Country Guide

# Italy

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Bloomberg Tax

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Bloomberg Tax Country Guides provide overviews of the tax regimes of more than 200 jurisdictions. The Country Guides are continuously updated to reflect developments as they happen. Written by local experts, each jurisdiction profile covers corporate taxation, personal taxation and social security, transfer pricing and anti-avoidance rules, important miscellaneous taxes, and any special tax regimes applicable to the oil, gas, mining, and banking sectors.

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# 1. 1. Overview

## 1.1. Government and Tax System Overview

Italy has a complex tax system. Most taxes are imposed by the state, although local governments (i.e., regions, provinces and municipalities) impose certain minor taxes. The overall tax burden is high.

The method of taxation is based on the self-declaration of taxpayers, who report their profits and earnings in a tax return.

The tax policy goals of recent years have focused on:

- raising revenues to fulfill international fiscal and budgetary targets;
- tackling tax evasion; and
- simplifying the tax system.

**Legal framework**

In Italy, taxes are not regulated by a single code, but by various laws. As a general rule, taxes are known by their acronym. Corporate taxpayers are subject to corporate income tax (*Imposta sul Reddito delle Societa`* or IRES). Individuals are subject to personal income tax (*Imposta sul Reddito delle Persone Fisiche* or IRPEF). In addition, entities carrying out business activities are subject to a regional tax on productive activities (*Imposta Regionale sulle Attività Produttive* or IRAP) (See Section 9.4).

IRES and IRPEF are governed by Presidential Decree No. 917/1986, approving the consolidated text of the Income Tax Law (*Testo Unico delle Imposte sui Redditi* or TUIR).

For a link to the legislation, see Section 1.4.

*Planning Point: As part of a major tax reform of the Italian tax system, the Italian tax authorities had opened a consultation, until May 13, 2024, on nine proposed Consolidated Texts (Testi Unici) of tax legislation, including income taxes, VAT, registration tax and other indirect taxes, compliance and assessment, and administrative and criminal penal sanctions. However, the nine proposed Consolidated Texts are still to be issued. Article 1 of Law no. 122/2024 provides that they may be approved by December 31, 2025.*

**Administrative oversight**

The main government agencies with operating roles in the administration of the tax system are the following:

- the Revenue Agency (*Agenzia delle Entrate*) is responsible for administering and collecting direct taxes, VAT and other taxes, for carrying out tax inspections and assessments, and for managing tax disputes. For more information about VAT in Italy, see the VAT Navigator;
- the Excise, Customs and Monopoly Agency (*Agenzia delle Accise, Dogane e Monopoli*) is responsible for the administration and collection of customs and excise duties; and
- the Revenue-Collection Agency (*Agenzia delle Entrate – Riscossione*) is responsible for the collection of national and local taxes.

Each agency is represented in the territory by local offices. A link to the website of each agency is provided in Section 1.4.

## 1.2. Currency

In Italy, the currency is the euro.

## 1.3. Membership of International Organizations

Italy is a member of the European Union (EU), the Organization for Economic Cooperation and Development (OECD) and the eurozone.

## 1.4. 1.4. Official Websites

In Italy, the following tax and finance websites apply:

*Government agencies*

- Ministry of Finance – *https://www.mef.gov.it*
- Ministry of Economic Development – *https://www.mise.gov.it*
- Revenue Agency (Tax Authority) – *http://www.agenziaentrate.gov.it*
- Excise, Customs and Monopoly Agency – *https://www.adm.gov.it*
- Revenue-Collection Agency – *https://www.agenziaentrateriscossione.gov.it*

*Legislation*

- Database of Budget Laws – https://www.gazzettaufficiale.it/ricerca/raccolte/finanziarie
- Database of Italian legislation – https://www.normattiva.it
- Royal Decree No. 262/1942 establishing the Civil Code – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:regio.decreto:1942-03-16;262
- Presidential Decree No. 917/1986 (TUIR) – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.del.presidente.della.repubblica:1986-12-22;917
- Legislative Decree No. 446/1997 – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1997-12-15;446
- Presidential Decree No. 131/1986 – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.del.presidente.della.repubblica:1986-04-26;131
- Presidential Decree No. 600/1973 – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.del.presidente.della.repubblica:1973-09-29;600>
- Legislative Decree No. 546/1992 – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1992-12-31;546
- Legislative Decree No. 346/1990 – https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:1990-10-31;346

*Additional government resources*

- Revenue Agency's online services portal (Entratel – Fisconline) – https://telematici.agenziaentrate.gov.it
- Pre-filled tax returns (Dichiarazione Precompilata) – https://dichiarazioneprecompilata.agenziaentrate.gov.it
- Tax forms – https://www.agenziaentrate.gov.it/portale/web/guest/strumenti/modelli
- Tax Calendar – https://www1.agenziaentrate.gov.it/servizi/scadenzario/main.php
- Tax Guides – https://www.agenziaentrate.gov.it/portale/web/guest/agenzia/agenzia-comunica/prodotti-editoriali/guide-fiscali/agenzia-informa
- Administrative Provisions, Circulars, Tax Rulings and other Revenue Agency's publications – https://www.agenziaentrate.gov.it/portale/normativa-e-prassi

### 1.5. 1.5. Automatic Exchange of Information

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, and consolidations, see the International Tax Treaties Collection.

Italy has ratified the Convention on Mutual Administrative Assistance in Tax Matters.

Italy is a signatory to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information, and has enacted legislation to implement the Common Reporting Standard (CRS).

Italy is a signatory to the Addendum to the Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information ("Addendum to the CRS-MCAA").

Italy has enacted legislation to implement the provisions of Directive 2014/107/EU (DAC2) (amending Directive 2011/16/EU (DAC)) on mandatory automatic exchange of tax information within the EU.

The EU, including Italy, has signed agreements to apply DAC (as amended by DAC2) with the following countries:

- Andorra;
- Switzerland;
- Liechtenstein;
- San Marino; and
- Monaco.

Italy has enacted legislation to implement a FATCA Model 1 IGA with the United States.

Italy is a signatory to the Multilateral Competent Authority Agreement on the Automatic Exchange of Country-by-Country (CbC) Reports facilitating implementation of the transfer pricing reporting standards developed under Action 13 of the OECD/G20 BEPS Action Plan. See, further, Section 7.5.

Italy is a signatory to the Multilateral Competent Authority Agreement on Automatic Exchange of Information Pursuant to the Crypto-Asset Reporting Framework ("CARF-MCAA").

Italy is a member of the Inclusive Framework on BEPS, a group of countries that is developing standards on BEPS-related issues and is reviewing and monitoring implementation of the OECD/G20 BEPS Action Plan.

Italy has enacted legislation to implement Directive 2016/1164/EU (the "Anti-Tax Avoidance Directive" or "ATAD 1"), as amended by Directive 2017/952/EU ("ATAD 2"). See Section 8.1.

Italy has enacted Legislative Decree No. 100/2020, implementing the provisions of Directive 2018/822/EU (DAC6) (amending Directive 2011/16/EU (DAC)) on the mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements. See, further, Section 8.1.

Italy has enacted Legislative Decree No. 32/2023, which transposes Article 1(8) of Directive 2021/514/EU (DAC7) (amending Directive 2011/16/EU (DAC)) and introduces mandatory reporting rules for digital platform operators. See, further, Section 8.1.

## 2. Corporate Tax Computation and Administration

### 2.1. Residence, Taxable Status, Entity Characterization

#### 2.1.1 Residence

Companies and other legal entities are considered tax resident in Italy if, for the greater part of the tax period, they have in Italy:

- their legal seat;
- their place of effective management (i.e., the place where strategic decisions affecting the company or entity as a whole are made in a continuous and coordinated manner); or
- their principal place of ordinary management (i.e., the place where day-to-day management activities affecting the company or entity as a whole are carried out in a continuous and coordinated manner).[1]

On November 4, 2024, the Italian Revenue Agency issued Circular Letter No. 20/E, providing guidance on these tax residence rules.

Before January 1, 2024, companies and other entities were deemed to be tax resident in Italy if, for the most part of the tax period, their legal seat, seat of administration or main business activity was in Italy.

Italy also applies certain (rebuttable) presumptions of residence. For instance, unless evidence to the contrary is provided, a foreign company is treated as tax resident in Italy if it controls a resident company and one of the following conditions is met:

[1] TUIR, art. 73, para. 3, as amended by Legislative Decree No. 209/2023, art. 2, para. 1(a).

- the foreign company is controlled or subject to the dominant influence of a resident person (corporate or individual); or
- the foreign company is managed by a board of directors, or other similar board of corporate governance, for the most part composed of directors or managers who are resident in Italy.[2]

Furthermore, investment funds are considered resident in Italy if they are incorporated in Italy.[3]

Foreign trusts are deemed tax resident in Italy (unless evidence to the contrary is given) if:

- they are incorporated in jurisdictions other than those included in Italy's "white list"[4] of countries allowing an adequate exchange of information, and at least one settlor and one beneficiary are resident in Italy for tax purposes; or
- after the incorporation, an Italian resident person (corporate or individual) contributes immovable property or rights *in rem* over immovable property to the trust.[5]

In addition, unless evidence to the contrary is given, companies and other entities are deemed to be tax resident in Italy if:

- their assets are predominantly invested in units of real estate investment funds; and
- the company or entity is controlled, directly or indirectly, through fiduciary companies or a third party, by an Italian resident person (corporate or individual).[6]

On October 20, 2022, the Italian Revenue Agency issued Circular Letter No. 34/2022 providing guidance, inter alia, on the residence rules applicable to trusts in Italy.

***Planning Point:*** *The statutory residence provisions do not include a split-year rule. Accordingly, companies and other legal entities cannot be considered resident for tax purposes in Italy for part of a year. However, this rule may be overridden by tie-breaker rules in double taxation treaties.*

### 2.1.2 Taxable Status

Italian corporate tax applies to the following entities:

- joint stock companies (*società per azioni*);
- limited liability companies (*società a responsabilita` limitata*);
- limited partnerships with shares (*società in accomandita per azioni*);
- cooperatives and mutual insurance companies;
- public and private legal entities (other than companies) and trusts, whether or not their sole or main business purpose is the exercising of business activities;
- nonresident companies and entities (see Section 2.2.2); and
- investments funds (even if these latter are not actually taxed).

Partnerships (i.e., *società semplice*, *società in nome collettivo* and *società in accomandita semplice*) are treated as transparent entities and, therefore, are not subject to Italian corporate tax (they are, however, subject to IRAP). Partnerships are required to file a return indicating each partner's interest in the partnership and partners pay personal income tax according to their share of the partnership profits, even if the relevant income accrued at partnership level is determined based on corporate tax rules.

For information on IRAP, see Section 9.4, and for information on personal income tax, see Section 6.1.

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[2] TUIR, art. 73, para. 5-bis, as amended by Legislative Decree No. 209/2023, art. 2, para. 1(b).
[3] TUIR, art. 73, para. 3, as amended by Legislative Decree No. 209/2023, art. 2, para. 1(a).
[4] The list is contained in Ministerial Decree September 4, 1996, as amended.
[5] TUIR, art. 73, para. 3, as amended by Legislative Decree No. 209/2023, art. 2, para. 1(a).
[6] TUIR, art. 73, para. 5-quarter.

