

International Tax Italy Highlights 2021

Updated January 2021



Recent developments

For the latest tax developments relating to Italy, see [Deloitte tax@hand](#).

Investment basics

Currency: Euro (EUR)

Foreign exchange control: There are no foreign exchange controls or restrictions on repatriating funds. Residents and nonresidents may hold foreign currency within and outside the country, and direct and indirect investments may be made in any currency. However, funds held outside Italy or repatriated to Italy without a bank intermediary must be declared for tax purposes.

Accounting principles/financial statements: Italian GAAP and IFRS/IAS apply. Financial statements must be prepared annually. Consolidated accounts must be prepared if certain thresholds are exceeded.

Principal business entities: These are the joint stock company (SpA), limited liability company (Srl), and branch of a foreign company.

Corporate taxation

Rates

Corporate income tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)
Branch tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)
Capital gains tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)

Residence: A company is resident for tax purposes if its legal seat, place of effective management, or main business activity is in Italy for the greater part of the fiscal period (i.e., at least 183 days, or 184 days in a “leap year”). A foreign company that holds a controlling participation in an Italian company is deemed to have its place of effective management in Italy and, therefore, to be resident in Italy for corporate tax purposes if the foreign company is controlled by an Italian resident or managed by Italian residents representing the majority of its board of directors.

Basis: Resident companies are taxed on worldwide income; nonresident companies are taxed only on Italian-source income. Italian branches of a foreign company are taxed in the same way as Italian subsidiaries.

Taxable income: Taxable income for a resident company or an Italian branch of a foreign company is business income, which consists of net income earned in a financial period. Business income encompasses all income derived by the company or branch, e.g., income from a trade, passive income (e.g., dividends, interest, and royalties) and capital gains. Taxable income is based on the results shown in the profit and loss (P&L) account, with certain adjustments.

The deductions allowed for tax purposes include the “allowance for corporate equity” (ACE), which is permitted for a notional yield of the annual increase in a company’s equity (with certain exclusions and deductions). The notional yield is 1.3% as from fiscal year (FY) 2019. The deduction is available each year, provided the equity increase is not diminished. The amount for the computation of the ACE deduction may be reduced by an amount equal to the increase of investments in financial instruments (other than participations) as compared to the amount shown in the financial statements for 2010, and to avoid the risk of doubling the ACE deduction in certain other cases.

Certain companies that are loss-making or whose turnover is less than a defined percentage of the value of various classes of assets are referred to as “non-operating companies” and are taxed on a deemed minimum income at a higher corporate tax rate.

A company that records tax losses for five consecutive FYs—or in four out of the five years and that does not meet prescribed levels of profit, as determined on the basis of certain coefficients, in the remaining year—will be considered a non-operating company as from the sixth FY. The non-operating company regime usually applies to small companies; however, a company may take the position that the regime does not apply, and it may request a ruling from the tax authorities to support its position.

Italian companies may opt for a branch exemption regime that provides for the taxation of a branch’s income in only the foreign country in which the permanent establishment (PE) is established. The option, which allows an exemption for the income derived from the foreign PE, is irrevocable and must be applied to all PEs of the Italian company (“all in-all out”).

Rate: The corporate tax (IRES) rate is 24%, plus the regional tax on productive activities (IRAP, 3.9% in general)—see “Other taxes on corporations and individuals,” below. For banks and other financial institutions (excluding asset management companies (SGRs) and brokerage companies (SIMs)), the corporate tax rate is 27.5%. “Non-operating” entities are subject to a 34.5% corporate tax rate.

Surtax: There is no surtax.

Alternative minimum tax: There is no AMT, but a presumptive taxable income applies to non-operating companies under certain conditions—see “Taxable income,” above.

Taxation of dividends: See “Participation exemption,” below.

