DFK INTERNATIONAL

# Doing Business in Italy

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Italy.

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# Background

Italy lies in central southern Europe, bounded by the Mediterranean Sea to the south and bordered by Austria, France, Slovenia and Switzerland to the North. The country stretches for over 1,000 Km from north to south and has a total area of over 300,000 sq. Km. Italy also includes 2 large islands, Sardinia and Sicily, and many smaller ones.

The Constitution states that the Italian Republic consists of Municipalities, Provinces, Metropolitan Areas and Regions.

The country is divided into 20 administrative regions, most of which enjoy full autonomy over local legislation. Five regions have a special status, Valle d'Aosta, Trentino-Alto Adige, Friuli-Venezia Giulia, Sicily and Sardinia. Two independent states: the Vatican City (in Rome) and the Republic of San Marino, lie within Italy's geographical borders.

Most of Italy's 60 million inhabitants are Roman Catholics, and although a steady stream of immigration in recent years has introduced a more multi-ethnic society, other religions are still a relatively small percentage. Population growth, at less than 0.1% per annum, is negligible.

The official language and the language of business is Italian. A small minority living in the north speaks German, French and Slovenian.

Italy's system of government is that of a Parliamentary Republic. Sovereignty belongs to the people who exercise it as laid down by the Constitution. Power is divided among the executive, the legislative and the judicial branches. The Italian Constitution establishes the balancing and interaction of these branches, rather than their rigid separation.

# Choice of Legal Form

### Types of legal entities

The legislation in Italy has created a range of legal entities. Each entity is established to meet the needs of different types of owners and is subject to specific financial and legal regulations.

### S.r.l. and S.r.A. companies

S.r.l. and S.r.A. companies are the most common form of legal entity used by entrepreneurs for undertaking business activities in Italy. They are the only legal entities that give their members limited liability, which is restricted to the level of their capital contribution. A foreign parent company can establish a subsidiary as a public corporation or a limited liability company. There are no limitations on the number or nationality of Directors.

### Limited liability company (Società a responsabilità limitata)

A limited liability company (normally indicated by “S.r.l.”) is very similar to a private limited company, but the capital stock is held in quotas instead of in shares. The company must register the names of the owners of the quotas in a quota holders’ book and its articles of association can limit the transfer of quotas. The minimum capital requirement could be less than Euros 10.000, if specific conditions are met.

### Public (or joint stock) corporation (Società per azioni)

A public corporation is like a public limited company (normally shown by “S.p.A.’). The minimum capital is 50.000,00 Euros, represented by shares. Different classes of shares can be issued by the corporation

so that different groups of shareholders have different rights (e.g. on voting at shareholder meetings). Italian law places specific restrictions on the issuing of shares with limited voting rights. All shares must be issued to clearly identified shareholders and the owners of the shares must be recorded in the shareholders book.

### Unlimited (or general) partnership (Società in nome collettivo)

In this, partners have joint and several unlimited liability for all the actions and liabilities of the partnership. Any number of partners can be appointed as administrators of the partnership. Creditors cannot claim payments from the members until after all remedies against the company have been exhausted.

### Limited partnership (Società in accomandita semplice)

This comprises general partners ("soci accomandatari") who have unlimited liability and other partners ("soci accomandanti") whose liability is limited to their capital contribution to the partnership. Capital is assessed on a quota basis. The business name of the partnership must include the name of at least one general partner. Only general partners can be appointed as administrators of the partnership.

### Partnership limited by shares (Società in accomandita per azioni)

This form has the same two types of partner as a Limited Partnership. Partners participate in the business by virtue of the number of shares they hold. Legally, general partners are directors who have the same responsibilities as the directors of a public corporation, and there are regulations governing Shareholder Meetings and the Board of Statutory Auditors of Public Corporations with which they must comply. General partners are not liable for payments to creditors until all options for gaining payment from the partnership have been explored.