#### 2.1.3 Legal Classification of Nonresident Entities

Nonresident entities are treated as separate entities, regardless of their legal characteristics or classification under foreign law.

### 2.2. Corporate Tax Base

#### 2.2.1 Resident Corporations

Resident companies are subject to taxation on their worldwide earned income, including income derived from a permanent establishment located abroad.

An Italian resident can elect to exempt gains and losses attributable to all of its PEs abroad (the "branch exemption regime" or BEX). The election is irrevocable. The exemption does not apply in certain cases (e.g., the country does not have an information exchange with Italy) and in some cases the controlled foreign company (CFC) rules (see Section 8.3) apply. Various accounting and recapture rules apply to the exemption election.

#### 2.2.2 Nonresident Corporations

Nonresident companies are subject to corporate income tax only on income produced in Italy.[7]

The following categories of income are treated as produced in Italy if derived by a nonresident:

- income from land and buildings situated in Italy;
- investment income paid by the state, a resident person or the Italian permanent establishment (PE) of a nonresident person, with some exceptions;
- business income derived through a PE in Italy (in which case, all rules concerning IRES and IRAP apply);
- miscellaneous income derived from activities carried out, or property situated, in Italy;
- capital gains on the transfer of participations in Italian companies, with some exceptions;
- capital gains on the transfer of participations in nonresident "property-rich entities" (see also Section 4.1); and
- fees paid by the state, a resident person or the Italian PE of a nonresident person as consideration for the use of intellectual property, industrial patents and trademarks and/or for the performance of professional services or artistic activities in Italy.[8]

#### 2.2.3 Non-Corporate Business Entities

##### 2.2.3.1 Recognition

Private and public entities, other than corporate entities, resident in Italy, irrespective of the circumstance that their sole or main business purpose is the exercise of commercial activities, are subject to corporate income tax.

##### 2.2.3.2 Tax Status

Private and public entities, other than corporate entities, resident in Italy, irrespective of the circumstance that their sole or main business purpose is the exercise of commercial activities, are subject to corporate income tax.

#### 2.2.4 Permanent Establishments

##### 2.2.4.1 Domestic Law Definition

The domestic notion of permanent establishment (PE) generally follows Article 5 of the OECD Model Tax Convention.

PE is defined as a fixed place of business through which a nonresident enterprise carries on all or part of its activity in Italy.[9] This includes:

- a place of management;
- a branch;

[7] TUIR, art. 151, para. 1.
[8] TUIR, art. 23.
[9] TUIR, art. 162, para. 1.

- an office, a workshop or a laboratory; or
- a mine, an oil or natural gas field, a quarry or any other place of extraction of natural resources.[10]

The TUIR provides for an anti-avoidance provision, under which a PE is also deemed to exist in the case of a significant and continuous economic presence in the Italian territory that has been arranged in such a way that it does not give rise to a physical presence.[11]

A construction, assembly or installation site, or any supervisory activity connected therewith, constitutes a PE only if the site, project or activity lasts more than three months.[12]

A PE does not include the following activities, provided the overall activity of the fixed place of business is preparatory or auxiliary[13] in nature:

- the use of an installation for the sole purpose of storage, display or delivery of goods or merchandise belonging to the company;
- the availability of goods or merchandise belonging to the company stored solely for the purpose of:
    - storage, display or delivery; or
    - transformation by another business;
- the availability of a fixed place of business used solely for the purpose of:
    - purchasing goods or merchandise or gathering information for the company;
    - carrying out any other activity for the company.[14]

However, a PE may exist if the activities carried out by an enterprise or its related enterprises, within the Italian territory, constitute complementary functions that are part of a cohesive business operation, despite each being merely engaged in a preparatory or auxiliary activity (the "anti-fragmentation rule" derived from the OECD approach).[15]

Unless they qualify as independent agents, persons that, acting on behalf of nonresident enterprises, habitually conclude contracts, or participate in the conclusion of contracts that are routinely concluded by such enterprises without material modifications, may give rise to an agency PE if these contracts are:

- in the name of the enterprise;
- for the transfer of the ownership of, or for the granting of the right to use, property owned by that enterprise or that the enterprise has the right to use; or
- for the provision of services by that enterprise.[16]

Persons that act exclusively, or almost exclusively, on behalf of one or more closely related enterprises do not qualify as independent agents.[17]

Income attributable to an Italian PE only comprises gains and losses pertaining to it.[18] More precisely, the income of PEs is calculated in the same way as the income of resident companies, following the same accounting

[10] TUIR, art. 162, para. 2.
[11] TUIR, art. 162, para. 2(f-bis). As stated in Annex 2 to Circular No. 114153/2018 issued by the Finance Police (*Guardia di Finanza*) on April 13, 2018, this provision transposes guidelines contained in Action 1 of the BEPS project (Addressing the Tax Challenges of the Digital Economy).
[12] TUIR, art. 162, para. 3.
[13] The Commentary to paragraph 4 of article 5 of the OECD Model Tax Convention provides that an activity may be qualified as preparatory or auxiliary, and therefore not constituting a PE, if it does not form an essential and significant part of the activity of the enterprise.
[14] TUIR, art. 162, paras. 4 and 4-bis.
[15] TUIR, art. 162, para. 5.
[16] TUIR, art. 162, para. 6.
[17] TUIR, art. 162, para. 7.
[18] TUIR, art. 152, para. 1.

principles used by a similar type of resident company, and using a special income statement or balance sheet similar to those used by a similar type of resident company.

The PE must keep appropriate accounts in Italy, prepare an annual financial statement aimed at determining the portion of income subject to taxation in Italy, and must file the annual corporate income tax, VAT returns (see the VAT Navigator) and the withholding agent's tax return.

***Investment Management Exemption***

The 2023 Budget Law introduced, with effect from January 1, 2023, an Investment Management Exemption (IME) in Italy.[19]

Under the IME, an investment manager carrying out activities in Italy on behalf of a nonresident investment vehicle is treated as an independent agent of the nonresident (and therefore as not giving rise to a PE in Italy), if the following conditions are met:

- the investment vehicle and its subsidiaries are located in a country included in the "white list" of jurisdictions allowing an adequate exchange of information with Italy;[20]
- the investment vehicle satisfies the independence requirements set out in Ministerial Decree of February 22, 2024;
- the investment manager of the nonresident investment vehicle does not hold a participation in the economic results of the investment vehicle exceeding 25 percent;
- the investment manager of the nonresident investment vehicle does not hold a position on the board of directors or supervisory bodies of the nonresident investment vehicle or of any of its subsidiaries; and
- for the activity carried out in Italy, the investment manager of the nonresident investment vehicle receives a remuneration supported by adequate transfer pricing documentation, as prescribed by article 1, paragraph 6, of Legislative Decree No. 471/1997. Guidelines on the application of the arm's length principle to such remuneration are included in Regulation No. 68665/2024 issued by the Italian Revenue Agency on February 28, 2024.

In addition, the fixed place of business used by an Italian resident entity carrying out an activity in Italy using its own staff does not constitute a PE of the nonresident investment vehicle merely because the activity of the resident entity benefits the nonresident investment vehicle.[21]

#### 2.2.4.2 Treaty Definition

Italy's tax treaties are generally based on the OECD Model Tax Convention.

#### 2.2.4.3 Creation via Performance of Services

The domestic notion of a services PE follows Article 5 of the OECD Model Tax Convention and is compliant with the recommendations of the Final Report on Action 7 of the OECD/G20 BEPS Project. For the domestic definition of PE, see Section 2.2.4.1.

The Italian Supreme Court has ruled that the relevant criterion for determining the existence of a PE is whether the nonresident carries on an "economically relevant activity" in Italy. The Court has clarified that "economically relevant activity" must be understood broadly, to include the provision of services.[22]

#### 2.2.4.4 Creation via Customer Downloads or Website Access

Italy follows the guidelines provided by Article 5 of the OECD Model Tax Convention.

#### 2.2.4.5 Creation via Cloud Services

Italy follows the guidelines provided by Article 5 of the OECD Model Tax Convention.

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[19] TUIR, art. 162, paras. 7-ter and 7-quater, as inserted by Law No. 197/2022 (2023 Budget Law), art. 1, para. 255.
[20] The white list, provided under Legislative Decree No. 239/1996, art. 11(c), is contained in Ministerial Decree September 4, 1996, as amended.
[21] TUIR, art. 162, para. 9-bis, as inserted by Law No. 197/2022 (2023 Budget Law), art. 1, para. 255.
[22] *Corte di Cassazione*, Decision No. 21693 of October 8, 2020.

## 2.3. Taxable Year

### 2.3.1 Default Taxable Year

In Italy, corporations may use the calendar year or the fiscal year for income tax purposes. As a general rule, the corporate taxable year may differ from the calendar year and can be shorter than 12 months.

The tax year for corporate income tax purposes is the financial year of the company, as determined by law or articles of incorporation. If the financial year is not so determined or if it is longer than two years, then the tax year is the calendar year.

### 2.3.2 Reference Year for Computation of Tax

Returns filed in 2025, with regard to the taxpayer's liability for the 2024 tax year, will report income relating to 2024 and calculate tax on that basis.

## 2.4. Computing Taxable Income

### 2.4.1 General

The taxable base is represented by the aggregate amount of the income earned by the taxable entity, on a worldwide basis for residents and a territorial basis for nonresidents (see Section 2.2.2).

The starting point in calculating the taxable basis is the amount of the profit or loss shown by the accounts of the entity. This profit (or loss) is then adjusted, increasing or reducing its amount for tax purposes, pursuant to the provisions of TUIR governing business income.[23]

Expenses, receipts and other income are generally brought into account in computing taxable business income on an accrual basis,[24] with exceptions provided for some items of income which are included using the cash principle (i.e., dividends,[25] director's fees,[26] taxes,[27] etc.). In addition, items of income whose existence is not certain, or whose amount is not determined, become taxable in the tax period when their existence is certain or their amount is determined. For more information on the treatment of intercompany dividends, see Section 2.5.

In the event of a conflict, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) principles or Italian GAAP, which relate to the qualification, time accrual and classification of items of income in financial statements, will prevail over provisions contained in the TUIR, with some exceptions.[28] A special tax regime applies to companies opting for IAS/IFRS with respect to shares and other similar financial instruments.

With effect from January 1, 2023, expenses and the other negative income components arising from transactions with businesses that are resident or located in "non-cooperative countries or territories for tax purposes" are deductible (provided such transactions have been effectively carried out), but only up to their normal value (i.e., market value). The normal value limitation does not apply if the Italian resident entity provides evidence that the relevant transactions satisfy a real economic interest and that they have been effectively carried out. In addition, the limitation does not apply to transactions with subsidiaries that fall within the scope of the Italian CFC rules (see Section 8.3).[29] Non-cooperative countries or territories for tax purposes are the jurisdictions listed in Annex I to the EU list of non-cooperative jurisdictions for tax purposes adopted by the Council of the European Union.