Capital gains: Capital gains derived from the sale of assets normally are treated as ordinary income and taxed at the 24% corporate income tax rate, plus IRAP at the 3.9% rate. Capital gains derived from the sale of participations, however, generally are not subject to IRAP (except for banks and financial institutions/companies) and are 95% exempt from corporate income tax if the following requirements are met: (1) the participation has been held for a minimum continuous period that may range between 12 and 13 months; (2) the participation is classified as a financial fixed asset in the first financial statement closed after the participation was acquired; (3) the company in which the participation is held is not considered a “low-tax jurisdiction” (LTJ) entity for purposes of Italy’s controlled foreign company (CFC) regime; and (4) the company in which the participation is held carries on a business activity (this requirement will not be met if

assets are represented primarily by real property not used in the business activity). The last two conditions must have been satisfied continuously over the last three years or the life of the company, if shorter.

Capital gains realized by nonresident companies on the sale of participations ordinarily are taxed at a 26% flat rate. In some cases, capital gains from participations may be exempt, according to specific rules or a relevant tax treaty.

Losses: Losses may be carried forward and offset against corporate taxable income. However, 20% of taxable income in any year cannot be offset by carried-forward losses and will be subject to corporate tax in accordance with the “minimum tax” rule. Losses incurred by a company during its first three taxable periods may be carried forward and used to fully offset corporate taxable income, but only if the losses relate to a new business activity (e.g., the losses may not have been incurred during a merger or business contribution). The carryback of losses is not permitted.

Foreign tax relief: A tax credit is allowed against Italian net tax for final foreign taxes paid on foreign-source earnings in the year in which the taxes were paid. The amount of the foreign tax credit may not exceed the amount of Italian tax due.

Participation exemption: Domestic and foreign-source dividends paid by subsidiaries to Italian resident corporate taxpayers are 95% exempt from corporate income tax. There is no holding period or minimum ownership percentage to qualify for the exemption. (Different rules apply for the participation exemption for capital gains; see “Capital gains,” above.) The same exemption applies to income from some hybrid financial instruments.

However, the 95% exemption does not apply (i.e., the income is 100% taxable) if the foreign subsidiary is an LTJ entity and, in some cases, where the dividends are distributed by an LTJ entity through an interposed foreign non-LTJ entity, unless evidence that an adequate level of taxation was borne by the foreign entity can be provided. If this evidence cannot be provided, under certain conditions, the dividends may benefit from a 50% exemption. Provided specific requirements are met, a foreign tax credit is granted for taxes paid abroad on the same profits by the LTJ entity.

The criteria to determine whether a foreign entity is deemed to be an LTJ entity are:

- For controlled entities, an effective level of taxation lower than 50% of that applicable in Italy; and
- For non-controlled entities, a nominal level of taxation lower than 50% of that applicable in Italy.

The tax period in which the dividends accrued is relevant in determining the nature of the dividends received (from an LTJ entity or not) and the applicability of the related exemption.

Holding company regime: There is no specific holding company regime, although, as described above, dividends and capital gains on the sale of a participation may benefit from a 95% exemption.

Incentives: Incentives are available in the form of capital grants, “easy-term” loans, or tax credits. Some incentives are granted automatically if specified requirements are met; others require the completion of evaluation procedures. Certain incentives must be negotiated.

Italian companies and Italian branches of foreign companies may apply for an optional patent (intellectual property (IP)) box regime, provided certain conditions are satisfied. The regime provides an exemption (for both IRES and IRAP purposes) for a percentage of the revenue derived from the licensing or direct exploitation of qualifying IP (excluding trademarks), and an election into the regime is irrevocable for five years. The exemption percentage currently is 50%. Taxpayers may self-determine their income derived directly from the use of intangible assets (i.e., the amount of income eligible for the patent box regime) or they may obtain an advance tax ruling from the tax authorities to determine the amount of income that is eligible for the regime.

For Italian companies that have adopted Italian GAAP, a new regime for FY 2020 allows a step-up in the basis of certain tangible and intangible assets (excluding goodwill) in the 2020 financial statements for accounting purposes only (without the payment of any substitute tax), or for both accounting and tax purposes (through the payment of a 3% substitute tax). The attribution of the higher values for the assets in the balance sheet will result in the recording of a corresponding revaluation reserve in the net equity.

In a case where the step-up is made:

- For accounting purposes only, the equity reserve created as a consequence of the step-up may be freely distributed by the entity to its shareholders; or
- For both accounting and tax (IRES and IRAP) purposes, the equity reserve created as a consequence of the step-up is in a tax suspension regime. Such reserve may be freely distributed, provided a specific 10% substitute tax is paid.