### Representative office

This is the simplest form business structure for a foreign company to establish. It is a popular structure when foreign companies want to explore markets before deciding whether to set up a formal legal entity. The representative office cannot deal with business or financial transactions of any kind, or act as a foreign company's agent or distributor. A representative office must obtain its own tax code number (codice fiscale) and register with the local Chamber of Commerce. The establishment of a representative office must be notified in writing.

## Branch

If a foreign investor does not want to incorporate an Italian subsidiary, it may undertake its business in Italy using a registered branch. A specific loan agreement with the parent company can be used to finance the branch.

There can be tax advantages to establishing a branch, particularly if the foreign company is likely to incur first year losses that can be offset against profits earned from other activities. A branch is also a useful legal entity if a double taxation treaty has not been implemented between Italy and the country where the foreign investor is resident.

The documents that must be provided to establish a branch of a foreign company (deed of incorporation and approval of establishment) must also be translated into Italian.

# Audit Requirements

## Corporate governance and accounting control

Italian law sets out 3 conditions under which auditing and corporate governance are mandatory for a limited liability company:

1) 2 of the following 3 parameters are exceeded for at least 2 accounting periods:
   - total assets are worth more than 4.4 million euros;
   - profits are greater than 8.8 million euros;
   - the company has more than 50 employees;
2) the company has to draw up a consolidated balance sheet;
3) the holding company controls a subsidiary that is required to have a legal audit of its financial statements.

In addition, in Italy there are laws that extend mandatory auditing activity to the following industries or companies:

- listed companies;
- investment funds;
- stock brokerage companies;
- open-end investment companies;
- corporations taken over by the municipality;
- insurance brokers;
- some others.

The two most common auditing systems adopted in Italy are:

## Corporate governance

There are 3 alternative models for corporate governance that can be chosen by the company at its point of incorporation. Most companies choose the Ordinary Model which states that the company management is entrusted to a Board of Directors and that the controlling power over the Board of Directors is attributed to the Board of Statutory Auditors (“Collegio Sindacale”) who must ensure the legality and effectiveness of the companies governance.

## Accounting control

The companies must appoint an auditing firm for general accounting control and the assessment of financial statements, including consolidated and extraordinary balance sheets. The Auditing Company also verifies the regular keeping of the company accounts and the consistency of the financial statements with the company’s book and accounting records. The Shareholders Meeting appoints the AC, whose mandate runs for 3 financial years.

The auditing of the accounts can be exercised directly by the Board of Auditors without the appointment of an Auditing Company if the following 2 conditions are respected:

1) the company does not collect capital from the market;

2) the company does not draw up a consolidated balance sheet.

# Taxation

## Personal income tax (IRPEF)

Personal Income Tax (IRPEF) is payable by both resident and non-resident individuals on income derived from business activities and assets. For residents (defined as individuals who live in Italy for the majority of the tax year or who are registered with the Resident Population Records Office), the tax is applicable to their total income. For non-residents it is applicable only to income generated in Italy. There are particular types of income for which non-residents are subject to IRPEF, including:

- income derived from real estate located in Italy;
- income derived from self-employed services undertaken in Italy;
- business income derived from the activities of a permanent establishment in Italy;
- miscellaneous income derived from activities (e.g. artistic, professional) performed in Italy or related to assets located in Italy;
- capital gains realised by individuals on the sale of business entities located in Italy;
- pensions and/or royalties received from Italian resident entities or local branches of non-resident entities;

Tax rates applicable to aggregate income are the following:

| | |
|---|---|
| Up to €15.000 | 23% |
| From €15.000 to €28.000 | 27% |
| From €28.000 to €55.000 | 38% |
| From €55.000 to €75.000 | 41% |
| Over €75.000 | 43% |

These rates are applied to the overall taxable income after subtracting certain types of income separately, and after deducting certain personal expenses and other allowances (e.g., specific medical expenses, checks for dependent spouse, health insurance premiums and family deductible tax burden). The result is the gross IRPEF.

Net IRPEF is obtained by subtracting certain additional tax deductions from gross IRPEF (e.g., interest on loans for dwelling house, specific medical expenses).