### 2.4.2 Exempt Income

Dividends paid by a resident company to another resident company are partially exempt. For more information, see Section 2.5.

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[23] TUIR, art. 83, para. 1.
[24] TUIR, art. 109.
[25] TUIR, art. 89, para. 2.
[26] TUIR, art. 95, para. 5.
[27] TUIR, art. 99, para. 1.
[28] TUIR, art. 83, para. 1; see also Ministerial Decree of June 8, 2011 and Ministerial Decree of August 3, 2017, issued by the Ministry of Economy and Finance.
[29] TUIR, art. 110, paras. 9-bis to 9-quinques, as inserted by Law No. 197/2022 (2023 Budget Law), art. 1, para. 84.

Investment funds (*Organismi di Investimento Collettivo del Risparmio* or OICR) are not subject to corporate income tax (IRES) or the regional tax on productive activities (IRAP – see Section 9.4).[30]

Resident companies can elect to exempt gains and losses arising outside Italy that are attributable to their foreign permanent establishments. For more information, see Section 2.2.1.

With effect from January 1, 2023, positive and negative income components resulting from the valuation of crypto assets are not included in the taxable income for IRES and IRAP purposes.[31] For a definition of crypto assets, see Section 6.2.3.

### 2.4.3 Inventory Valuation and Inventory Flow

Inventories are valued at cost, including directly attributable expenses, but excluding interest and overheads.

Companies may apply any acceptable method of inventory pricing, i.e., first-in-first-out (FIFO), last-in-first-out (LIFO), average, continuous average, etc. If the cost of purchase is lower than the market value as of the previous month, then the stock can be valued using this method. If the unit value so determined is higher than the normal value in the last month of the tax period, then the valuation may be arrived at by multiplying the quantity of goods, independently of the period, by this normal value (market value).

Companies may elect to use alternate methods of inventory pricing. Other than last-in first-out, any acceptable basis will produce, in times of rising prices, a higher taxable profit and should be acceptable to the fiscal authorities. The taxpayer must notify the tax office of any change in method and the change will become effective at the beginning of the next tax period. A taxpayer must follow the chosen method in subsequent years, until another method of valuation is selected. The Civil Code requires inventories to be stated at the lower of cost or market value.

### 2.4.4 Depreciation or Capital Allowances

Depreciation of fixed assets (other than land) and intangible assets, used for conducting business, is deducted each financial year on a straight-line basis. Depreciation is taken for purposes of IRES and IRAP, however, the rules for these two regimes may differ. In particular, depreciation and amortization for IRAP purposes are constrained by the amounts reported in the financial statements and are not based on rates provided by the Ministry of Finance (for which, see further below).

#### Depreciation for IRES purposes

The depreciation amount is determined according to the rates periodically released by the Ministry of Finance, which vary depending on classes of assets and on the economic sector of activity where the asset is used.[32]

The depreciation rate is reduced by half during the first tax period of utilization of the asset.

Due to its unlimited duration, land, even if used for running a business, cannot be depreciated.

Goodwill and trademarks may be amortized over 18 years, while certain other intangibles (e.g., patents, know-how) may be written off over a two-year period (i.e., an annual amortization rate of 50 percent).

With effect from the 2023 fiscal period and for the following four periods, the depreciation rate applicable to immovable property used by certain retail businesses is increased from 3 percent to 6 percent.[33] This rate also applies to property management companies operating in the retail industry which participate in a tax consolidation regime.

#### *Tax credit for investment in new capital assets*

A tax credit is available for investment in new capital assets. For companies investing in new capital assets for production facilities located in Italy, the amount of the credit depends on the type of eligible assets (i.e., "Industry 4.0") as discussed below.

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[30] TUIR, art. 73, para 5-quinquies; Legislative Decree No. 446/1997, art. 3(2); Law Decree No. 351/2001, art. 6.
[31] TUIR, art. 110, para. 3-bis, as inserted by Law No. 197/2022 (2023 Budget Law), art. 1, para. 131; Law No. 197/2022 (2023 Budget Law), art. 1, para. 132.
[32] Ministerial Decree of December 31, 1988, as amended by Ministerial Decree of March 28, 1996.
[33] Law No. 197/2022 (2023 Budget Law), art. 1, paras. 65–69.

*Industry 4.0 tangible assets*

For investments made from January 1, 2025 until December 31, 2025 (extended to June 30, 2026 if acceptance of the order by the seller, and a down payment of at least 20 percent of the purchase price, are made by December 31, 2025), the tax credit amounts are as follows (subject to an expenditure limit of 2.2 billion euros):

- 20 percent of the cost for investments up to 2.5 million euros;
- 10 percent of the cost for investments over 2.5 million euros and up to 10 million euros; and
- 5 percent of the cost, for investments over 10 million euros and up to 20 million euros.[34]

A communication must be submitted electronically to the MIMIT (*Ministero delle Imprese e del Made in Italy*), outlining the amount of expenses incurred and the accrued tax credit.[35]

For investments made from January 1, 2023 to December 31, 2024, the tax credit amounts are the same, but there is no expenditure limit.[36]

For qualifying ecological transition investments included in the National Recovery and Resilience Plan (*Piano Nazionale di Ripresa e Resilienza* or PNRR) made between January 1, 2023 and December 31, 2025, the tax credit ("*Bonus investimenti transizione 5.0*") is equal to 5 percent of the acquisition cost for the portion of investment exceeding 10 million euros, capped at 50 million euros of total admissible costs.[37]

*Industry 4.0 intangible assets*

For investments made between January 1, 2024 and December 31, 2024 (extended to June 30, 2025, if the relevant order is accepted by the seller and the payment of advances in an amount at least equal to 20 percent of the acquisition cost has taken place by December 31, 2024), the tax credit is equal to 15 percent of the acquisition cost, capped at 1 million euros of the eligible costs per year.[38]

*Further information*

Investments in vehicles and means of transport, assets with a tax depreciation rate under 6.5 percent, as well as premises and buildings, are not eligible for the tax credit.[39]

The tax credit can only be used for offsetting via the F24 payment form, in three equal yearly installments. The 250,000 euros limit applicable to tax credits reported in the RU section (*quadro RU*) of the income tax return, and the 2 million euros[40] limit applicable to the offsetting of credits against other tax debts (*compensazione orizzontale*), do not apply. Also, the tax credit is not subject to the prohibition of offsetting credits against assessed debt arrears.

The tax credit can be combined with other incentives related to the same costs (i.e., allowance for corporate equity or ACE, credit for R&D activities, etc.), provided that such a combination does not result in exceeding the cost incurred for investment. For more information on R&D tax credits, see Section 2.6.3, and for more information on ACE, see Section 2.6.4.

For information on tax credits for new investments in Southern Italy and special economic zones, see Section 2.6.1.

***Tax credit for energy saving investments (Bonus investimenti transizione 5.0)***

Resident companies and PEs of nonresident companies that in 2024 and 2025 invest in new tangible and intangible business assets, listed in Annexes A and B to Law No. 232/2016, can benefit from a tax credit,[41] if the investment results in a reduction in the energy consumption of:

[34] Law No. 207/2024, art. 1, para. 446, when read with Law No. 178/2020 (2021 Budget Law), art. 1, para. 1057-bis, as inserted by Law No. 234/2021 (2022 Budget Law), art. 1, para. 44(b).
[35] Law No. 207/2024, art. 1, para. 447.
[36] Law No. 178/2020 (2021 Budget Law), art. 1, para. 1057-bis, as inserted by Law No. 234/2021 (2022 Budget Law), art. 1, para. 44(b) and subsequently amended by Law 207/2024, art. 1, para. 445(b).
[37] Law Decree No. 19/2024, art. 38. For the implementing rules, see Ministerial Decree of July 24, 2024.
[38] Law No. 178/2020 (2021 Budget Law), art. 1, para. 1058-bis, as inserted by Law 234/2021, art. 1, para. 44(d).
[39] Law No. 178/2020 (2021 Budget Law), art. 1, para 1053.
[40] Law No. 388/2000, art. 34, para. 1, as amended by Law No. 234/2021, art. 1, para. 72.
[41] Law Decree No. 19/2024, art. 38. For the implementing rules, see Ministerial Decree of July 24, 2024.

- a production facility, located in Italy, connected to such investment, of at least 3 percent; or
- production processes affected by the investment, of at least 5 percent.

For each qualifying entity, the tax credit is equal to a percentage of the cost of the investment, as follows:

- for the investment portion up to 2.5 million euros – 35 percent;
- for the investment portion between 2.5 million euros and 10 million euros – 15 percent; and
- for the investment portion above 10 million euros and up to a maximum of 50 million euros – 5 percent.

If the energy savings are higher than 6 percent for the relevant production facility or 10 percent for the relevant production processes, the above rates are increased to 40 percent, 20 percent and 10 percent, respectively. Additionally, if the energy savings are higher than 10 percent for the relevant production facility or 15 percent for the relevant production processes, the above rates are increased to 45 percent, 25 percent and 15 percent, respectively.

The tax credit can only be used for offsetting via the F24 payment form, and cannot be combined, in relation to the same qualifying costs, with the tax credit for investments in new capital assets under Article 1, paragraph 1051 of Law No. 178/2020 (discussed above) and with the tax credit for investments in the unified special economic zone (see Section 2.6.1).

### 2.4.5 Reserves

In principle, costs and expenses may be deducted, including provisions for bad debts, only if they are borne in connection with the activity of a business productive of income and recorded into the profits and losses account for the relevant financial period.

The TUIR specifically provides which reserves and provisions are recognized for tax purposes.[42] In addition, reserves may be created for specific purposes (e.g., the step-up of assets, see Section 2.6.4).

In this respect, bad debts not guaranteed by third parties are generally tax deductible up to 0.5 percent of the gross value, provided that the total amount of the bad debts reserve does not exceed 5 percent of the total gross value at the end of the fiscal year.

In all cases, bad debts will be deductible

if the debtor is subject to insolvency or bankruptcy proceedings. A loss on a bad debt can be deducted for IRES purposes when the following conditions apply:

- the term for payment has elapsed by six months; and
- the receivable has a determined threshold. In particular, the item is up to 2,500 euros for small companies and up to 5,000 euros for large corporations (with turnover over 100 million euros).

### 2.4.6 Special Allowances

For the purposes of determining the amount of IRES due, Italy allows a deduction of the IRAP paid as follows:

- an amount equal to the portion of IRAP related to the labor cost of employees and similar workforce. This rule directly reduces the tax burden of companies as well as the cost of labor since IRAP is perceived as a component of this cost; and
- 10 percent of the IRAP paid for the year.

In addition, taxpayers can fully deduct the amount of property tax (*Imposta Municipale Unica* or IMU) paid.[43]

For more information on IMU and IRAP, see Section 9.3.2 and Section 9.4, respectively.

### 2.4.7 Special Provisions or Limits Applicable to Foreign Companies

There are no special provisions or limits applicable to foreign companies having a PE in Italy.