The assets stepped up must have been included in the 2019 financial statements.

For Italian companies that have adopted either Italian GAAP or IAS/IFRS, a new regime for FY 2020 allows companies to step up (for tax purposes only) the basis of certain tangible and intangible assets (including goodwill) to their accounting value (if higher) by paying a 3% substitute tax. The attribution of the higher tax values for certain assets will not result in the recording of a corresponding revaluation reserve in the net equity (there is no impact on the equity of the taxpayer). A tax suspension regime applies for existing equity reserves (including the share capital, if necessary) for an amount in line with the tax step-up and, should such a reserve be distributed, an additional payment of a 10% substitute tax will apply. The difference between the accounting and tax values of such assets must already have been in place in the 2019 financial statements.

The tax credit for new investments in tangible and intangible assets that is available under some circumstances has been extended to FYs 2021 and 2022, and the tax credit rates and maximum amounts of eligible expenses have been increased in certain cases. Some other tax incentives previously introduced with the aim of facilitating the transition to a more digitalized economy and promoting industry in Italy also have been extended to FYs 2021 and 2022 (with some amendments), including the following:

- The tax credit for advertising investments;
- The R&D and innovation tax credit; and
- The tax credit for employees' training under the "Industry 4.0" plan.

In response to the coronavirus (COVID-19), a number of law decrees were issued in 2020 that include some measures that have been extended into 2021 to support large and small businesses and the economy, including tax relief measures (i.e., suspension of certain tax obligations), a tax credit for the costs of sanitizing business environments and work tools, and other incentive measures with the following main objectives:

- Support for liquidity;
- Support for exports and internationalization; and
- Support for capitalization and non-repayable financial assistance.

Compliance for corporations

Tax year: Taxpayers may use the calendar year or a financial year.

Consolidated returns: Tax consolidation is available to domestic groups, i.e., an Italian parent company and its resident subsidiaries that are under its direct or indirect control. The control requirement is met where the parent company holds more than 50% of the share capital of another company and is entitled to more than 50% of the profits of that company.

Domestic consolidation also may be adopted if the controlling entity or a subsidiary (with an Italian branch) is a nonresident company, provided certain conditions are satisfied.

Under domestic consolidation, a single taxable income is calculated for all consolidated companies. Once an election for consolidation is made, it may not be revoked for three years unless the subsidiary ceases to be controlled by the parent company. Domestic tax consolidation is not available to companies benefitting from a reduction of the corporate tax.

If certain requirements are met, a worldwide tax consolidation regime is available, under which all foreign controlled companies must be included in the tax group (i.e., the “all in-all out” principle).

Tax consolidation is not available for IRAP purposes.

Filing and payment: A company must file the annual corporate income tax returns (IRES and IRAP) electronically within 11 months following the end of the financial year, unless extraordinary transactions (e.g., mergers or demergers) have been carried out during the year (companies that have carried out extraordinary transactions must file by the end of the ninth month following the date of juridical effect of the extraordinary transaction). Companies with a calendar year end have until the end of November 2021 to file the tax return for FY 2020.

Two advance payments of corporate income tax must be made: the first installment generally is 40% of the amount of corporate income tax paid in the previous year, and the second is 60% of the previous year’s tax. For companies subject to the “synthetic indices of tax reliability” (used for assessing certain companies based on factors including their tax compliance history), the two advance payments each are equal to 50% of the previous year’s tax, starting from the payment of the second installment for 2019. A company must make these advance payments by the end of the sixth month and by the end of the 11th month of the financial year.

Penalties: The tax rules include a comprehensive set of penalty and interest provisions for failure to pay and failure to file, with the amounts ordinarily determined based on the specific violation (above specific thresholds, tax violations are criminal offenses).

Rulings: Advance rulings relating to transfer pricing may be obtained from the tax authorities. Such rulings also may apply to dividends and royalties. A ruling also may be requested from the authorities for other reasons, such as to avoid application of the CFC and the non-operating company regimes or anti-abuse provisions, or to obtain the correct interpretation of an unclear tax provision.

