

FACTSHEET – TAXATION IN ITALY

(As of August 2010)

A. Taxation of stock corporations and limited liability companies

1. Fiscal year

Is in general the calendar year (a deviating accounting year is possible).

2. Company domicile

Stock corporations („Spa“) or limited liability companies („Srl“) with production facilities / their domicile or administrative offices based in Italy are subject to taxation in Italy.

3. Corporate income tax („IRES“)

Tax rate: 27.5% on taxable profit.

The levying of corporate income tax is final. There are no tax credits at shareholder level.

4. Regional tax on productive activities („IRAP“)

Tax rate: 3.9% on result from ordinary activities before personnel costs (some regions can deduct the tax rate by 0.5%; in South Tyrol a tax rate of 2.98% is applied when certain conditions are met).

5. Taxation of dividends from stock corporations and limited liability companies

Resident corporations: taxable income is 5% of dividends perceived; under certain conditions the transparency principle can be applied;

Non-resident corporations: 27% withholding tax on dividends paid respectively reduced taxation based on the relevant double taxation treaty; exemption from withholding tax when the EU Parent/Subsidiary Directive applies.

6. Taxation of capital gains on shareholdings in stock corporations and limited liability companies

Resident corporations: taxable income is 5% of capital gain under certain conditions („participation exemption“), otherwise ordinary taxation is applied;

Non-resident corporations: in general no taxation on capital gains based on the relevant double taxation treaties.

7. Losses of resident corporations

Losses to be carried forward: no restrictions with respect to losses occurred during the first three fiscal years; thereafter losses can be carried forward for a maximum of five years;

In the case of tax consolidation: possibility to compensate taxable bases of different group companies; losses of one group company can be compensated with profits from other companies in the group.

8. Depreciation and amortization

Linear depreciation on purchase respectively production costs; no anticipated depreciation possible

- Buildings: 3%; land is not depreciated;
- Plant and machinery: 6-17.5%; technical and commercial equipment: 12-40%;
- Goodwill and trade marks: 5.55%; Software: 50%;
- Cars: 25%; freight vehicles: 20%.

9. Limitation on deductibility of interest expenses

Interest expenses are deductible in the amount of 30% of EBITDA. No limitations for deductibility apply for banks, insurance companies, financing companies and property renting companies.

10. Value-added tax („IVA“)

Standard tax rate: 20%; reduced tax rates: 4% and 10% (e.g. 10% for PV plants).

11. Real estate transactions (commercial property)

In general VAT of 20% plus registration tax of Euro 168, land registry tax of 3% and cadastral tax of 1% are applied.

12. Municipal property tax („ICI“)

On buildings and certain specific plant & equipment permanently linked to the surface of the land (e.g. wind or PV plants) as well as on building land an annual municipal property tax in the range of 0.4% to 0.7% applies. The taxable base is the adjusted market value of the property that is calculated based on a fictitious rental income.

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B. Taxation of partnerships

1. Transparency principle

With the exception of the regional tax on productive activities taxation of profits is at partner level (transparency principle) with personal income tax (partner = individual) respectively corporate income tax (partner = legal entity).

2. Taxable income rules

Taxable income rules are similar to those for stock corporations and limited liability companies; no restrictions with respect to deductibility of interest expenses apply.

3. Taxation of dividends from stock corporations and limited liability companies

Taxable income is 49.72% of dividends perceived.

4. Taxation of capital gains on shareholdings in stock corporations and limited liability companies

Taxable income is 49.72% of capital gain under certain conditions („participation exemption“), otherwise ordinary taxation is applied.

C. Taxation of individuals

1. Unlimited tax liability

Individuals (natural persons) who reside in Italy or live and work in Italy for more than 183 days pay taxes in Italy based on their individual worldwide income.

2. Limited tax liability

Individuals (natural persons) who are not resident in Italy or do not live and work in Italy for more than 183 days only pay taxes in Italy on certain types of income earned in Italy.

3. Nationality

The nationality is in general no criterion for determination of unlimited or limited tax liability.

4. Taxation of dividends from stock corporations and limited liability companies

- Non-qualified shareholdings (voting rights below 20% or shareholdings below 25% in non-listed companies respectively 2% or 5% in listed companies): definite withholding tax 12.5%;
- Qualified shareholdings (if limits of non qualified shareholdings are exceeded): taxable income is 49.72% of dividends perceived;
- Transparency principle in the case of a shareholding in a limited liability company: under certain circumstances taxation is directly at shareholder level (the company does not pay any corporate income tax).

5. Taxation of capital gains on shareholdings in stock corporations and limited liability companies

- Non-qualified shareholdings (see definition above): definite withholding tax 12.5%;
- Qualified shareholdings (see definition above): taxable income is 49.72% of capital gain.

6. Tax rates

The progressive tax rate starts at 23% and ends at 43% with a taxable income exceeding Euro 75,000 per annum; there are certain tax deductions (e.g. for medical expenses).

7. Real estate transactions (residential property)

- VAT of 10% plus registration tax, land registry tax and cadastral tax of Euro 168 each; or alternatively in certain cases
- registration tax of 7% plus land registry tax of 2% and cadastral tax of 1%.

8. Social contributions for employees

Social contributions range from 33% to 45% of the gross salary of the employee, thereof about 9% is the employee's contribution.

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