Taxation in Italy

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Taxation in Italy

International Tax and Business Service
Taxation in Italy

International Tax and Business Service
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Taxation in Italy is part of a series that presents information on taxation in various countries of the world. The book is intended to supply information of a general character regarding taxation in Italy for use as background when considering the conduct of business in that country. Specific questions should be answered by reference to the laws and regulations of the country and by consultation with professional advisors in the light of the particular circumstances.

Taxation in Italy is published in two forms: in a loose-leaf edition and as a bound book. Only the loose-leaf edition may be supplemented or revised. These supplements will appear on blue-colored sheets inserted at the end of the book. These supplementary pages will be keyed to the original text by chapter and section numbers and should always be read in connection with the original text. In addition, revised information may be presented on pages inserted in the basic text to replace original pages. Revisions of this type are indicated by a date that appears on the bottom of each replacement page.

Rules governing taxation are subject to change and reinterpretation, in many cases with little or no advance notice. The information in this book is based on material available to Deloitte Haskins & Sells as of April 1979.
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Part 1: The Tax System
**Chapter 1**  
**Italy**

**Tax Legislation and Administration**

**1.01 Enactment of Tax Legislation**

The Parliament, consisting of the Senate and the Chamber of Deputies, has complete and ultimate legislative power over taxation and public spending. In case of emergency, the executive branch may issue decrees on tax and other matters. But, such decrees have temporary legal standing and are subject to Parliamentary veto or ratification, with or without modification, within 60 days of their publication. If Parliament takes no action, the decree becomes null and void from inception.

Parliament must observe certain general principles of fiscal policy that are stated in the Constitution. The relevant articles of the Constitution are Article 15, which states that tax laws may not be subject to a popular referendum; Article 53, which states that everyone is to contribute to public revenues in proportion to his means, thereby establishing the criterion of progressive taxation; and Article 81, which provides that the annual budget proposal cannot introduce new taxes.

**Sources of Tax Law.** Article 23 of the Constitution provides that all taxes, in their essential outlines, must have their source in law. Laws require, of course, the approval of both the Senate and the Chamber of Deputies, in accordance with established procedures. In practice, matters of tax legislation and administration are also dealt with in the following:

- Legislative decrees issued by the government. As already mentioned, such decrees are temporary measures used in case of emergency.

- Delegated decrees. Parliament may approve only the general criteria and guidelines of a new tax law, and then the government formulates the specifics of such new law by issuing delegated decrees within the criteria and guidelines set down by Parliament. For example, the recent tax reform was formulated by the government in the form of delegated decrees on the basis of a law approved by Parliament.

- Regulations issued by administrative bodies in carrying out their normal duties. These rules, of course, cannot modify or annul laws.

- Administrative rulings. Generally, these are published in the form of circulars and contain suggestions and directives on, and explanations of, controversial matters. Such rulings, however, are not binding on judges, who resolve controversies according to their own interpretation of the law.
1.02 Tax Administration

Tax administration is the responsibility of the Ministry of Finance. The Ministry has various departments dealing with direct taxes, indirect taxes, customs duties, etc. These departments supervise the local tax offices and the local inspectorates of direct and indirect taxes.

1.03 Judicial Review

A taxpayer may contest an assessment by the administrative authority. The appeal may be of either an administrative or a judicial nature through the following routes:

- **Appeal through normal administrative channels for review by a higher authority than that which issued the decision in question.**
- **Appeal to a Tax Commission that has power to resolve certain fiscal controversies.** The Tax Commission consists of three levels of courts that are independent of the tax authorities. Thereafter, the taxpayer may appeal to the Central Tax Commission.
- **Appeal by legal action to civil courts.** This procedure provides for review at two levels.

Appeals are allowed in cases involving a matter of law or fact and for other substantive causes, but are not allowed in connection with estimates of value or the amount of fines.

In cases involving a violation of law or possible constitutional questions, it is also possible to appeal to the Supreme Court. The decisions of the Central Tax Commission and Supreme Court are normally published. Although not fully binding, such decisions represent a very authoritative pronouncement for the lower courts and Tax Commission in subsequent disputes.

All appeals are normally handled by the legal representative of the taxpayer. Legal actions in civil courts must be handled by an attorney.

1.04 Taxes Imposed by Local Authorities

Regions, provinces, municipalities, and certain other local bodies may establish their own taxes within certain limits. However, since the tax reforms of January 1973 and January 1974, such local powers are greatly limited.
Distinctive Features of the Italian Tax System

2.01 Summary

Italy has four basic classifications of taxes: direct taxes, indirect taxes, duties, and employment taxes. Direct taxes are related to income; indirect taxes are related to transactions; duties are payments made for public services received directly by the taxpayer; and employment taxes are related to salaries and wages.