Individual taxation

Rates		
Individual income tax rate	Taxable income	Rate
	Up to EUR 15,000	23%
	EUR 15,001-28,000	27%
	EUR 28,001-55,000	38%
	EUR 55,001-75,000	41%

	Over EUR 75,000	43%
Capital gains tax rate		0%/26%

Residence: For income tax purposes, individuals are deemed to be resident if they are registered at the civil registry or are domiciled in Italy for more than 183 days in a year (or 184 days in a “leap year”).

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Italian-source income.

Taxable income: Individual income tax is imposed on employment income, income from independent activities, income from capital, business income, income from immovable property, and other miscellaneous income.

A special regime is applicable for inbound employees under certain circumstances—if all relevant requirements are met, 70% of their Italian-source income from employment is tax exempt for five years (increased to 90% if the inbound employee establishes residence in certain Italian regions). Under certain conditions, it is possible to extend the regime for an additional five-year period, during which 50% of the inbound employee’s Italian-source income from employment is tax exempt (increased to 90% if the employee has at least three minor/dependent children).

Rates: The personal income tax is progressive, rising to a top rate of 43% for income exceeding EUR 75,000. The other rates are listed in the individual tax rate table above.

Additional regional tax applies at rates ranging from 0.7% to 3.33%, depending on the region in which the individual is domiciled. An additional municipal tax ranging from 0% to 0.8% also may apply, depending on the taxpayer’s municipality.

Under certain circumstances, private employees may apply a flat tax of 10% on bonuses earned up to EUR 4,000. Bonuses in kind are exempt from tax and social charges in certain instances.

Under certain circumstances, self-employed individuals may apply a flat tax of 15% on up to EUR 65,000 of business and professional gross income, without being subject to additional regional and municipal tax. A reduced flat tax of 5% applies for new activities if all relevant requirements are met.

Resident individuals are taxed on interest at a flat 26% rate (12.5% for interest on Italian treasury bonds or similar bonds). The 26% flat rate also ordinarily applies to dividends related to nonqualified participations and to capital gains related to qualified and nonqualified participations.

For listed companies, a participation representing more than 2% of the voting rights or more than 5% of the share capital is treated as a qualified participation; for other companies, a qualified participation is one representing more than 20% of the voting rights or more than 25% of the share capital.

As from 1 January 2018, the 26% flat rate also generally applies to dividends related to qualified participations. In relation to profits generated up to the end of 2017 and distributed from 2018 to 2022, the regime described below will apply.

Resident individuals holding qualified participations generally are taxed at the ordinary income tax rate on 58.14% of the dividends received that were generated before 2018 (40% for profits generated before 2007 and 49.72% for profits generated after 2007 but before 2017).

Nonresident individuals ordinarily are taxed at the 26% flat rate on dividends (with a potential refund of the foreign tax paid on the dividend by the recipient, up to 11/26ths of the Italian withholding tax), capital gains related to participations (in some cases an exemption may apply based on a relevant tax treaty), and interest. However, nonresident individuals resident in a country that is not considered an LTJ (as identified by a specific decree) are not taxed on capital gains

related to nonqualified participations, and capital gains realized by such nonresidents on the disposal of shares listed on a stock market are exempt.

Under certain conditions, nonresident individuals moving their tax residence to Italy may apply a EUR 100,000 lump-sum tax on their income earned abroad.

Capital gains: Capital gains derived by an individual on the disposal of Italian immovable property normally are taxed as miscellaneous income but are exempt from tax if the individual held the property for more than five years. Gains derived from the sale of a principal residence are not subject to tax. For capital gains on the disposal of shares, see “Rates,” above.

Deductions and allowances: Deductions for dependents, employment income, social security contributions, and other specific expenses (e.g., family charges, medical expenses) are available in calculating taxable income.

Foreign tax relief: A tax credit is allowed against Italian net tax for final foreign taxes paid on foreign-source earnings in the year in which the taxes were paid. The amount of the foreign tax credit may not exceed the amount of Italian tax due.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Joint filing is possible under specific circumstances.

