUR 15,000 or several transactions aggregating to EUR 15,000.
- All cross-border transactions involving suspicious, non-declared or falsely declared currency and other bearer instruments must be reported.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Banking services are subject to the standard VAT rate of 20%.

Payment and Collection Instruments

Electronic funds transfers are the leading cashless payment method by value. They can be initiated using Internet and other electronic banking facilities. Non-urgent, direct credit transfers are increasingly the preferred payment method used to make payroll payments, with enterprises increasingly using third-party payroll agencies.
Non-urgent credit transfers are also a popular method of payment for business-to-business (B2B) transactions. Card payments are the popular payment method of cashless payments by volume and are frequently used for consumer transactions; debit cards are more popular than credit cards. Direct debits are used for B2B payments, but are most often used by utility and insurance companies to collect domestic payments. Cheque usage has been declining in recent years; however, usage among small businesses in particular remains widespread.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (EUR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	426.38	384.93	– 9.7	1,167.06	1,092.70	– 6.4
Debit card payments	825.35	873.31	5.8	76.57	80.96	5.7
Credit card payments	503.91	522.61	3.7	52.36	56.52	7.9
Funds/Credit transfers	1,094.72	1,062.86	– 2.9	7,134.02	7,363.84	3.2
Direct debits	508.79	554.08	8.9	332.72	345.23	3.8
Card-based e-money	49.57	72.56	46.4	3.38	4.58	35.5
Other payment instruments	351.54	345.87	– 1.6	821.28	819.96	– 0.2
Total	**3,760.26**	**3,816.22**	**1.5**	**9,587.38**	**9,763.79**	**1.8**

Source: ECB Payment Statistics, December 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account, to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (EUR-denominated)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA transfers	Settlement in real-time with immediate finality	17:00 CET
Non-urgent, low-value domestic consumer payments	Payments are usually cleared in 2-3 days	16:30 CET
Non-urgent intra-EEA credit transfers	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 22:00 CET for next-day settlement Individual credit transfers = 14:30 CET for same-day settlement SEPA credit transfers = 13:00 CET for same-day settlement or 01:00 CET for overnight/next-day settlement Consumer direct debits = 11:00 CET for same-day settlement B2B direct debits = 12:00 CET for same-day settlement

Central Bank Reporting

The Banca d’Italia requires a representative sample of around 7,000 resident companies to directly report all their payments with non-residents exceeding EUR 50,000 on a periodic (monthly, quarterly or annual) basis.

Exchange Arrangements and Controls

Italy applies few exchange controls. There are some restrictions on foreign investment in certain sectors.

Cash and Liquidity Management

Physical cash concentration is the more common liquidity management technique employed in Italy. Italian companies tend to maintain more bank relationships than other western European countries, so managing cash between banks is often their primary objective.

Physical cash concentration

Physical cash concentration is available from all large Italian and international banks. Resident and non-resident companies (including accounts held in the name of different legal entities) can participate in the same cash concentration structure. Banks usually apply percentage-based charges on transfers between resident and non-resident accounts. Italian-based bank accounts can be included in cross-border liquidity management structures.

Notional cash pooling

Notional cash pooling is not usually practised for fiscal reasons.

Short-term Investment

Bank instruments

Interest-bearing current accounts are available. Banks offer time deposits in EUR and foreign currency for terms ranging from overnight up to one year. Banks also issue both fixed and floating rate certificates of deposit (CDs) in major currencies, for terms ranging from three months up to five years.

Non-bank instruments

Some domestic companies issue domestic commercial paper (*cambiale finanzaria*), for terms ranging from three months up to one year, although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although ECP is usually issued for shorter periods. For *cambiale finanzaria*, the minimum investment required is EUR 50,000.

The Department of Treasury issues Treasury bills, usually with maturities of three, six or 12 months.

Italian companies have access to money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Italy to both resident and non-resident companies. Banks will usually charge their prime rate for overdrafts and 50 to 125 basis points below their prime rate for credit and loans.