## Capital gains – reinvestment in start-ups

Both resident and non-resident individuals may make capital gains when disposing equity investments in partnerships or corporations. If the partnership or corporation was established no more than seven years prior to the disposal, and the investment has been held for at least three years, the capital gain is not included in taxable income if it is reinvested in companies engaged in the same business within two years of the gain being realised.

## Corporate income tax (IRES) and regional business tax

All incomes earned in Italy, whether by a corporation (S.p.A.), a limited liability company (S.r.l.), or a permanent establishment in Italy of a non-resident company, are subject to the following income taxes:

### IRES (corporate income tax)

IRES is the main corporate tax, and it applies to the net income of resident companies; for Italian tax law purposes, resident companies and entities are those which, for most of the tax period, have either their registered office, their administrative headquarters or their principal business in Italy.

From 1 January 2017, the tax rate has been fixed at 24%. It is applied on the gross profit resulting from the income statement, adjusted according to the tax law. Costs are allowed as a deduction if, and to the extent that, they are entered in the profit and loss account and they form part of the taxable base during the taxable period in which such an imputation is made. In general, resident companies can deduct all the costs and expenses incurred on their business activities. These expenses can include capital and extraordinary losses, labour expenses and royalties. There are limits to deductions for interest paid, income taxes, car expenses and charitable donations.

### Taxable income

The Italian Unified Tax Code (TUIR) is the basis on which taxable income is calculated. Corporate income (redditi d'impresa) for tax purposes is all income that is received by corporations resident in Italy, regardless of its nature. All income and expenditure are considered on an accruals basis for tax purposes. However, there are specific exceptions for certain types of income and income subject to withholding. Taxable income comprises net income in the tax period (as reported

in the company's income statement), adjusted in accordance with TUIR provisions.

Matters to be considered in determining taxable income are set out below.

### Revenue

Revenue includes income generated through the sale of goods and services whose production or delivery is the purpose of the business; the sale of raw and related materials and semi-finished goods; and the sale of shares, bonds and similar securities that are not classified as non-current financial assets.

### Dividends

Dividends distributed by companies with legal status are 95% not subject to taxation, except for dividends distributed by companies residing in Countries with a preferential tax regime. The companies may also be in the winding-up phase. In the taxation of the remaining 5% of the distributed dividends, the costs related to managing the participation shares are totally deductible.

### Interest

Interest and similar income received by industrial and commercial companies can usually be deducted from their corporate tax liability (provided that the income has not been capitalised in the cost of assets). The amount that can be received tax free is limited to 30% of gross operating profit as identified in their income statement.

Interest received that is above this 30% limit can be carried forward to subsequent tax periods.

If the interest received is less than 30% of the gross operating profit, the difference between the amount of the interest received and the 30% of gross operating profit can be carried forward to increase profit in following years.

### Capital gains

Where capital gains are made from the sale of company assets, the gains are included in taxable income for the tax period in which they accrue. If the assets have been held for three years or more, the tax payable on the gains is payable in equal instalments over five years, commencing in the year in which the gain is made.

The rules include gains generated by the sale of equity investments recognised as non-current financial assets in the last three financial years.

Certain gains qualify for exemption, such that 95% of the gain on the transfer of shareholdings by companies may not be subject to IRES taxation, whether the investments are in companies or partnerships resident in Italy or abroad. Consequently, no deductions are allowed for capital losses, write downs or other expenses.

Qualifying investments are those classified as non-current financial assets, investments in commercial activities, investments that have been held continuously for at least twelve months,

and investments in entities resident for tax purposes in a country or territory other than a tax haven.

## Consolidated taxation for groups

If companies belonging to the same group are resident in Italy for tax purposes, they can, subject to meeting certain criteria, elect to adopt consolidated taxation for some or all the subsidiaries. In this situation, the income of subsidiaries is allocated to the parent company. The group tax liability offsets taxable income for some group companies against tax losses for other group companies. If companies opt for consolidated taxation, the option lasts for three years and may not be revoked during this period.