Filing and payment: All resident and nonresident taxpayers who derive income subject to individual income tax must file an annual tax return, except for individuals deriving only exempt income or income subject to a final withholding tax and other specific categories of income.

The “Modello 730” tax return (a simplified tax return for qualifying individuals receiving only certain types of income) must be filed by 30 September of the calendar year following the relevant FY, while the “Modello UNICO” tax return (the standard tax return for individuals that do not qualify to file the Modello 730 return) must be filed by 30 November of the year following the relevant FY (deadlines not falling on business days are postponed to the next business day).

Salaries and professional fees generally are subject to deduction of tax at source.

For FY 2020, certain tax deadlines have been postponed in response to COVID-19.

Penalties: Penalties and interest apply for late filing, failure to file, and tax avoidance and evasion.

Rulings: A ruling may be requested from the tax authorities for certain reasons, such as to obtain the correct interpretation of an unclear tax provision. The request must be submitted before the relevant tax provision is applied (e.g., before submitting the tax return, before applying a withholding tax, before issuing an invoice, etc.). The opinion expressed by the tax authorities in the advance ruling is not binding on the taxpayer; however, it is binding on the tax authorities, which cannot issue assessments or impose fines or penalties that would be inconsistent with the opinion expressed in the advance ruling.

Withholding tax

Rates				
Type of payment	Residents		Nonresidents	
	Company	Individual	Company*	Individual
Dividends	0%	26%	1.2%/26%	26%

Interest	0%	12.5%/26%	0%/12.5%/26%	12.5%/26%
Royalties	0%	0%	22.5% (30% rate on 75% of gross royalty)	22.5% (30% rate on 75% of gross royalty)
Fees for technical services	0%	0%	0%/30%	30%

*Payments to an Italian branch of a nonresident company are not subject to withholding tax.

Dividends: Dividends paid to a resident company are not subject to withholding tax but are subject to corporate income tax; a 95% exemption is available under certain conditions (see "Participation exemption," above). Dividends paid to a resident individual generally are subject to a 26% withholding tax. See "Rates" under "Individual taxation," above, for the treatment of dividends that were generated before 2018 relating to qualified participations.

Dividends paid to a nonresident corporation or individual generally are subject to a 26% final withholding tax (with a potential refund of the foreign tax paid on the dividend by the recipient, up to 11/26ths of the Italian withholding tax) unless the rate is reduced under a tax treaty or the dividends qualify for an exemption under the EU parent-subsidiary directive. A domestic final withholding tax of 1.2% applies to dividends distributed to shareholders that are companies resident in an EU/European Economic Area (EEA) country.

Interest: Italian-source interest paid to a resident company generally is not subject to withholding tax but is subject to corporate income tax. Italian-source interest payable to a resident individual or a nonresident generally is subject to a 26% withholding tax (which is a final tax for nonresidents). Interest derived from a direct/indirect investment in government bonds and similar securities is subject to a 12.5% substitute tax (domestic exemptions apply). Interest paid on third-party medium or long-term loans granted to Italian companies by certain types of lenders (e.g., banks established in an EU member state and certain foreign financial institutional investors) is exempt from withholding tax if certain conditions are fulfilled.

Where withholding tax applies, the tax for nonresidents may be reduced under a tax treaty or eliminated under the EU interest and royalties directive.

Royalties: Royalties paid to a resident company or individual generally are not subject to withholding tax but are subject to income tax.

Royalties paid to a nonresident are subject to a 30% withholding tax calculated (generally) on 75% of the gross royalty, resulting in an effective tax of 22.5%. The withholding tax may be reduced under a tax treaty or eliminated under the EU interest and royalties directive.

Fees for technical services: Fees for technical services paid to a resident company or individual generally are not subject to withholding tax but are subject to income tax.

Fees paid to a nonresident for the use of industrial, commercial, or scientific equipment located in Italy are subject to a final 30% withholding tax, unless the tax is reduced under a tax treaty or eliminated under the EU interest and royalties directive. Management fees are exempt from withholding tax.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: The business income of a resident enterprise arising from transactions with nonresidents that directly or indirectly control the resident company, are under the control of the resident company, or are controlled by the same

entity that controls the resident company is assessed on the basis of the arm's length value of the goods transferred, services rendered, or services received.