[42] See TUIR, art. 47, para. 1; art. 166, para. 5; art. 172, para. 5; art. 173, para. 9 and art. 180, para. 1.
[43] Law No. 160/2019 (2020 Budget Law), art. 1, paras. 4–5 and 772–773.

### 2.5. Intercompany Dividends

There is a 95 percent exemption in respect of dividends paid to resident companies by resident entities and by nonresident entities that are not resident in jurisdictions with a "privileged tax regime" (as defined below).[44] In other words, only 5 percent of the gross amount of the dividends is included in taxable income for purposes of IRES. The IRAP calculation also excludes dividends in most cases.

Dividends arising (directly or indirectly) from companies that are considered to be tax resident in a jurisdiction with a "privileged tax regime" are included fully in taxable income in the hands of an Italian resident. However, this rule does not apply to:

- dividends that have been previously taxed under the CFC rules (see Section 8.3);[45]
- cases where it can be shown, including through a tax ruling, that the participation in the CFC does not achieve the result of shifting income to a jurisdiction with a privileged tax regime (in which case, an exemption of 95 percent applies). This latter requirement must be met over the entire shareholding period;[46] or
- where it is proven (through an advanced tax ruling, during a tax audit or before a tax court) that the nonresident carries on a substantial economic activity supported by staff, equipment, assets and premises. In this case, only 50 percent of the foreign dividend is included in taxable income and a tax credit is granted for foreign taxes paid by the foreign entity on relevant income during the holding period.[47]

***Planning Point:*** *On a distribution of reserves to shareholders, profit reserves are deemed, subject to certain exceptions, to be distributed before capital reserves, irrespective of the terms of the shareholders' resolution. This is significant because a distribution of profit reserves constitutes the payment of a dividend that gives rise to an immediate tax liability for the shareholder whereas a distribution of capital reserves generates a capital gain that is taxable only on the sale of the shareholding.*[48]

*Definition of Jurisdiction with a Privileged Tax Regime*

A foreign company is deemed to be tax resident in a jurisdiction with a privileged tax regime if:

- in the case of substantial participations (i.e., where the control requirement under the CFC regime is met), the foreign entity is subject to an effective tax rate which is lower than:[49]
    - effective January 1, 2024, 15 percent (i.e., the same requirement as under the CFC rules; see Section 8.3); and
    - before January 1, 2024, 50 percent of the effective tax rate which would apply if the entity was resident in Italy (calculated based on the criteria set out in Revenue Agency Regulation No. 376652/2021); or
- in the case of portfolio participations (i.e., where the control requirement is not met), the foreign entity is subject to a nominal tax rate, arising also from special tax regimes, which is lower than 50 percent of that which would apply in Italy.[50]

The rules do not apply, however, to companies having tax residence in an EU/EEA country.

### 2.6. Special Tax Regimes

#### 2.6.1 Economic Zones

**Special Economic Zones**

Companies starting a new business in Special Economic Zones (SEZs) located in Southern Italy can benefit from a 50 percent income tax reduction on profits derived from the activity conducted therein.[51]

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[44] TUIR, art. 89, paras. 2–3.
[45] TUIR, art. 167, para. 10; Ministerial Decree No. 429 of 2001, art. 3, para. 4.
[46] TUIR, art. 89, para. 3, read with art. 47-bis, para. 2(b).
[47] TUIR, art. 89, para. 3, read with art. 47-bis, para. 2(a).
[48] TUIR, art. 47, para. 1.
[49] TUIR, art. 167, para. 4, as amended by Legislative Decree No. 209/2023, art. 3.
[50] TUIR, art. 47-bis, as inserted by Legislative Decree No. 142/2018, art. 5.
[51] Law No. 178/2020 (2021 Budget Law), art. 1, paras. 173–176.

This tax reduction is applicable as from the financial year during which the new business is started and for the six following financial years, if the conditions below are met:

- the company maintains its business in the SEZ area for at least ten years; and
- the company keeps the jobs created within the business started in the SEZ for at least ten years.

Entitlement to this incentive is subject to compliance with the limits and conditions on *de minimis* aid set out by EU legislation. The implementation rules of this incentive are set out in Ministerial Decree dated May 17, 2024, while other specific provisions, applicable to entities involved in the agricultural and fishing industries, are provided by Ministerial Decree dated September 18, 2024.

**Tax credit for new investments in Southern Italy and SEZs**

Effective January 1, 2024, a new unified SEZ (*Zona Economica Speciale per il Mezzogiorno – ZES unica*) is established in the Southern regions of Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sicily and Sardinia. Subject to conditions,[52] companies operating in the unified SEZ can benefit, for the 2024 and 2025 fiscal years, from a tax credit for qualifying investments in new capital assets intended for production sites located in the unified SEZ. The credit is not available to companies operating in the following sectors: steel, coal and lignite industry; transport and related infrastructure; production, storage, transmission and distribution of energy and energy infrastructure; broadband; and credit, financial and insurance. The maximum available credit varies as follows, depending on the location and size of the enterprise:

- Campania, Puglia, Calabria and Sicily:
    - large enterprises – 40 percent;
    - medium-sized enterprises – 50 percent; and
    - small enterprises – 60 percent;
- Basilicata, Sardinia and Molise:
    - large enterprises – 30 percent;
    - medium-sized enterprises – 40 percent; and
    - small enterprises – 50 percent;
- Abruzzo:
    - large enterprises – 15 percent,
    - medium-sized enterprises – 25 percent and
    - small enterprises – 35 percent.

The maximum and minimum limit for each investment project is 100 million euros and 200,000 euros.[53]

### 2.6.2 International Finance or Holding Companies

There is no special tax regime for international finance or holding companies in Italy, that are subject to corporate income tax rules (IRES and IRAP).

However, the following special rules apply to "financial holdings" (i.e., holding companies whose financial assets are mainly constituted by shareholdings and receivables in financial companies):[54]

(i) a full deduction of interest expenses under article 96, paragraph 12 of TUIR, instead of the interest limitation rule (see Section 8.2) applicable to "industrial holdings" (i.e., holding companies whose financial assets are mainly constituted by shareholdings and receivables in industrial or commercial companies);[55]

(ii) a full deduction of depreciation and losses on receivables, instead of the ordinary regime at 0.5 percent per annum (see Section 2.4.5);[56]

[52] Ministerial Decree dated May 17, 2024.
[53] Law Decree No. 124/2023, arts. 9, 16, and Law Decree No. 207/2024, art. 1, paras. 485–491.
[54] TUIR, art. 162-bis, para. 1(b).
[55] TUIR, art. 96.
[56] TUIR, art. 106.

(iii) the application of a surtax, in addition to the standard corporate income tax rate (see Section 3.1.1); and

(iv) the application of specific rules to determine the tax basis for IRAP purposes (see Section 9.4).

In addition, foreign international finance or holding companies may benefit from the Investment Management Exemption (see Section 2.2.4.1.)

### 2.6.3 Research and Development Companies and Activities

**Tax credit for investment in research, development and innovation**

The 2020 Budget Law introduced a tax credit for investment in qualifying R&D activities (as specified in Ministerial Decree of May 26, 2020), ecological industrial transition, technological innovation and other innovative activities.[57] The 2022 Budget Law extended the application of the R&D tax credit to fiscal year 2031 and set the rates as follows:

- for basic research, industrial research and experimental development, the tax credit is equal to:
  - 10 percent of eligible expenses, capped at 5 million euros per year, from 2023 to 2031;
- for technological innovation, design and aesthetic conception activities, the tax credit is equal to:
  - 5 percent of eligible expenses, capped at 2 million euros in 2024 and 2025;
- for technological innovation activities aimed at realizing new or improved products or processes to achieve ecological transition or 4.0 digital innovation objectives, the tax credit is equal to:
  - 5 percent, capped at 4 million euros per year in 2024 and 2025.[58]

For the purpose of classifying the investments that have been, or will be, carried out as eligible R&D, technological innovation, and design and aesthetic innovation activities, taxpayers can, subject to certain conditions, request a certificate attesting the nature of those investments.[59]

A similar certificate may be requested to certify (i) the nature of technological innovation activities aimed at achieving 4.0 digital innovation or ecological transition objectives and (ii) the nature of R&D activities aimed at obtaining the tax credit provided under article 3 of Law Decree No. 145/2013, as amended by Law No. 9/2014 and article 1, paragraph 35, of Law No. 190/2014 (i.e., the R&D tax credit that accrued between the 2015 and 2019 fiscal years).

The certificate is binding on the tax authorities (i.e., they cannot disallow the credit or issue penalties) except in cases where, based on a misrepresentation of the facts, the certificate is issued for an activity other than the one actually carried out by the taxpayer.

Entities qualified to issue the certificate are determined by ministerial decree but include, in any case, state universities, legally recognized non-state universities and public research bodies.

Under article 6 of Law Decree No. 39/2024, in order to benefit from this tax incentive, taxpayers are required to make a specific communication to MIMIT (*Ministero delle Imprese e del made in Italy*), based on the form regulated by Ministerial Decree dated April 24, 2024.

**Tax credit for R&D activities in the field of drug innovation**

Companies engaged in R&D activities in the field of drug innovation (including the development of new vaccines) are eligible for a tax credit at the rate of 20 percent of the eligible expenses incurred between June 1, 2021 and December 31, 2030.[60] The credit is capped at 20 million euros per year per beneficiary. Eligible expenses are

[57] Law No. 160/2019 (2020 Budget Law), art. 1, para. 198 to 209, as amended by Law Decree No. 34/2020 (*Decreto Rilancio*), art. 244.
[58] Law No. 160/2019 (2020 Budget Law), art. 1, paras. 198, 203–205, as amended by Law No. 234/2021 (2022 Budget Law), art. 1, para. 45.
[59] Law Decree No. 73/2022 (*Decreto Semplificazioni*), art. 23, paras. 2–8 (converted into law, with amendments, by Law No. 122/2022), as amended by Law Decree No. 144/2022 (*Decreto Aiuti-ter*), art. 38 (converted into law, with amendments, by Law No. 175/2022).
[60] Law Decree No. 73/2021 (*Decreto Sostegni bis*), art. 31.

those incurred in fundamental research activities, industrial research, and necessary experimental development and feasibility studies, but exclude costs relating to land and buildings.

The incentive cannot be combined with other R&D tax credits, in relation to the same eligible costs.

**Voluntary disclosure for undue use of R&D tax credit**

Subject to conditions, taxpayers can benefit from a voluntary disclosure procedure (*sanatoria*), without the application of penalties and interest, for cases when the R&D tax credit, accrued between 2015 and 2019, has been unduly offset (*compensazione indebita*).[61]

Access to the procedure is not permitted if the tax credit arises from fraudulent practices, misrepresentations of reality based on the use of counterfeit documents or in the absence of adequate evidence supporting the claim.