Interest and similar income received by companies participating in the consolidated tax approach can be shared between participating companies in the same way as profits and losses to reduce group taxable income or to increase gross operating profit in subsequent years.

The group taxable income for the parent company is the total of the taxable income of each consolidated company. Regardless of the size of the stake held by the parent company, the consolidation includes the total net income of the subsidiaries involved.

### Transparency

Shareholders of corporations that are resident in Italy for tax purposes can, subject to meeting certain criteria, elect to include the income of the companies in which they invest their own taxable income. In these situations, the corporation taxable income is directly attributed to each shareholder in proportion to its holding in the company. This option is referred to as pass-through taxation.

### IRAP – Regional business tax

This is a local tax levied on the value generated in each tax period in the Italian Regions.

IRAP taxable income is the net value of production in each Italian Region, based on income statements produced either from Italian National Accounting Standards or International Accounting Standards. The basic rate for IRAP is 3.9% although individual regions can alter this rate by up to 1%. Some construction companies, banks, financial institutions and insurance companies are subject to higher rates ranging from 4.2% to 5.9%.

For industrial and commercial enterprises, income excludes capital gains generated from the disposal of companies and equity investments; some elements of extraordinary income; and financial income (dividends, interest). It also excludes all costs and expenses other than most labour costs; interest and finance charges; some specific capital losses; and some elements of extraordinary income.

Some deductions from IRAP taxable income may be possible for employing research and development personnel and new employees.

## Tax losses

Tax losses arising in a given tax period can be deducted from taxable income in subsequent periods with no time limit for limited companies and within five years for unlimited ones.

For limited companies, losses can be deducted for up to 80% of the taxable income for the period, and for an unlimited company, losses can be fully deducted.

## Payment of tax

Companies resident in Italy must file their corporate income tax return electronically within 9 months of the end of their financial year.

Corporate income tax is payable electronically and is normally paid in advance in two instalments based on the tax paid for the preceding tax year. The instalments are due at the point when a company pays a balance for its previous financial year and by the end of the 11th month of the current financial year. Reduced amounts of tax can be paid if the company expects taxable income to be lower than in the previous year.

Any balance of corporate income tax is payable:

- by the 30th day of the 6th month following the end of the financial year for companies approving their balance sheet within the statutory 120-day period;
- by the 30th day of the month following the approval of the balance sheet for companies approving the balance sheet later than the statutory 120-day period.

## Domestic tax consolidation system

The domestic consolidation system for tax purposes is an optional system, irrevocable for at least 3 years, which is available to Italian resident groups of companies where the majority control requirement is met.

Companies belonging to a group benefiting from IRES rate reductions cannot exercise this option.

The system is based on the consolidation of taxable incomes with the following possible consequences:

- optional tax neutrality for some transactions between companies in the same group;
- expected payments in the event of the transfer of negative taxable sums;
- total exclusion of the dividends distributed by the companies of the group from the taxable income.

Entry and exit from the consolidation system implies, among other things:

- a limit to the use of tax losses previously laid aside in the event of entry and regulations on those obtained by the group in the event of exit;
- realignment of the goods transferred in tax neutrality, to the values for tax purposes before entry in the group;

- increase in the income of the controlling entity, for the financial charges deducted by effect of the pro-rata calculation system, or for the other charges deducted on the basis of the table presented by the controlled company.

If the control requirement does not exist, both the controlling company and the controlled company must integrate their advance payments made.

### Worldwide tax consolidation system

The worldwide tax consolidation system is an optional system, irrevocable for at least 5 financial years of the controlling company, which is available to groups of companies where the majority control requirement is met, subject to certain requirements.

The system is based on the consolidation of the percentage of taxable income, obtained by each of the companies belonging to the group, corresponding to the proportion owned directly or indirectly.