Non-bank

Larger companies issue commercial paper both into the domestic and ECP market. Issues into the ECP market require a rating. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Commercial bills (*cambiale tratte*) and bills of exchange (*paghere commerciale*) can be discounted and factoring (with or without recourse) is used.

Taxation

Corporate Taxation

- Residents and non-residents are subject to national corporate income tax (IRES) and local income tax (IRAP).
- IRES is applied at a current rate of 27.5% to residents' worldwide income and non-residents' Italian-sourced income.
- Net losses may be carried forward for five years insofar as they cannot be set off against the net taxable profits of the current year. However, if a loss is derived in the first three tax years from the beginning of the company's business activity, it may be carried forward indefinitely. Losses may not be carried back.
- Specific IRES rules are provided for IAS/IFRS adopters (e.g. banks and listed companies). In particular, IAS/IFRS accounting rules prevail over the ordinary tax provisions in terms of qualification, timing and classification (the so-called "prevalence of substance over form").
- IRAP is applied at a current rate of 3.9%, though regional authorities may increase or decrease the standard rate by up to 0.92%. It is only levied on income derived from Italian-based activities.
- As the IRAP taxable base is different from the IRES taxable base, for many companies the actual rate tends to be higher.
- IRAP applies to entrepreneurs, professionals and artists. As a general rule, the taxable base is equal to the "value of the production," to be computed on the basis of the profit and loss account. Different rules apply for commercial and manufacturing enterprises and for banking and financial institutions. It is levied by the region where the business is established. In the case of several establishments, the tax would be apportioned between the various regions. For commercial and manufacturing enterprises, the taxable base is the difference between the value of the production in the tax year (i.e. gross proceeds plus the increase in inventory plus work in progress) and the costs of production (i.e. the costs of raw and other materials, the costs of services, the depreciation of tangible and intangible assets, the decrease in inventory of raw and other materials, provisions for risks, and miscellaneous costs).

Financial instruments

- Costs and revenues arising from hedging derivatives (futures, swaps, options, etc.) follow the tax treatment of the underlying transaction, while costs and revenues arising from trading derivatives are taxed autonomously and are fully deductible/taxable.

Interest and financing costs

- Italian tax legislation provides for a general anti-abuse provision according to which the Italian tax authorities may challenge the benefits which derive from acts, facts, and contracts that are not based upon valid economic reasons, aimed at circumventing obligations or prohibitions provided for by the tax law and at obtaining tax savings or reimbursements, which would otherwise not have been allowed.
- The above provision applies only where the taxpayer has made use of certain specific listed transactions, including the transfers of credits and any kind of transaction involving shares or financial instruments.
- In addition, the jurisprudence principle of the so-called “abuse of right” may be applied (i.e. a principle not stated by the law but developed in case law).

Foreign exchange

- Foreign exchange profit/loss deriving from credit or debt denominated in a foreign currency is fully taxable/deductible, irrespective of the primary or underlying transaction that generated it.
- Transactions expressed in foreign currency must be converted into euros at the exchange rate in effect on the day on which the transaction is deemed to have been carried out.
- Specific tax rules are provided for companies adopting a multi-currency accounting system, but no specific tax reports are required.

Advance Tax Ruling Availability

- Binding advance tax rulings can be applied for certain cases.
- Advance tax rulings can also be obtained in respect of the application of anti-avoidance rules.

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	0% or 27%	N/A	N/A	N/A
Non-resident companies	12.5% or 27%	1.375% or 27%	22.5%	N/A

- Interest payments between resident companies are not generally subject to withholding tax. However, a withholding tax of 27% is levied on short, medium and long-term deposits held by residents in banks.
- Interest on loans to non-residents bears a 12.5% withholding tax, unless the beneficiary is resident in a tax haven (as defined above), in which case the withholding tax is 27%. These rates may be reduced by tax treaties.
- Deposits and accounts held by non-residents are excluded from taxation in Italy.
- For domestic entities, there is no withholding tax on dividends.
- For payments to non-residents, the withholding tax on dividends is equal to:
  - 1.375% on dividends paid to listed entities that are EU resident; and
  - 27% on dividends paid to non-EU resident entities.
- These rates may be reduced by tax treaties. A zero-rate withholding tax can be applied by the EU Parent-Subsidiary Directive.
- There is no withholding tax on interest payments from resident to non-resident companies related to a current account, provided that a double tax treaty is in place and the non-resident company is not resident in a tax haven. Careful structuring will be required for cash pooling schemes to be considered eligible for such treatment.
- For interest and royalty payments between EU resident group companies, no withholding tax is applicable, provided certain conditions are met.