Taxpayers wishing to access the procedure are required to:

- file an application by June 3, 2025 in the form and manner as specified by the Italian Revenue Agency; and
- pay back the tax credit amount in full by June 3, 2025 (without the application of penalties and interest) or, alternatively, in three equal annual instalments due on June 3, 2025, December 16, 2025 and December 16, 2026 (statutory interest apply to the second and third instalment). Offsetting is not permitted.

Taxpayers who apply for access to the procedure by June 3, 2025 can benefit from a capital contribution tax credit commensurate, as a percentage, with the amount of the credit subject to the procedure.[62] The disbursement methods, percentage amount and payment installments will be prescribed by ministerial decree.[63]

**Additional deduction for R&D costs related to intangible assets**

An additional deduction is available for R&D expenses incurred on certain intangible assets.[64]

More specifically, R&D costs incurred by resident taxpayers with business income and nonresident entities with a PE in Italy (provided they are resident in a country with which Italy has a bilateral tax agreement which ensures an effective exchange of information) in relation to copyrighted software, industrial patents, trademarks, drawings and models that are directly or indirectly used in the business activity can be deducted for IRES and IRAP purposes with a 110 percent increase (i.e., a cost accounted for in the financial statements of 100 euros is deductible for IRES and IRAP purposes for 210 euros).

Trademarks, processes, formulas and information related to experiences gained in the industrial, commercial or scientific field subject to legal protection (know-how) do not qualify for the enhanced deduction.

The regime applies on the condition that taxpayers carry out research and development activities, either directly or through research contracts concluded with companies other than those belonging to their same group or with universities, research centers or similar institutions.

Taxpayers wishing to opt for the regime are required to prepare appropriate documentation. This documentation will allow taxpayers to benefit from the disapplication of the administrative penalties for misrepresentation on a tax return (*infedele dichiarazione*) in the event of a tax assessment by the Italian Tax Authorities (as it is the case for the rules on transfer pricing documentation – see Section 7.3).

In addition, if eligible expenses are incurred in one or more tax periods with the view to create one or more qualifying intangible fixed assets, taxpayers can benefit from an extra 110 percent deduction starting from the tax year in which the intangible fixed asset is granted industrial property rights. However, the extra deduction cannot be applied to expenses incurred prior to the eighth tax period preceding the one in which the intangible fixed assets are granted industrial property rights.

[61] Law Decree No. 146/2021 (*Decreto Fiscale*) (converted into law by Law No. 215/2021), art. 5, paras. 7–12 (as amended), read with Law Decree No. 25/2025, art. 19(5).
[62] Law No. 207/2024, art. 1, para. 458, as amended by Law Decree No. 25/2025, art. 19(8).
[63] Law No. 207/2024, art. 1, para 459.
[64] Law Decree No. 146/2021 (*Decreto Fiscale*) (converted into law by Law No. 215/2021), art. 6, as amended by Law No. 234/2021 (2022 Budget Law), art. 1, para. 10.

The regime is optional. The election is valid for five years and can be renewed. The regime is applicable to elections exercised for the tax period in course as of the date of entry into force of Law Decree No. 146/2021 (i.e., October 22, 2021) and to subsequent tax years.

Regulation No. 48243/2022, issued by the Italian Revenue Agency on February 15, 2022, as amended by Regulation No. 52642/2023, issued on February 24, 2023, provides clarification on eligible costs and activities as well as on relevant documentation and reporting requirements. Additional guidance is provided in Circular No. 5/E, of February 24, 2023.

**Patent Box**

The additional deduction for eligible intangible assets (referred to above) replaced, with effect from October 22, 2021, the previous Patent Box regime. That regime allowed a partial tax exemption on income derived from certain qualifying intellectual property. Patent box elections for the 2020 tax period, which are valid for the five-year period 2020–2024, continue to be valid.

**Tax credit for investments in microelectronics**

Resident companies and permanent establishments of nonresident companies investing in R&D projects in the field of microelectronics can benefit from a tax credit for eligible expenses incurred from August 11, 2023 through December 31, 2027.[65] Implementing provisions will be contained in a forthcoming ministerial decree. The credit amount cannot exceed the limits prescribed by Article 25 of EU Regulation No. 651/2014.

The tax credit can be used exclusively as an offset against the taxpayer's tax liability, starting from the tax period following the one in which the costs were incurred. The 250,000 euros limit applicable to tax credits reported in the RU section (*quadro RU*) of the income tax return and the 700,000 euros limit applicable to the offsetting of credits against other tax debts (*compensazione orizzontale*) do not apply.

The tax credit for investment in microelectronics is alternative to the tax credit for basic research, industrial research and experimental development activities, provided under Article 1, paragraph 200, of Law No. 160/2019 (discussed above).

**Reduced IRES on new investments in technological assets**

For the tax period following that in progress on December 31, 2024, a reduced IRES rate of 20 percent is available to companies satisfying the following conditions:

- at least 80 percent of their profits for the financial year ending on December 31, 2024 must be set aside as a special reserve;
- by the deadline for filing the tax return for the tax period following the one ending on December 31, 2024, the higher of 24 percent of overall 2023 profits or 30 percent of the set-aside 2024 profits (but, in any event, not less than 20,000 euros) must be invested in new tangible or intangible technological assets under Italy's Industry 4.0[66] and 5.0[67] initiatives;
- in the tax period following the one in progress on December 31, 2024:
    - the number of employees is at least equal to the average of the previous three years;
    - the number of new hires with open-ended employment contracts constitutes an increase of at least 1 percent in the average number of employees with such contracts in the previous tax period (and, in any event, cannot be less than one); and
- the company does not make use of the redundancy fund (*cassa integrazione)* during the financial year ending on December 31, 2024 or during the following year.

The benefit of the incentive is lost, and is consequently recoverable, if:

[65] Law No. 104/2023, art. 5. Eligible expenses are those listed in Article 25, paragraph 3 of EU Regulation No. 651/2014, with the exclusion of expenses for immovable property.
[66] See Law No. 232/2016 (investment capital goods Transition 4.0), Annexes A and B.
[67] See Law No. 19/2024 (investment capital goods Transition 5.0), art. 38.

- the set-aside profits are distributed within the second financial year following the one in progress on December 31, 2024; or
- the assets that are the subject of the investment are disposed of, transferred to third parties, used for purposes unrelated to the business activity or permanently allocated to production facilities located abroad (even if they belong to the same entity), before the end of the fifth tax period after the one in which the investment was made.[68]

### 2.6.4 Other Special Regimes

**Tonnage Tax**

The tonnage tax regime[69] applies to the following qualifying taxpayers:

- Italian resident owners of qualifying vessels; and
- non-Italian resident owners of qualifying vessels, who operate qualifying vessels through a PE in Italy.

Qualifying vessels are:

- vessels with a net tonnage greater than 100 tonnes;
- vessels registered in an international register and used in international maritime traffic; and
- vessels used for transporting goods or passengers, for rescues, or for any other maritime aid activity.

Election to the regime must be made within three months prior to the beginning of the first financial year, cannot be revoked for 10 years, and must concern all of the qualifying vessels owned by the relevant qualifying taxpayer, as well as by all of the companies pertaining to the same group. Upon expiration, the election may be renewed.

The taxable income of a qualified taxpayer from each qualifying vessel would be equal to certain coefficients (varying from 0.0090 euros per tonne to 0.0020 euros per tonne) multiplied by each tonne (bands from 1,000 tonnes up to more than 25,000 tonnes) for each day of use. The income so calculated will be subject, without any deduction, to the ordinary corporate income tax. The income of the qualifying taxpayer deriving from other activities is determined pursuant to the ordinary rules for both corporate income tax and local tax purposes.

Election to the regime cannot be made (and if made, it would lose its effect) if in a fiscal year more than 50 percent of the qualifying vessels of each company are chartered on bareboat charters for more than 50 percent of the days of actual navigation, calculated for each vessel.

**Non-operating companies**

Where resident companies, commercial partnerships or PEs of nonresident entities are classified as "non-operating companies" (*società non operative*) or "shell companies" (*società di comodo*), they are taxed on the value of their assets rather than on the actual amount of revenue generated.

Such entities are deemed non-operating if their total revenue, inventory increases and income (excluding extraordinary income) constitute less than:

i. 1 percent of the value of shares and quotas, financial instruments, bonds and other securities, and participations in partnerships (even if they constitute financial fixed assets) plus the value of receivables;

ii. 3 percent of the value of real estate and certain ships (lower rates apply to certain categories of real estate); and

iii. 15 percent of the value of other fixed assets.[70]

For the purposes of this test, income, revenue and asset value are based on the average results of the relevant fiscal year and the two previous ones.[71]

[68] Law No. 207/2024, art. 1, para. 436–438.
[69] TUIR, arts. 155–161. and Ministerial Decree of June 23, 2005.
[70] Law No. 724/1994, art. 30, para. 1, as amended by Legislative Decree No. 192/2024, art. 20.
[71] Law No. 724/1994, art. 30, para. 2.

The main consequence arising from classifying a company as non-operating is the attribution of a deemed minimum income to the company, for IRES and IRAP purposes, calculated using the following percentages:

- 0–75 percent of the value of assets referred to at (i) above;
- 2.38 percent of the value of the assets referred to at (ii) above; and
- 12 percent of the assets referred to at (iii) above.[72]

In addition, non-operating companies are prevented from utilizing tax losses and obtaining the refund of any VAT credits.[73]

Further, non-operating companies are subject to a 10.5 percent surtax in addition to the standard corporate income tax rate (for which, see Section 3.1.1).[74]

Various exclusions and exemptions from the non-operating companies regime apply.[75] Exempt entities include companies during their first tax year of activity, companies subject to insolvency proceedings, and groups of companies whose securities are listed on a regulated market.

Other than the exemptions which apply automatically, a ruling for the nonapplication of the regime may be required when the company provides proof that the low amount of revenue is justified by certain objective circumstances.[76]

The Italian Revenue Agency has issued several circulars providing administrative guidance on the tax regime for non-operating companies.[77]

**Allowance for Corporate Equity**

To provide an incentive for reinforcing the capital structure of companies and the Italian productive system, Article 1 of Law Decree No. 201/2011 (*Decreto Salva Italia*) introduced an allowance for corporate equity, also known as notional interest deduction (in Italian, *Aiuto per la Crescita Economica* or ACE).

ACE is a tax benefit granting an additional deduction from the IRES taxable base (i.e., the corporate taxable income) to companies, trusts, and commercial entities resident in Italy for an amount equal to the notional yield of the new capital. This notional yield is calculated by applying 1.3 percent to the net increase in equity as calculated according to a specified formula.[78]

The ACE regime has been abolished with effect from the fiscal year following the one in progress on 31 December 2023 (i.e., the 2024 tax year for calendar-year companies). Companies already benefiting from the regime may continue to use any residual excess ACE recognized at the end of the fiscal year ending on December 31, 2023, without any time limit.[79]

**Incentives for Innovative Start-ups and Innovative SMEs**

***Qualifying requirements***

Italy provides tax incentives for investments in qualifying "Innovative Start-ups" and "Innovative SMEs", under Article 25, paragraph 2, of Law Decree No. 179/2012 and Article 4 of Law Decree No. 3/2015, respectively.