OECD guidelines generally are followed to determine the arm's length price, and both traditional methods (comparable uncontrolled price, cost-plus, and resale price methods) and profit-based methods (e.g., the transactional net margin method) are used and may be acceptable based on the specific circumstances.

A withholding tax exemption or a reduced rate under an applicable tax treaty may be denied to the extent the price paid is higher than arm's length.

Transfer pricing documentation is not mandatory (but see "Disclosure requirements," below), but a taxpayer can obtain protection against penalties in the event of a transfer pricing adjustment by maintaining appropriate documentation and disclosing the existence of that documentation in the annual income tax return.

Interest deduction limitations: Net interest expense is deductible only up to an amount equal to 30% of earnings before interest, tax, depreciation, and amortization (EBITDA), plus financial leasing installments. EBITDA is calculated by taking into consideration the values that are relevant from a corporate income tax perspective (i.e., not merely on an accounting basis). Excess net interest expense may be carried forward indefinitely to increase the deduction of interest expense in a subsequent year, while an excess of 30% EBITDA may be carried forward for five FYs. A specific rule is provided for the use of an excess of 30% EBITDA accrued before 2019 (as calculated under the previous rules).

Controlled foreign companies: Under the CFC regime, profits of a nonresident entity are attributed to an Italian resident where the resident directly or indirectly controls the nonresident entity and the nonresident is considered an LTJ entity for purposes of Italy's CFC rules.

An entity is considered an LTJ entity if it is resident in a foreign jurisdiction and: (1) the entity is subject to an effective tax rate lower than 50% of the effective tax rate that would have been applied if it were resident in Italy; and (2) more than one-third of its income is passive or derived from intercompany transactions.

The income of a CFC is attributed to the Italian resident in proportion to its participation in the CFC, and the profits of the CFC are taxed in the hands of the Italian resident at its average tax rate. However, for companies, the average rate cannot be lower than the ordinary corporate income tax rate of 24%. Taxes definitively paid abroad (i.e., underlying taxes) may be credited against the Italian tax levied on the CFC income.

Application of the CFC regime may be avoided by obtaining a ruling from the tax authorities. In the absence of a ruling, the taxpayer may avoid the application of the CFC regime by providing evidence that certain conditions are satisfied (e.g., demonstrating that it carries out an effective economic activity in the foreign jurisdiction, through the use of personnel, equipment, assets, and premises).

Hybrids: Hybrid mismatch rules in line with the EU anti-tax avoidance directive (ATAD) were introduced as from FY 2020 for calendar-year companies, and additional rules targeting reverse hybrid mismatches will apply as from FY 2022.

Hybrid mismatches arise when the tax laws of two countries provide for a different classification and tax treatment of: (a) the legal instrument or relationship by which a payment is made, an expense is borne, or a tax loss is realized; (b) the entity that makes the payment; or (c) the entity that receives the payment. As a result of the mismatch, the following tax situations may arise:

- The same payment may be deducted in both countries (double deduction);
- The payment may be deducted in the country of the payer and not included in the taxable base in the country of the recipient (deduction and non-inclusion); or

- The payment may be tax exempt in one country and not included in the taxable base in the other country (non-taxation and non-inclusion).

In a case where the Italian entity is the recipient of the payment and the payment is deducted by the paying entity, the payment must be included in the recipient’s tax base. In a case where the Italian entity is the payer, a deduction for the payment is not allowed unless the payer can prove that the payment was included in the recipient’s tax base in the other relevant jurisdiction.

The new rules targeting hybrid mismatches represent a complex set of provisions, as they also target specific situations like imported mismatches and dual residence mismatches.

Economic substance requirements: See “General anti-avoidance rule,” below.

Disclosure requirements: A country-by-country reporting obligation has been introduced requiring certain multinational entities to submit an annual report showing the amount of their revenue, EBIT, taxes paid and accrued, and other indicators of actual economic activity

Exit tax: An exit tax regime in line with the EU ATAD has been introduced for companies, and normally applies to the following:

- Transfers of some assets of an Italian head office or of an Italian PE to the foreign head office or to a foreign PE;
- Migration of an Italian entity’s tax residence abroad, unless the assets are allocated to an Italian PE;
- Transfers of a business carried on by an Italian PE to a third country; and
- Outbound cross-border transactions (i.e., mergers, demergers, contributions), unless the assets are attributed to an Italian PE.

