



# Setting up in Italy

## FACTS AND FIGURES

**Disclaimer:**

This document is intended for general guidance only. It cannot cover every situation and should not be used for decision making without professional advice. The authors accept no responsibility for loss arising from any action taken or not taken by anyone using this publication.



## Corporation Tax



**CORPORATION TAX IS A BUSINESS TAX PAID BY COMPANIES AND BRANCHES OF OVERSEAS COMPANIES ON PROFITS AND OTHER INCOME**

RATE FOR 2006	
STATE CORPORATE INCOME TAX (IRES)	27.50%
LOCAL CORPORATE INCOME TAX (IRAP)	3.90%

For IRAP purposes, some personnel costs and related payroll taxes are not deductible. However, advantages are available if the number of employees increases from one year to the other.

Some businesses (for example publishing companies) benefit from some tax credits.

All tax payments (including payroll taxes) may be offset with other tax credits, including VAT, under certain circumstances.

Corporation Tax Returns are filed within 10 months of the accounting date. Corporation Taxes are paid within six months (balance for the prior year and advance for the current year) and 11 months (second advance for the current year) of the accounting date.



# Payroll Tax



## EMPLOYERS ARE REQUIRED TO SET UP AN ITALIAN ENTITY TO EMPLOY PERSONNEL

EMPLOYEE: WITHHOLDING TAX/PERSONAL INCOME TAX	
GROSS ANNUAL INCOME (EUROS)	RATE
0 – 15,000	23%
15,001 – 28,000	27%
28,001 – 55,000	38%
55,001 - 75,000	41%
75,001 +	43%

Additional local income taxes are in the range of 1%

SOCIAL SECURITY CONTRIBUTIONS
9.5% of gross annual salary, including fringe benefits

EMPLOYER
SOCIAL SECURITY CONTRIBUTIONS
30% of gross annual salary, including fringe benefits
NATIONAL INSURANCE AGAINST WORK ACCIDENTS

Payroll taxes are payable by the 16th of the following month. Payroll taxes are summarized and reported to the pertinent authorities by the end of September each year, for the prior calendar year.



# Value Added Tax



## VAT IS A TAX ON SUPPLIES OF GOODS OR SERVICES

VAT RATES	
<b>STANDARD RATE</b> Most goods and services	20%
<b>REDUCED RATE</b> Most food, beverages and rents	10%
<b>LOWER RATE</b> Primary necessity products and medicines	4%

Businesses need to register and charge VAT on sales.

Registered businesses can recover VAT charged to them by suppliers, so the tax generally only sticks on unregistered businesses and consumers.

VAT is generally paid monthly or quarterly and the related return is filed by the end of October each year, for the prior calendar year.

EU Sales Lists are required giving details of cross border supplies of Goods and Services between registered businesses within the EU.

Further monthly analysis of Sales (Dispatches) and Purchases (Acquisitions) within the EU, down to the detail of weight of goods, is needed under the Intrastat System. This is known as Statistical Data. The annual threshold for Intrastat requirement is €10,000,000 for either Dispatches or Acquisitions.



# Accounts Filing



## COMPANIES

There are two main forms of international subsidiaries:

Joint Stock Company (S.p.A.), with a minimum share capital of €120,000

Limited Liability Company (S.r.l.), with a minimum share capital of €10,000 – this is the most common form.

The minimum capital requirement must be met at all times. If the minimum is impaired by losses, immediate recapitalization is required.

Accounts are filed within 120 days of accounting date on public record at the Register of Companies. Companies also file a Return which gives details of shareholders and directors, if there have been changes since incorporation and any year thereafter.

## SMALL COMPANIES AND AUDIT EXEMPTION

Companies are usually exempt from audit if two of the following three criteria are met:

SMALL COMPANIES ARE DEFINED AS FOLLOWS	
Revenues from sales and services	≤ €8,800,000
Total Assets	≤ €4,400,000
Employees	≤ 50

Companies with a share capital of less than E120,000 can take advantage of Audit Exemption, provided that two of the above limits are not exceeded for two consecutive years.

Small companies have reduced accounts disclosures available.



# Italian Subsidiary



## ... OR BRANCH OFFICE?

	SUBSIDIARY COMPANY	BRANCH OFFICE
<b>Status</b>	<ul style="list-style-type: none"> <li>Separate Italian legal entity</li> </ul>	<ul style="list-style-type: none"> <li>Presence in Italy of the overseas parent company</li> </ul>
<b>Control</b>	<ul style="list-style-type: none"> <li>Is controlled by its board of directors</li> </ul>	<ul style="list-style-type: none"> <li>Is directly controlled by the overseas parent</li> </ul>
<b>Corporate Liability</b>	<ul style="list-style-type: none"> <li>Overseas parent generally not liable (other than as a manufacturer of a product)</li> <li>Liability can be limited to share capital of subsidiary (minimum €10,000)</li> </ul>	<ul style="list-style-type: none"> <li>Overseas parent is directly liable</li> <li>Liability (in theory) to the extent of overseas parent's assets</li> </ul>
<b>Start-Up Requirements</b>	<ul style="list-style-type: none"> <li>Filing of incorporation documents</li> <li>Issue shares to overseas parent company</li> <li>Appoint directors</li> <li>All must be done before an Italian Notary Public</li> </ul>	<ul style="list-style-type: none"> <li>Filing of registration documents</li> <li>No shares to be issued</li> <li>A legal representative must be appointed. He/she need not be Italian or resident in Italy</li> </ul>
<b>On-going legal obligations</b>	<ul style="list-style-type: none"> <li>Maintain company books and registers</li> <li>Filings/registrations required for changes to by-laws or directors/ shareholders</li> </ul>	<ul style="list-style-type: none"> <li>No company books</li> <li>Limited filing obligations</li> <li>Annual accounts of parent to be filed</li> </ul>
<b>Accounting books</b>	<ul style="list-style-type: none"> <li>Full set of accounting books and tax registers to be maintained</li> <li>Annual corporate tax returns</li> </ul>	<ul style="list-style-type: none"> <li>Full set of accounting books and tax registers to be maintained</li> <li>Annual corporate tax returns</li> </ul>



## Italian Employees



LEGAL ISSUES	
Period of 'continuous' employment after which unfair dismissal rights acquired (trial period)	Varies in relation to the employee's level, from 30 days up to six months
Compulsory notice period	The party withdrawing from contract must file advance written notice. The period varies from 20 days to two months, depending on level of the employee. If the notice period is not worked, the withdrawing party must indemnify the other party
Compulsory employment	Employers with more than 15 employees are required to hire one or more employees listed in 'protected categories' (disabled, refugees, etc.)
Restrictions on hours worked by employees	40 hours per week. Overtime paid at higher rates, if worked during holidays or weekends
Minimum wages for employees (per month)	Between €1,100 and €1,200, dependant upon applicable National Labour Contract
Number of months for payroll purposes	13 or 14 dependent upon National Labour Contract (double pay in December and in June, if applicable)
Minimum paid vacation entitlement	26 days
Number of Italian employees which triggers a requirement for consultation on key issues	15
Severance indemnity *	Approximately one month's salary for each year of service

**\* Severance indemnity is to be paid to employee upon termination of employment for any reason (including employee resignation). The indemnity is revalued annually to reflect inflation.**