For a company to qualify as an Innovative Start-up, it must:

- be a corporate entity and not be listed on a regulated market;
- be newly incorporated or have been operating for less than 5 years;

[72] Law No. 724/1994, art. 30, para. 3, as amended by Legislative Decree No. 192/2024, art. 20.
[73] Law No. 724/1994, art. 30, paras. 3–4.
[74] Law Decree No. 138/2011, art. 2, para. 36-quinquies.
[75] Ministerial Decree of February 14, 2008.
[76] Law No. 724/1994, art. 30, para. 4-bis.
[77] See, e.g., Circular No. 25/E of May 4, 2007 and Circular No. 9/E of February 14, 2008.
[78] Law No. 160/2019, art. 1, para. 287.
[79] Legislative Decree No. 216/2023, art. 5.

- be resident for tax purposes in Italy or another EU/EEA country (in this case, it must have at least a productive site or branch in Italy);
- have an annual turnover below 5 million euros starting from its second fiscal year of operation;
- not distribute or have distributed dividends;
- have as its exclusive or main corporate purpose the production, development and commercialization of innovative products or services with a clear technological component; and
- not be a result of a merger, demerger or transfer of going concern.

In addition, an Innovative Start-up must meet at least one of the following criteria:

- its R&D expenditure must be at least equal to 15 percent of the higher amount of its annual turnover and production costs;
- at least 1/3 of its workforce must be PhD students, PhD holders or researchers; alternatively, at least 2/3 must hold a master's degree (*laurea magistrale*); and/or
- it must be the owner, depositary or licensee of at least one registered industrial patent or the owner of an original registered software.

For a company to qualify as an Innovative SME, it must:

- meet at least two of the following thresholds:
- less than 250 employees;
- an annual turnover not exceeding 50 million euros; and
- total assets in the financial statements not exceeding 43 million euros;
- be a corporate entity and not be listed on a regulated market;
- be resident for tax purposes in Italy or another EU/EEA country (in this case, it must have a productive site or branch in Italy);
- have its latest financial statements (or consolidated financial statements, if applicable) audited; and
- not be included in the Company Register (*Registro Imprese*) as an Innovative Start-up or certified incubator.

In addition, an Innovative SME is identified by at least one of the following criteria:

- its R&D expenditure must be at least equal to 3 percent of the higher amount of its annual turnover and annual costs;
- at least 1/5 of its workforce must consist of PhD holders, PhD students or researchers; alternatively, at least 1/3 must hold a master's degree (*laurea magistrale*); or
- it must be the owner, depository or licensee of at least one registered industrial patent or the owner of an original registered software.

***Tax incentive at 20 percent for the environmental, renewable energy and healthcare sectors***

In 2023, innovative start-up companies, established from January 1, 2020 and operating in the environmental, renewable energy and healthcare sectors, can benefit from a tax credit of up to 20 percent of the costs incurred for qualifying R&D activities, capped at 200,000 euros per company and subject to the *de minimis* requirement under EU legislation on state aid. The tax credit can be used to offset taxable income in the tax return for the period in which it is granted and for subsequent periods until the credit is used up.[80]

[80] Law Decree No. 34/2023, art. 7-quater, inserted by Law No. 56/2023, Annex.

***Tax incentives at 30 percent***

Innovative Start-ups and Innovative SMEs benefit from tax incentives, under Article 29 of Law Decree No. 179/2012 and Article 4, paragraph 9, of Law Decree No. 3/2015, respectively.

Investors in Innovative Start-ups and Innovative SMEs are eligible for the following benefits:

- for individuals – a deduction for personal income tax purposes equal to 30 percent of the amount invested in the share capital of the Innovative Start-up or Innovative SME, up to a maximum annual investment of 1 million euros;
- for companies – a deduction for corporate income tax purposes equal to 30 percent of the funds invested in the share capital of the Innovative Start-up or Innovative SME, up to a maximum annual investment of 1.8 million euros.

For the tax incentives to apply, investors are required to hold the investment for at least three years.

The tax incentives also apply to investments made through investment funds or companies primarily investing in Innovative Start-ups and Innovative SMEs (i.e., at least 70 percent of assets are invested in Innovative Start-ups/SMEs).

Innovative Start-ups and Innovative SMEs are subject to certain documentation requirements.

***Tax incentives at 65 percent***

Individuals (both resident and nonresident) investing in Innovative Start-ups and Innovative SMEs are eligible for a tax deduction for personal income tax purposes equal to 65 percent of the amount invested[81] (50 percent before January 1, 2025):

- up to a maximum annual investment of 100,000 euros for investment in Innovative Start-ups; and
- up to a maximum annual investment of 300,000 euros or investment in Innovative SMEs.[82]

For investment in Innovative SMEs only, the 30 percent tax credit discussed in the previous subsection can be applied to the amount of investment in excess of 300,000 euros.

For the tax incentives to apply, investors are required to hold the investment for at least three years. Similarly, the qualifying requirements of an Innovative Start-up and Innovative SME must be maintained for at least 3 years.

The tax incentive also applies to investments made indirectly through investment funds primarily investing in Innovative Start-ups and Innovative SMEs (i.e., where at least 70 percent of assets are invested in Innovative Start-ups/SMEs).

An Innovative Start-Up or Innovative SME cannot receive tax incentives in excess of 200,000 euros over three fiscal years.[83]

Innovative Start-ups and Innovative SMEs are subject to specific documentation and filing requirements. More information is provided on the website of the Italian Ministry of Economic Development. For a link, see Section 1.4.

***Further information***

For information on tax incentives for individuals investing in Innovative Start-ups and Innovative SMEs, see Section 6.2.4.

**Step-up of Business Assets**

***Regime applicable for the fiscal year 2019***

The 2020 Budget Law provides an option for Italian companies to step-up the tax basis of business assets in their 2019 financial statements.[84] More precisely, Italian companies that are not IAS-IFRS adopters may step-up tangible

[81] Law Decree 179/2012, art. 29-bis, para. 1-bis, as inserted by Law No. 193/2024, art. 31, para. 2(b).
[82] Law Decree No. 34/2020 (*Decreto Rilancio*), art. 38, para. 7–8.
[83] EU Regulation No. 1407/2013 of December 18, 2013.
[84] Law No. 160/2019 (2020 Budget Law), art. 1, para. 696–700.

and intangible assets (except for immovable properties held by real estate trading companies), as well as qualifying participations, recorded in the financial statement as at December 31, 2018.

Under this regime, companies can select the category of assets to be stepped-up through the payment of a substitute tax equal to:

- 12 percent (previously 16 percent) for amortizable assets; and
- 10 percent (previously 12 percent) for nonamortizable assets.

Tax recognition of the new values for depreciation and amortization purposes occurs starting from the third fiscal year following the one in which the step-up is made (e.g., from January 1, 2022 for calendar year companies). For capital gains purposes, tax recognition occurs from the fourth year following the one in which the step-up is made (e.g., from January 1, 2023 for calendar year companies).

The equity reserve created as a result of the revaluation can be distributed, provided that a 10 percent substitute tax is paid.

***Regime applicable for the fiscal year 2020***

Law Decree No. 104/2020 provides a further option for Italian companies to step-up the tax basis of business assets in the 2020 financial statement.[85] Italian companies that are ITA-GAAP adopters may step-up tangible and intangible assets (except for immovable properties held by real estate trading companies), as well as qualifying participations, recorded in the financial statement as at December 31, 2019.

Under this regime, companies can select each asset (and not the category as in the past) to be stepped-up through the payment of a substitute tax equal to 3 percent for amortizable and non-amortizable assets. Alternatively, companies may opt for a step-up only for accounting purposes (without tax recognition).

Tax recognition of the new values for amortization purposes occurs starting from the first fiscal year following the one in which the step-up is made (e.g., from January 1, 2021 for calendar year companies). For capital gains purposes, tax recognition occurs from the fourth year following the one in which the step-up is made (e.g., from January 1, 2024 for calendar year companies).

The equity reserve created as a result of the revaluation can be distributed, provided that a 10 percent substitute tax is paid. Once distributed, this reserve is taxed in the hands of shareholders according to tax rules applicable.

In addition, the step-up of business assets may also take place in the fiscal year following the one running as at December 31, 2020 (i.e., in the financial statement as at December 31, 2021 for calendar-year companies), exclusively for assets that were not stepped-up in the preceding fiscal year (i.e., in the financial statement as at December 31, 2020 for calendar-year companies), without tax recognition.[86]

A special step-up regime is also provided for companies that are ITA GAAP adopters carrying out hotel and thermal spa activities.[87] These companies may step-up certain business assets and participations, except immovable properties held by qualifying real estate companies, recorded in the financial statement as at December 31, 2019, without any tax burden. The equity reserve created as a result of the revaluation can be distributed, provided that a 10 percent substitute tax is paid. Tax recognition of the new values for amortization purposes occurs starting from the fiscal year in which the step-up is made (e.g., 2020 fiscal year for calendar year companies). For capital gains purposes, tax recognition occurs from the fourth year following the one in which the step-up is made (e.g., from January 1, 2024 for calendar year companies).

In addition, under the 2021 Budget Law, the value of goodwill and other unprotected intangibles resulting from the company's financial statement at the date of December 31, 2019 may be stepped up to the higher book value.[88] As such, the book value is not increased; instead, the lower value of the fixed asset recorded for tax purposes is stepped up to the book value.

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[85] Law Decree No. 104/2020 (*Decreto Agosto*), art. 110.
[86] Law Decree No. 104/2020 (*Decreto Agosto*), art. 110, paragraph 4 bis, as inserted by Law Decree No. 41/2021 (*Decreto Sostegni*), art. 1-bis.
[87] Law Decree No. 23/2020 (*Decreto Liquidità*), art. 6-bis.
[88] Law Decree No. 104/2020 (*Decreto Agosto*), art. 110, as amended by Law No. 178/2020 (2021 Budget Law), art. 1, para. 83.

The step-up may be carried out both by OIC-adopter companies and IAS-adopter companies, via the payment of a 3 percent substitute tax (in up to three equal installments) calculated on the difference between the statutory income and the taxable income recorded in the 2020 financial statements. Tax recognition of the new values occurs from 2021 for depreciation and from 2024 for transfers of assets.

The stepped-up amount, net of withholding tax, is allocated to an untaxed reserve, which may be freely used via payment of a 10 percent substitute tax.

However, the 2022 Budget Law introduced some changes to the step-up regime with respect to certain immovable assets. In particular, for trademarks and goodwill that benefited from the step-up regime through the payment of a 3 percent substitute tax, the tax amortization period is extended from 18 year to 50 years. Thus, only 2 percent of the higher value booked may be deducted as amortization from the taxable income in each financial year.[89]

Taxpayers can elect to preserve the 18-year amortization period for intangibles, provided they pay an additional substitute tax under Article 176, paragraph 2-ter of the TUIR (at the rates of 12 percent, 14 percent, 16 percent depending on the amount of the higher values of the assets that benefited from the step up), net of the 3 percent substitute tax on the stepped up/realigned amount. Payment can be made in two equal instalments due respectively on June 30, 2022 and June 30, 2023.