The exit tax regime also applies to the transfer of a single asset (the scope of the former rule was limited to the transfer of a going concern).

The deemed capital gains subject to exit tax will be determined as the difference between the arm’s-length value and the tax basis of the assets/going concern transferred abroad. Specific rules govern the carryforward of a taxable loss for offsetting the deemed capital gains arising at the time of the exit.

The new regime does not allow for the deferral of exit taxation.

General anti-avoidance rule: The tax authorities can challenge transactions without economic substance that, despite formal observance of the laws, essentially result in unfair tax benefits that constitute abuse of the law.

Other: Other specific anti-abuse provisions may apply. These primarily target tax havens, losses and interest expense carryforwards in the case of extraordinary transactions (e.g., mergers and demergers), withholding tax exemptions under EU directives, and the assessment of Italian tax residence for foreign entities.

Value added tax

Rates	
Standard rate	22%
Reduced rate	0%/4%/5%/10%

Taxable transactions: VAT is levied on the supply of goods and services, and on imports.

Where deductible input VAT is charged on purchases of goods and/or services, the deduction must be taken in the VAT return for the year in which the related right arises or, at the latest, in the VAT return for the year in which the relevant invoice is received.

Rates: The standard VAT rate is 22%, with reduced rates of 4%, 5%, and 10%. VAT exemptions apply to financial services, medical services, gaming and gambling, export sales, and the contribution of assets to a company (e.g., purchases of capital goods).

Registration: A taxpayer carrying out taxable supplies in Italy is required to register for VAT purposes.

Electronic invoicing (e-invoicing) is mandatory in relation to transactions carried out by VAT taxable persons established in Italy that make supplies to VAT taxable persons (B2B) established in Italy and private subjects (B2C) resident in Italy.

Filing and payment: Taxpayers are required to submit a VAT return electronically by the end of April of the following calendar year.

Taxpayers also are required to submit quarterly reports on their VAT calculations by the end of the second month following the relevant quarter. A quarterly report on cross-border transactions (covering transactions with nonresidents that are not subject to e-invoicing) must be filed by the end of the month following the relevant quarter.

Retailers must electronically store and transmit, on a monthly basis, data on their daily B2C transactions that are not required to be documented by e-invoices (e.g., sales of products in shops).

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Mandatory social charges are payable by the employer and vary depending on the employee's job and the size of the workforce. Specific exemptions apply, provided certain conditions are satisfied.

Individuals working in Italy normally are subject to social security contributions, with rates depending on the sector and the employee's job title. Social security in respect of the state pension fund borne by the employee generally is equal to 9.19%, plus 1% over EUR 47,379 for FY 2020 (up to a cap of EUR 103,055 for FY 2020) for employees who started contributing to an obligatory social security scheme after 1 January 1996. For those who started contributing before that date, contributions are calculated on the total amount of employment income received.

Payroll tax: There is no payroll tax.

Capital duty: A negligible fixed registration tax is levied on contributions of cash in exchange for shares. Other assets contributed may be subject to a registration tax at various rates or VAT, depending on the situation.

Real property tax: The municipal authorities levy tax on the possession of immovable property at various rates, depending on the municipality. Under certain conditions, construction companies are not subject to the real property tax.

Property owners, whether or not resident in Italy, are liable for a property tax on buildings and land owned in Italy for their own use or as investments, which is levied by the municipal authorities. The tax comprises two different elements: IMU (wealth tax) and TARI (tax on refuse). The basic rate of IMU is 0.86% of the taxable value of the property, but the competent municipality can increase the rate to up to 1.06% or reduce it to as low as 0.76%. IMU normally does not apply to an individual's main residence, with some exceptions. The TARI rates also vary depending on the municipality.

Transfer tax: The transfer/contribution of real property situated in Italy is subject to transfer tax (registration, mortgage, and cadastral tax) and/or VAT, with the rate depending on the property transferred, the status of the transferor, and other factors.