The same principles as those formulated for domestic tax consolidation system apply, with the following exceptions:

- the principle of open market value for goods and services exchanged between consolidated resident and non-resident companies is maintained;
- taxes paid abroad are recognized in such a way as to avoid the effects of economic and juridical double taxation in their deduction from the consolidated tax;
- the income derived abroad must be most of the consolidated taxable income.

## Transfer pricing

The transfer pricing regulations require that transactions with foreign companies in the same group must be at “normal value” reflecting free market rates. Variations must be fully documented, or penalties ranging from 100% to 200% of the value of international transactions apply.

## Controlled foreign company (CFC) rules

The CFC rules mean that the profits of a non-resident entity are deemed to be profits of an Italian resident (individual or company) if the resident controls (directly or indirectly) the non-resident entity and the non-resident entity is resident in a tax haven. The profits of the foreign controlled entity are taxed at the Italian resident’s average tax rate (which will be not lower than 24%).

If the non-resident company can prove that its principal function is to do business in the country in which it is resident, the CFC rules will not apply. Similarly, the rules will not apply if the non-resident company is not generating income in tax haven countries.

## Anti-tax-haven legislation

The Anti-Tax-Haven legislation, implemented to prevent the use of tax haven jurisdictions, has been revoked. Deductions can now be made for costs and expenses arising from transactions with companies resident in a non-EU member with a preferred tax regime.

## Value added tax (VAT)

VAT affects almost all transactions involving goods and services acquired in Italy. The normal rate is 22% with reduced rates of 4% and 10% applied to basic items. Companies must calculate their VAT liability every month and any payments due must be made in the following month. Under certain conditions, VAT can be calculated and paid on a quarterly basis. There is an annual VAT return that must be completed before 15 March.

To carry out intra–community transactions, VAT subjects must opt to be included in the VIES archive (VAT information exchange system), but may opt out at any time. The requirement to be included in the VIES archive for making Intra-community transactions applies to all persons undertaking business activities, art or profession in the state, or establishing a permanent establishment there.

## Non-residents

VAT is due from all persons making taxable supplies of goods or services in Italy, regardless of their residence. Non-residents with no permanent establishment in Italy may appoint a tax representative who is responsible for completing all their VAT formalities.

Residents of other EU Member States, that are VAT registered in their own country, must register with the VAT authority in Italy before making any taxable transactions in Italy.

Entities that are not resident in Italy may be able to obtain a deduction for VAT charged by suppliers if they have either a permanent establishment or a fiscal representative in Italy.

A non-resident entity that does not have a permanent establishment or fiscal representative in Italy, and who has not supplied taxable goods or services in Italy maybe able to obtain a refund of previously paid VAT on the acquisition of goods and services in Italy.

## Inheritance tax

Italian inheritance tax law was last updated with amendments published in December 2006 and further amendments are likely. Standard rates for inheritance tax on properties are shown in the chart below.

## Italian Inheritance Taxes - Italian Real Estate

## Main Categories and standard tax rates

| Beneficiary | Inheritance Tax<br>imposta di successione | Mortgage Tax<br>imposta ipotecaria | Cadastral Tax<br>imposta catastale |
|---|---|---|---|
| • Spouse<br>• Direct line relative (e.g. parents and children) | 4% on the amount exceeding EUR 1 million for each beneficiary | a) 2% of the property value on record; | a) 1% of the property value on record; |
| | | or | or |
| • Sibling | 6% on the amount exceeding EUR 100.000 | | |
| • Other relative up to and including the 4° level<br>• Direct line in law<br>• Indirect line in law up to and including the 3° level | 6% | b) EUR 200 if the property will be the main house ("prima casa") of the beneficiary | b) EUR 200 if the property will be the main house ("prima casa") of the beneficiary |
| • Other subject | 8% | | |

### Donor's tax

This tax applies to transfers of assets or rights through donations or other free transfers, and to establishing restrictions on their intended use. It is payable based on the value of shares assigned to individual beneficiaries at a rate varying between 4% and 8%. A tax free element of €1m can be received by the spouse's direct descendants; brothers and sisters can receive €100,000.