Taxpayers that elected to pay the 3 percent substitute tax are allowed to revoke the regime in accordance with procedures set out in Regulation No. 370046/2022, and, as a result, are entitled to recover the tax paid as either a refund or a tax credit. However, taxpayers may also revoke the regime for statutory purposes, by cancelling the accounting entries adopted for the step-up at issue.[90]

On March 1, 2022, the Italian Revenue Agency issued Circular Letter No. 6/E/2022 providing administrative guidance on the step-up regime.

**Tax incentives for business combinations**

Certain business combinations allow the tax step-up of certain assets, provided that a substitute tax is paid (see Section 4.4.1)

**Tax treatment of costs related to corporate cars and vehicles**

Costs (including depreciations) relating to corporate cars/vehicles used directly in, and absolutely necessary for, the corporate business activity, are fully deductible, without limits or caps.[91] In other cases, costs are deductible at 20 percent with certain limits.

Costs (including depreciations) relating to corporate cars/vehicles assigned to employees as a fringe benefit for most of the taxable period are deductible at 70 percent, without limits or caps.[92] For newly registered vehicles that are granted for mixed use to employees under contracts entered into from January 1, 2025, the fringe benefit is calculated as follows:

- 50 percent of the amount of the ACI rates (i.e., rates set annually by Automobile Club d'Italia) corresponding to a conventional annual mileage of 15,000 km;
- 20 percent of the above amount in the case of plug-in hybrid electric vehicles; and
- 10 percent of the above amount for battery-powered vehicles with purely electric drive.[93]

**Advertising Bonus**

A tax credit is available for companies, self-employed individuals and noncommercial entities that make investments in advertising campaigns in daily newspapers, periodicals and online press (*bonus pubblicita*). To benefit from the credit, the total value of the investment must exceed by at least 1 percent the value of similar

[89] Law No. 234/2021 (2022 Budget Law), art. 1, para. 622–624.
[90] Law Decree No. 4/2022, as converted with amendments by Law No. 25/2022, art. 3, para. 3-bis; Regulation No. 370046/2022 issued by the Italian Revenue Agency on September 29, 2022.
[91] TUIR, art. 164, para. 1(a).
[92] TUIR, art. 164, para. 1(b-bis).
[93] Law Decree No. 917/1986, art. 51(4), as substituted by Law Decree No. 207/2024, art. 1, para. 48.

investments made through the same media in the previous year. With effect from 2023, the tax credit is equal to 75 percent of the entire incremental value compared to the previous year.[94]

The tax credit has to be requested from the Italian tax authorities.

**Tax incentives for the tourism sector**

***Tax credit and non-repayable grant under the National Recovery and Resilience Plan***

Businesses operating in the tourism sector are eligible for a tax credit equal to 80 percent of qualifying expenditure until October 31, 2025.[95]

Eligible entities are hotels, facilities carrying out agritourism activities, open-air accommodation facilities, as well as businesses in the tourism, entertainment, exhibition and congress sector, including bathing establishments, thermal spa complexes, tourist ports and theme parks.

Qualifying expenditure includes costs incurred in the following projects:

- improving the energy efficiency of buildings and anti-seismic requalification;
- removal of architectural barriers;
- certain specified construction projects;
- construction of thermal pools and purchase of equipment for certain thermal spa activities; and
- digitalization.

The tax credit can only be used by offsetting, starting from the year following the one in which the projects are carried out and without any limitation as to the amount. The tax credit can be transferred, in whole or in part, with the right to further transfer to third parties, including banks and other financial intermediaries.

The tax credit does not constitute income for IRES and IRAP purposes.

In addition to the tax credit, eligible businesses are entitled to a non-repayable grant, up to a maximum amount of 40,000 euros, which can be increased by an additional:

- 30,000 euros, if the project includes costs for the digitalization and technological and energetic innovation of the establishment equal to at least 15 percent of the total value of the project;
- 20,000 euros, for women entrepreneurs meeting the requirements under Article 53 of Legislative Decree No. 198/2006 or young entrepreneurs (e.g., cooperatives or partnerships consisting of at least 60 percent of young people aged between 18 and 35 years; joint stock companies with at least two thirds of the shares owned by young people and with administrative bodies made up for at least two thirds by young people); and
- 10,000 euros, for businesses whose operational headquarters are located in one of the following regions: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily.

In any case, the non-repayable grant is capped at 100,000 euros and cannot exceed 50 percent of the costs incurred.

Subject to state aid rules, the non-refundable grant can be combined with the tax credit discussed above, provided that the incentive does not exceed the cost incurred for the eligible project.

Neither the tax credit nor the non-repayable grant can be cumulated with other public contributions, subsidies or incentives granted for the same projects.

Taxpayers wishing to benefit from the incentives are required to submit an online application in the form as specified in the Tourism Ministerial Decree dated December 23, 2021. The tax incentives are granted, while the allocated budgetary resources last, according to the chronological order of the applications.

[94] Law Decree No. 50/2017, art. 57-bis, as amended by Law Decree No. 17/2022, art. 25-bis.

[95] Law Decree No. 152/2021 (*Decreto PNRR*), art. 1, as converted into law, with amendments, by way of Law Decree No. 233/2021, and further amended by Law No. 202/2024, art. 14, para. 1(a).

**Tax credit for SME listing costs**

A tax credit for the costs incurred on advisory services related to the listing of an SME in a regulated market or in multilateral trading systems of an EU/EEA Member State is available until December 31, 2027.[96]

The tax credit may be awarded up to a maximum of 50 percent of the overall costs incurred, up to a maximum amount of 500,000 euros. The implementation rules for this tax credit can be found in Ministerial Decree dated April 23, 2018.

**Assignment of assets to shareholders (*assegnazione agevolata*)**

From January 1, 2025, a special regime is available to corporations or partnerships that, by September 30, 2025, assign or transfer to their shareholders real estate or registered movable assets not directly used in the business. This regime aims to simplify and reduce the tax burden associated with such transactions, by providing reduced tax rates on capital gains realized from these asset transfers.

The regime is conditional on all shareholders being registered on the shareholders' register on September 30, 2024 or within thirty days from January 1, 2025, by virtue of a transfer title dated before October 1, 2024.

The regime also applies to companies whose purpose is the management of assets within the scope of the regime, and which transform into *società semplici* (non-commercial simple partnerships) by September 30, 2025, and thus move outside the scope of the rules on business income (including the shell companies regime, for which, see above). In this case, all shareholders must be on the register of partners on September 30, 2024.

Under this regime, a substitute tax is charged at the rate of 8 percent on the capital gains of the assigned assets or those of the transformed company. This rate increases to 10.5 percent for companies that are considered shell companies (unless there is a disapplication clause) in at least two of the three financial years in the period from 2022 to 2024.

The tax must be paid in two instalments: 60 percent by September 30, 2025 and the remaining 40 percent by November 30, 2025.

The capital gain is determined on the basis of the assignment value. This may be chosen, for each real estate asset, from one of the following values: normal value; cadastral value and intermediate value.

The substitute tax exhausts, up to the amount declared, any further tax burden for the shareholders. However, in the case of an assignment with a distribution of profit reserves, the shareholder is taxed on the excess between the assignment value and the capital gain subject to substitute tax. This constitutes a dividend in kind.

If tax-suspended reserves (*riserve in sospensione d'imposta*) are used to assign the assets, the company must pay an additional substitute tax at the rate of 13 percent on the cancelled amount.[97]

**Reshoring of economic activities**

With effect from the 2024 tax period, 50 percent of the income from business and professional activities carried out in a non-EU/EEA jurisdiction and transferred to Italy is not included in the taxable income for IRES and IRAP purposes, except where the transferred activities had been carried out in Italy in the 24 months preceding the transfer.[98]

The exemption applies in the tax period of the transfer and in the following five tax periods, and is subject to recapture (with interest but without penalties) if the activities are re-transferred outside Italy, even partially, within five years (10 years for large enterprises) following the expiration of the regime.

The effectiveness of this regime is subject to approval by the European Commission under state aid rules (still pending).

[96] Law No. 205/2017 (2018 Budget Law), art. 1, para. 89, as amended most recently by Law No. 207/2024, art. 1, para. 449(a).

[97] Law No. 207/2024, art. 1, paras. 31–36.

[98] Legislative Decree No. 209/2023, art. 6.

**Enhanced deduction for newly hired personnel**

In the 2024 to 2027 tax periods, for the purpose of determining income subject to IRES, taxpayers that were engaged in business activities throughout the tax period immediately preceding the relevant tax period can benefit from an enhanced deduction for qualifying costs of newly hired personnel with permanent contracts. Generally, the enhanced deduction is 120 percent of such costs; this is increased to 130 percent for certain categories of employees.[99]

The deduction applies to the cost attributable to the increase in employment, calculated as the lower of (i) the cost actually incurred for the new hires, and (ii) the overall increase in personnel costs, resulting from the profit and loss statement, compared to the tax period immediately preceding the relevant tax period.

The additional deduction applies provided that:

- the number of permanent employees at the end of the relevant tax period is greater than the average number of permanent employees in the immediately preceding period; and
- the number of employees (including those on a temporary contract) at the end of the relevant tax period is greater than the average number of employees in the immediately preceding tax period.

**Tax credits for investment in new capital assets**

See Section 2.4.4.

### 2.7. Double Taxation Protection

#### 2.7.1 Mechanics

To avoid international double taxation, an ordinary foreign tax credit is granted. The credit is calculated on a per-country basis and in some cases is available for taxes that are not part of a double tax treaty.

In general, the tax credit against IRES covers direct foreign taxes, i.e., withholding taxes and taxes on business income. However, taxes definitively paid (before the tax return of the year following the Italian tax year) abroad may be credited against the Italian corporate income tax up to an amount of Italian tax corresponding with the foreign income. In the event of uncertainty about the credit and whether foreign taxes are covered by the credit, a taxpayer may request a ruling.

Furthermore, taxes paid in the foreign country upon distribution of profits may also be credited against the Italian tax, up to the amount of tax due in Italy on those profits.

Excess foreign tax credits may be carried forward for eight tax years and may be carried back for eight years.

As a general rule, the tax credit must be claimed in the tax return relating to the year in which the foreign income must be included in the IRES taxable base, provided that the foreign tax is definitively paid before the deadline for filing the tax return, otherwise the right to the tax credit is lost.

Where dividends arising from companies resident in jurisdictions with a "privileged tax regime" are fully included in the taxable income of Italian residents, a partial tax credit may be available if (a) tax is paid in the distributing company's resident jurisdiction and (b) certain other requirements are satisfied (see Section 2.5).

A foreign tax credit is granted also if the Italian company carried out an activity abroad through a PE, unless the Italian company elects the PE profits exemption regime. This latter makes as exempt the income derived through foreign PEs for corporate income tax purposes. In this case, the election cannot be revoked and automatically extends to all of the company's PEs ("all-in" principle).