Stamp duty: Stamp duty is levied on legal and banking transactions, at varying rates.

A “Tobin tax” applies in the form of a stamp duty on transfers of shares and other financial instruments issued by Italian joint stock companies (including derivative instruments, if one of the parties to the transaction is an Italian tax resident). The tax rate is 0.2% of the transaction value, reduced to 0.1% where the sale takes place on a listed market (a flat tax is applied on the value of derivative instruments).

Net wealth/worth tax: Financial assets held abroad by a resident individual (i.e., bank accounts, participations, etc.) are taxed at 0.2% of the market value. Immovable property outside Italy owned by a resident individual is subject to tax at a rate of 0.76% of the original cost or market value of the property (cadastral value of the property owned in an EU or EEA country). A lower 0.4% rate may apply to principal residences.

Inheritance/estate tax: The taxable amount for individuals generally is represented by the value of the assets and rights inherited. Rates are 4%, 6%, or 8%, depending on the relationship between the deceased and the beneficiaries. Exemptions up to EUR 1 million may apply for bequests to close relatives.

Other

IRAP

IRAP, the regional tax on productive activities, is levied on the net value of the production derived in each Italian region by resident companies. IRAP is calculated on the “net added value” of production, as defined by the relevant tax rules (but basically derived from the statutory accounts).

The ordinary IRAP rate applicable for manufacturing/trading companies is 3.9%. For banks and other financial institutions/companies (including holding companies), the ordinary IRAP rate is 4.65%, and for insurance companies, the rate is 5.9%.

If the taxpayer has net interest expense, 10% of the annual IRAP paid is deductible from the IRES taxable base. IRAP paid in connection with nondeductible employment expenses also is deductible from the IRES taxable base.

Digital services tax (DST)

A 3% tax on gross revenue (net of VAT or indirect taxes) from certain digital services was introduced as from 1 January 2020 for taxpayers that, at a group level, have annual global turnover over EUR 750 million in the previous calendar year and annual revenue from digital services rendered in Italy of over EUR 5.5 million in the previous calendar year, regardless of whether the taxpayer is tax resident in Italy.

The definition of digital services includes the following activities:

- The placement of advertising on a digital interface targeted at the users of the interface;
- Making available a multi-sided digital interface that allows users to be in contact and interact, including interaction to facilitate the direct supply of goods and services between users; and
- The transmission of data collected from users and generated by the use of a digital interface.

Certain other activities are specifically excluded from the definition of digital services, as specified in the implementation rules for the DST.

The tax applies if the user of the digital services is located in Italy; however, intercompany transactions are out of the scope of the tax.

DST generally must be paid by 16 February of the subsequent calendar year and the relevant tax return must be filed by 31 March of that same year; in the case of companies belonging to a group, a company may be appointed to carry out the compliance activities. In 2021, the deadline for the payment of the DST for 2020 has been extended to 16 March 2021 and the deadline for filing the DST return has been extended to 30 April 2021.

The payment and assessment process for the DST will be similar to the VAT rules, where applicable.

Companies subject to the DST must maintain monthly records of relevant transactions.

The DST is expected to be repealed if consensus on the taxation of digital services is reached at the OECD level.

Tax on director compensation

For individuals, an additional 10% tax is levied on bonuses, stock options, and variable payments paid to directors operating in the financial sector. The tax is payable only on the portion of variable compensation exceeding the fixed remuneration.

Tax treaties: Italy has concluded more than 100 tax treaties. Italy signed the OECD multilateral instrument (MLI) on 7 June 2017. For information on Italy's tax treaty network, visit [Deloitte International Tax Source](#).

Tax authorities: Ministry of Finance, Tax Income Agency (*Agenzia delle entrate*)

Contact us:

Francesca Muserra

Email: fmuserra@sts.deloitte.it

Francesca Falsini

Email: ffalsini@sts.deloitte.it

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organization”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our global network of member firms and related entities in more than 150 countries and territories (collectively, the “Deloitte organization”) serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 330,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organization”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2021. For information, contact Deloitte Global.