Transfers of enterprises or controlling stakes in enterprises to spouses or descendants are exempt from inheritance or donor's tax. The beneficiary is required to continue the business activity or to retain control of the enterprise for five years from the date of transfer.

There are additional taxes that apply to immovable property. The imposta ipotecaria (2%) and the imposta catastale (1%) are due in addition to inheritance or donor's tax, without prejudicing the benefits applying to primary residences.

### IMU – Municipal tax on property

A local property tax, IMU (Imposta Municipale Unica) is aimed at increasing revenue and reducing the cost of rent through the taxation of vacant apartments. Only religious buildings and main residencies are exempt.

The tax is based on a percentage of the value of each property, and is collected by the local municipality in which each property is located. Some of the tax goes to the national government.

IVIE must be paid each year by the owners of buildings located abroad. The tax rate is 0.76% of the total value of the building, calculated on its acquisition price.

# Allowances

## Depreciation

Tangible assets may generally be depreciated on a straight-line basis. However, for the first fiscal year of ownership, there is a reduced level of deprecation.

Where the cost of a tangible assets is less than €516,46 it can be deducted entirely in the financial year of acquisition.

Generally, land is not depreciable. For depreciation of buildings, the value of the land component is 20% of the total value of building. If the land was bought separately before construction of the building, the land value for the building is the purchase price of the land.

Trademarks, patents, know-how and other intellectual property may be depreciated for up to one eighteenth of their value for each fiscal year.

# Employment

## Hiring

There is no general requirement for a contract to be in writing although most collective labour agreements do so. However, all part-time and fixed-term contracts must be in writing. Enterprises with 15 or more employees must recruit personnel from "protected categories" including widows, orphans, refugees and disabled people.

Collective agreements regularly define minimum levels of wages and benefits and they usually provide 13 or 14 payment periods per year.

## Working time

The average working day is 8 hours. Including overtime, the maximum working week is 48 hours over a reference period of a maximum of 4 months. Overtime cannot exceed 250 hours per year and the employer may incur administrative fines if this limit is not respected.

In Italy, there are 11 religious and national holidays. Everyone is granted 1 day of rest per week and an annual holiday period of 4 weeks.

## Changes to the employment market (Jobs Act)

The aim of the "Jobs Act" is to help create new jobs, reduce the cost of permanent employment and make the labour market more modern and competitive. The main developments in the Jobs Act are:

- A new permanent employment contract providing increasing levels of protection to employees, as the length of time they work for an employer increases

- Reduced social contributions on new hires for their first three years of employment. If the new employee was not a permanent employee for another employer for six months before recruitment, the employer benefits from exemption for social contributions of up to €8,060 per year.
- Financial compensation for sacked workers rather than compulsory reinstatement.
- Worker duty flexibility.
- Simplification through reducing the number of contract types.
- Unemployment benefits
- Simplification of apprenticeship contracts.
- Wider opportunities to use "work vouchers" to pay for casual jobs.

## Termination of employment

When an employee is dismissed, for whatever reason, he is entitled to the following mandatory payments:

1) Severance Pay ("Trattamento di Fine Rapporto"): the amount is determined by dividing the annual gross salary by 13.5; severance pay is taxable but free of social security contributions.
2) Other Sums: this includes pay for unused holidays, allowances, and thirteenth and/or fourteenth monthly pay.
3) Notice Period: employees dismissed for reasons other than Just Cause are entitled to a notice period which depends on the type of employee and the length of the service.

## Social security system

The Italian Social Security System, managed by INPS ("Istituto Nazionale Previdenza Sociale"), is compulsory and provides comprehensive benefits for all employees. Employees and employers jointly finance social security costs, which are based on gross earnings. Employers pay two thirds of contributions whilst employees pay the remaining third.

The compulsory state pension system in Italy is financed by social contributions paid by employers. The retirement age ranges from 60 to 66 years, although retirement is also allowed after 42 years of contributions (41 for women).

It is possible to sign up for supplementary pension provision.