#### 2.7.2 Treaty or Statutory Priority

When making payments to nonresidents, an Italian withholding agent may apply the treaty exemption or reduced treaty rates under its own responsibility.[100]

To this end, the nonresident entity will need to provide:

[99] Legislative Decree No. 216/2023, art. 4, Law No. 207/2024, art. 1, paras. 399–400.
[100] Ministry of Finance Resolution No. 68 of May 24, 2000.

- a self-declaration stating the existence of all the subjective and objective requirements for the application of the double tax treaty; and
- a certificate of residence issued by the taxing authority of its country of residence.

For treaty information, including the number of agreements signed or in force, original treaty texts, translations, consolidations and any modifications made by the Multilateral Instrument, if applicable, see the International Tax Treaties Collection.

#### 2.7.3 Source of Interpretation

With regard to its treaty policy and interpretation, Italy generally follows the Model Tax Convention on Income and on Capital and the related Commentary provided for by the OECD.

### 2.8. Returns and Filing Dates

#### 2.8.1 Filing Deadline

Companies resident in Italy for tax purposes and nonresidents with a PE in Italy must file their corporate income tax return (for IRES and IRAP purposes) electronically by the last day of the tenth month following the end of the relevant tax year (i.e., under the general rule, October 31 for calendar year companies).[101]

Partnerships are subject to separate Redditi SP tax return filing rules, the deadlines for which are the same as for filing individual income tax returns (see Section 6.3.2). Further information on the Redditi SP regime is available on the Revenue Agency website (for which, see Section 1.4).

***Planning Point*:** *Note that the filing deadline changes for the corporate income tax return from May 2, 2024 also affect the timeframe for preparing the transfer pricing documentation required to benefit from the transfer pricing penalty protection regime (see Section 7.5).*

If the filing deadline falls on a Saturday or public holiday, the due date is automatically extended to the following working day.[102]

In the case of corporate reorganization (e.g., merger or demerger), the filing deadline is the ninth month following that in which the business combination occurs.[103]

#### 2.8.2 Filing Method

**Tax returns must be filed electronically.**

Taxpayers can use the free software provided by the Italian Revenue Agency for the completion of the corporate income tax return. Once completed, the tax return must be submitted online via the Revenue Agency's online services portal. For a link to this portal, see Section 1.4.

For taxpayers to be able to access the online services, they must obtain the following credentials:

- Public Digital Identity System (*Sistema Pubblico d'Identità Digitale* or SPID) credentials;
- Revenue Agency online service credentials (*Fisconline/Entratel*); or
- a National Service Card (*Carta Nazionale dei Servizi* or CNS).

Once the tax return has been submitted, the electronic system will issue an acknowledgement of receipt of the file. If no errors are detected, the system will send a notification to the taxpayer confirming submission of the tax return.

#### 2.8.3 Extensions

Income tax returns submitted within 90 days of the statutory deadline are deemed valid. A return filed after 90 days is treated as omitted.[104]

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[101] Presidential Decree No. 322/1998, art. 2, para. 2, as amended by Legislative Decree No. 1/2024, art. 11, para. 1(b), which was itself amended by Legislative Decree No. 108/2024, art. 2, para. 6(a).
[102] Law Decree No. 70/2011, art. 7, para. 1(h).
[103] Presidential Decree No. 322/1998, art. 5-bis.
[104] Presidential Decree No. 322/1998, art. 2, para. 7.

Validly submitted tax returns may be further amended by the taxpayer within five years of filing the relevant tax return (this is known as *dichiarazione integrativa*).[105]

### 2.8.4 Penalties

Failure to submit a tax return is punishable by a penalty equal to 120 percent of the tax due, subject to a minimum penalty of 250 euros. However, if a return is submitted within 90 days from the statutory deadline, the penalty is reduced to 1/10th of the minimum amount (i.e., 25 euros).[106]

Tax returns showing a lower taxable income, or a higher tax credit, than the one due may trigger a penalty equal to 70 percent of the additional tax due, subject to a minimum penalty of 150 euros. The penalty is increased by half to double in the case of fraud.[107]

*Cooperative compliance regime and penalty protection*

Italy has an optional cooperative compliance regime (*adempimento collaborativo*) which seeks to promote cooperation between taxpayers and tax authorities on uncertain or controversial tax issues, with the aim to prevent tax litigation and to reduce or eliminate tax penalties.[108]

The regime is available to taxpayers with an effective and integrated tax control framework (TCF) in place, which allows the taxpayer to identify, measure, manage and control tax risks in the business. The TCF must be certified by an independent qualified professional (i.e., a lawyer or chartered accountant) in accordance with the rules prescribed by Ministerial Decree dated November 12, 2024.

The regime is available to taxpayers with turnover or revenue of at least 750 million euros from 2024, 500 million euros from 2026, and 100 million euros from 2028. Eligible taxpayers wishing to benefit from the regime must apply on the Italian Revenue Agency website. If the request is approved, the beneficial regime applies for the tax period in which the application was made and is automatically renewed, unless expressly revoked by the taxpayer.

With effect from 2024, taxpayers who are covered by the regime enjoy the following benefits:

- no administrative penalties apply to taxpayers who disclose tax risks in a timely and comprehensive manner, before the submission of the tax return or before the expiry of the relevant tax deadline;
- a penalty protection for criminal purposes is granted with respect to an unfaithful tax return (*dichiarazione infedele*); and
- the statute of limitation for direct taxes and VAT purposes is reduced by two years for taxpayers with a TCF certified by independent professionals (three years under certain circumstances), except in the case of fraud or artificial arrangements.

Taxpayers who do not meet the requirements of the cooperative compliance regime can still benefit from reduced penalties if they choose to adopt a TCF and communicate it to the tax authorities. The election lasts for two tax periods and is renewable.

The TCF must be (i) certified by an independent qualified professional (i.e., a lawyer or chartered accountant) under Ministerial Decree dated November 12, 2024 and (ii) compliant with rules prescribed by Ministerial Decree November 21, 2024 and guidelines issued by the Italian Revenue Agency with Regulation No. 5320/2025.

## 2.9. Payment Mechanics

### 2.9.1 Internal Withholding on Resident Companies

As a general rule, no withholding tax is applied on payments made to resident companies.

[105] Presidential Decree No. 322/1998, art. 2, para. 8, read with Presidential Decree No. 600/1973, art. 43, para. 1.
[106] Legislative Decree No. 471/1997, art. 1, para. 1, as amended by Legislative Decree No. 87/2024, art. 2, para. 1(a); Legislative Decree No. 472/1997, art. 13, para. 1(c).
[107] Legislative Decree No. 471/1997, art. 1, paras. 2, 3, as amended by Legislative Decree No. 87/2024, art. 2, para. 1(a).
[108] Legislative decree No. 128/2015, Title III (arts. 3–7-bis), as amended by Legislative decree No. 221/2023, art. 1, and implemented by Ministerial Decree dated December 6, 2024.

### 2.9.2 Schedule for Tax Payments or Deposits

Two advance payments or installments are due for IRES and IRAP purposes. The payment should be equal to 100 percent of the tax liability for the previous tax period.

The installments are payable as follows:

- 40 percent due by the last day of the sixth month after the end of the tax year; and
- 60 percent due by the last day of the 11th month after the end of the tax year.

Settlement payments may also be required.

For companies subject to the synthetic indices of tax reliability (*Indici sintetici di affidabilita* or ISA),[109] the installments above are split into two payments:

- 50 percent due by the last day of the sixth month after the end of the tax year (i.e., June 30 for calendar year companies); and
- 50 percent due by the last day of the 11th month after the end of the tax year (i.e., November 30 for calendar year companies).

### 2.9.3 Electronic Payments

Companies must pay taxes electronically, via the "F24" payment form.

### 2.9.4 Interest and Penalties

Failure to pay tax or the late payment of tax may result in a penalty of 25 percent of the amount due (30 percent for infringements committed before September 1, 2024). This is reduced to 15 percent if the tax is paid within 90 days of the due date. Further reductions on penalties are granted for taxpayers who disclose irregularities and pay any outstanding tax owed, together with the applicable penalties and interest, before the Italian Revenue Agency carries out a tax audit (this is known as *ravvedimento operoso*).[110]

The applicable interest rate is determined by the Minister of the Economy under Article 1284 of the Italian Civil Code.

## 2.10. Statute of Limitations

Normally, the taxing authorities must assess any tax in addition to that shown on the original return within five years from the filing of the return (IRES, IRAP, VAT, and withholding).[111]

However, the statute of limitations is extended to seven years from the filing of the return in cases where there was a failure to file a return.

*Planning Point: Certain taxpayers may be able to benefit from a reduced statute of limitation by participating in Italy's cooperative compliance regime. For more information on the regime, see Section 2.8.4.*

# 3. Corporate Tax Rates

## 3.1. National Taxes

### 3.1.1 Corporate Tax Rates

Current rate: 24 percent

The corporate income tax (IRES) rate is 24 percent.

For most companies, an additional tax (the Regional Tax on Productive Activities, or IRAP) is added at a rate of 3.9 percent. IRAP for financial institutions and insurance companies is determined at different rates. For more information on IRAP, see Section 9.4.

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[109] ISA are turnover presumption indicators based on standardized economic models of different business activities and aimed at assessing whether a company's taxable income is in line with its applicable standard model, which presumes a minimum amount of income.

[110] Legislative Decree No. 471/1997, art. 13, as amended by Legislative Decree No. 87/2024, art. 2, para. 1(a).

[111] Presidential Decree No. 600/1973, art. 43.

Banks, parent companies of banking groups, individual asset management companies, financial intermediaries, electronic money institutions, payment institutions, and financial companies are subject to a 3.5 percent surtax, so that the effective IRES rate for such entities is 27.5 percent.

For the IRES rate applicable to certain new investments in technological assets, see Section 2.6.3.

For the IRES rate applicable to non-operating companies, see Section 2.6.4.

#### 3.1.2 Alternative Tax Regime

There is no alternative tax regime.

#### 3.1.3 Special Reduced Rates or Regimes

For a discussion of Italy's special reduced rates and regimes in the context of corporate income tax, see Section 2.6.

#### 3.1.4 Special Additional Taxes or Levies

There are no special additional taxes or levies.

### 3.2. State, Cantonal, Provincial or Other Local Taxes

#### 3.2.1 Main Rates

There are no state, cantonal, provincial or other local taxes.

#### 3.2.2 Reduced Rates

There are no state, cantonal, provincial or other local taxes.

#### 3.2.3 Income Tax Base

There are no state, cantonal, provincial or other local taxes.

#### 3.2.4 Income Tax Deductions

There are no state, cantonal, provincial or other local taxes.

#### 3.2.5 Incentives

There are no state, cantonal, provincial or other local taxes.

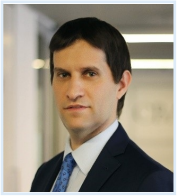
#### 3.2.6 Non-Income Taxes in States

There are no state, cantonal, provincial or other local taxes.

### 3.3. Taxes Imposed as a Penalty

There are no taxes imposed as a penalty.

# About the Author



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