Capital Gains Tax

- A capital gain/loss is usually calculated by reference to the difference between the disposal proceeds or indemnity received, and the cost of the asset, net of tax depreciation, but including any revaluation or capitalized expenditure and any incidental costs of the acquisition and disposal.
- Capital gains deriving from the sale of shares and quotas held for investment purposes in resident and/or non-resident companies are exempt from IRAP taxation.
- Provided that certain conditions are met, capital gains realized on the sale of shares and quotas held for investment purposes are exempt from IRES for 95% of their amount.
- Capital gains/losses on the sale of other assets are included in trading income/losses and are taxed/relieved for IRES purposes in the period in which they are realized at a rate of 27.5%.
- Capital gains/losses on the sale of other assets are also relevant for IRAP purposes, unless they are of an "extraordinary nature."

Stamp Duty

- Stamp duty on the transfer of shares, bonds, and similar securities has been abolished.

Thin Capitalization

- From financial year 2008, interest expenses, net of any interest income, will be deductible up to an amount not exceeding 30% of the earnings before interest, taxes, depreciation and amortization and rental/leasing fees (EBITDA).
- If, in a fiscal year, the net interest expenses exceed this limit, the non-deductible excess is available to be carried forward (without limitation of timing) to offset the 30% of the EBITDA of another year that is not fully absorbed by the net interest expenses in the same period.
- From fiscal year 2010, in the case of companies included in a fiscal unity (tax consolidation system), the excess net interest expenses of a company can be offset against the portion of the EBITDA of another consolidated company that has not fully used its own net interest expenses allowance.
- Under the 30% EBITDA regime, it could be considered that foreign companies meet all the conditions to participate in the tax consolidation system, even though they are not actually a part of any tax group.
- Thin capitalization rules are applicable to holding companies.
- Thin capitalization rules do not apply to companies carrying out banking, financial and insurance activities. For such companies, interest expenses are deductible only up to 96% of their amount.
- In addition, Italian tax law provides for the non-deductibility of interest on intra-group loans from a non-EU connected

company domiciled in a country which has a "privileged tax system" (i.e. a tax haven), unless it can be proved that the transactions pass a "business purpose test."

- There is a pre-clearance option for taxpayers in respect of the application of this restriction.

Transfer Pricing

- Italy has transfer pricing rules that operate by reference to arm's length principles. Accordingly, intercompany transactions must be carried out at an arm's length price.
- Notwithstanding the transfer pricing legislation, where there are foreign affiliate companies resident in "tax havens" (i.e. non-EU countries where income tax is less than half the Italian tax on the same sources of income), expenses and costs incurred on intercompany transactions will be disallowable, unless it can be proved that the transactions pass a "business purpose test."

Sales Taxes / VAT

- VAT is levied on almost all goods and services. The standard rate is 20%, but lower rates of 4% and 10% apply to many services. VAT must be calculated on a monthly basis for subsequent payment to the tax authorities.

Financial Transactions / Banking Services Tax

- Mid to long-term financing transactions are exempted from (i) registration tax, (ii) stamp duties and (iii) cadastral taxes (a form of land value tax) where a substitute tax equal to 0.25% of the financed amount is paid.
- In this respect, in order to fall within the qualification of mid- to long-term financing, the financing operation must last for more than 18 months.

Payroll and Social Security Taxes

- Employers are liable for social security contributions at varying rates (from approximately 2% to 37% of the aggregate remuneration accrued in the relevant year), depending on the type and size of the business and the rank of the employee. These contributions are deductible for tax purposes.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

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