# Withholding Taxes

There are three kinds of withholding taxes applicable at source on certain payments.

## Dividends

Dividends for non-qualifying holdings received by individuals (outside the scope of a business activity) are subject to 26% withholding tax.

Dividends for qualifying holdings in Italian companies received by individuals (outside the scope of a business activity) are not subject to withholding tax. Where the dividend relates to foreign companies, 26% withholding tax is payable for the taxable portion of the profit with a reduction for taxes paid abroad. Double taxation agreements that could reduce or eliminate tax liabilities are taken into account.

Qualifying holdings are shares (other than savings shares) and any other investment in the capital or equity of a company to which voting rights are linked exceeding 2% or 20%, if the securities are traded on a regulated market, or 5% or 25% in other cases.

Where dividends are received by entities (not individuals) not resident in Italy, they are generally subject to a 20% withholding tax. This rate may be reduced to 1.375% if certain conditions are met.

Dividends received from a foreign company deemed to be based in a tax haven are taxable in full unless otherwise agreed with the Revenue Agency.

### Interest

Residents for tax purposes in Italy: interest on current and deposit accounts with banks, bonds and similar securities is subject to withholding tax of 26%, usually applied on account (gross interest is included in taxable income and the withholding is deducted from the gross tax). If the interest is received by residents outside the scope of a business activity, the withholding tax is applied in settlement and interest is not part of the overall taxable income. Interest on loans is usually subject to 12.5% withholding tax.

Non-residents for tax purposes in Italy: interest on current and deposit accounts, bonds and similar securities is not subject to withholding tax. If the individual is resident in a tax haven, a 20%-26% withholding tax applies. Interest on loans is usually subject to 12.5% withholding tax on settlement unless there is a double taxation agreement in place.

Withholding tax is not payable where interest is paid to companies or permanent establishments in Italy or other Member States of the European Union.

### Royalties

Royalties generated in Italy and received by subjects not resident in Italy for tax purposes are normally subject to a 30% withholding tax in settlement, although this may be reduced subject to double taxation agreements.

Withholding tax is not payable on royalties paid to companies or permanent establishments in Italy or other Member States of the European Union.

# Appendix I, Double Taxation Treaties

| | | | |
|---|---|---|---|
| Albania | Estonia | Luxembourg | Singapore |
| Algeria | Ethiopia | Macedonia | Slovenia |
| Saudi Arabia | Russia | Malaysia | Spain |
| Argentina | Philippines | Malta | Sri Lanka |
| Armenia | Finland | Morocco | United States |
| Australia | France | Mauritius | South Africa |
| Austria | Georgia | Mexico | Sweden |
| Azerbaijan | Ghana | Moldova | Switzerland |
| Bangladesh | Germany | Mozambique | Tanzania |
| Belgium | Japan | Norway | Thailand |
| Belarus | Jordan | New Zealand | Trinidad and Tobago |
| Brazil | Greece | Oman | Tunisia |
| Bulgaria | Hong Kong | Netherlands | Turkey |
| Canada | India | Pakistan | Ukraine |
| China** | Indonesia | Poland | Uganda |
| Cyprus | Ireland | Portugal | Hungary |
| Congo | Iceland | Qatar | Soviet Union**** |
| South Korea | Israel | United Kingdom | Uzbekistan |
| Ivory Coast | Yugoslavia Ex*** | Czech Republic | Venezuela |
| Croatia | Kazakhstan | Slovakia | Vietnam |
| Denmark | Kuwait | Romania | Zambia |
| Ecuador | Latvia | San Marino | Vietnam |
| Egypt | Lebanon | Senegal | |
| United Arab Emirates | Lithuania | Syria | |

** The agreement between Italy and China does not apply to Hong Kong or Macao.

*** The agreements between Italy and Yugoslavia apply to Serbia and Montenegro and Bosnia Herzegovina.

**** The agreement between Italy and the Soviet Union applies to the following countries: Moldova, Azerbaijan, Kyrghyzstan, Tajikistan and Turkmenistan.

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