Significant tax reforms have taken place in recent years. The taxes in effect since these reforms are listed below, together with their Italian abbreviations. These abbreviations will continue to be referred to throughout this book.

Direct taxes—introduced January 1, 1974:
- IRPEF—imposta sui redditi delle persone fisiche
  income tax on individuals
- IRPEG—imposta sui redditi delle persone giuridiche
  income tax on legal entities
- ILOR—imposta locale sui redditi
  local income tax

Indirect taxes—introduced January 1, 1973:
- IVA—imposta sul valore aggiunto
  value added tax
- INVIM—imposta sull’incremento di valore degli immobili
  municipal tax on appreciation of real estate

Entertainment tax
Estate and gift taxes

Duties
Communal tax on advertising
Registration tax
Stamp duties
Mortgage and cadastral duties

2.02 Classification of Taxpayers

Taxpayers are divided into two main classifications: (1) individuals and (2) legal entities. All legal entities are subject to local income tax (ILOR). Moreover, all legal entities, other than the general and limited partnerships, are subject to income tax on legal entities (IRPEG). Income of general and limited partnerships is attributed to each partner on the basis of the underlying partnership agreement.
and each partner is then taxed on such income as an individual (IRPEF). The types of legal entity provided for in the Italian Civil Code are outlined below.

**Corporation (Società per Azioni).** The corporation (SpA) acquires legal status by being recorded on the register of business enterprises. The registration must be made by notarized articles of incorporation. The shareholders' liability is limited to the subscribed share capital unless there is a single shareholder, in which case such shareholder has unlimited liability.

The required minimum capital of Lire 1,000,000* has been increased to Lire 200,000,000 for corporations formed after December 17, 1977. Existing corporations have three years in which they may adjust their capital to the new limits, change their legal status to a limited liability company or a partnership, or be put into liquidation. This period is reduced to six months for corporations formed after August 26, 1977.

The shareholders must meet at least once a year to approve the corporation's balance sheet. Management may be delegated to one or more directors who need not be shareholders. A board of statutory auditors, of three to five members plus two alternates, has the general responsibility of reviewing the management of the corporation and insuring that the accounts are kept properly as provided for by law.

**Limited Liability Company (Società a Responsabilità Limitata).**

The limited liability company (SRL) is similar to the SpA, except that ownership is not represented by shares. Liability is limited to subscribed capital.

The required minimum capital of Lire 50,000 has been increased to Lire 20,000,000 for companies formed after December 17, 1977. Existing companies have three years in which they may adjust their capital to the new limits, change their legal status to a partnership, or be put into liquidation. A board of statutory auditors is required only if the capital is Lire 100,000,000 or more or if mandated in the by-laws.

**General Partnership (Società in Nome Collettivo).** In a general partnership (SNC), the partners are personally liable without any limitation for the obligations of the business. The partnership is managed by one or more directors, each of whom must be a partner. Individual partners may not engage in activities that compete with those of the partnership.

**Limited Partnership (Società in Accomandita Semplice).** A limited partnership (SAS) must have general partners (accomandatari) with unlimited liability for obligations of the business, and

* Stands for Italian monetary unit.
limited partners (accomandanti) liable only to the extent of capital contributed. Management is the exclusive responsibility of the unlimited partners. If limited partners deal with business transactions, they take upon themselves unlimited liability for those transactions.

**Joint Stock Partnership (Società in Accomandita per Azioni).**
The joint stock partnership (SaPA) is similar to an SAS, except that ownership is represented by shares.

**2.03 Tax Year and Base Period**

The basic tax period of IRPEF is the calendar year. For IRPEG, the basic tax period is the accounting period designated in the articles of incorporation or association of the legal entity.

Business income is taxable in the accounting period in which it arises, unless the existence of such income is not yet certain or its amount is not yet reasonably determinable.

**2.04 Tax Incentives**

Before the tax reform, numerous tax incentives had been introduced in a series of special laws. Currently, tax incentives are offered for activities in Southern Italy, Sardinia, Sicily, the Isle of Elba (referred to as the Mezzogiorno), and in certain depressed areas of Northern and Central Italy. The following are the main tax incentives:

**Profits Reinvested in Industrial Enterprises in the Mezzogiorno.**
The portion of taxable profits declared by a corporation or a limited liability company that is utilized in the construction, enlargement, or reestablishment of industrial plants in the Mezzogiorno enjoys exemption from ILOR up to a maximum amount equivalent to 70% of the declared taxable profit or the cost of construction work and of plant and equipment, whichever is lower.

**Profits Reinvested in Agricultural Enterprises in the Mezzogiorno.**
The portion of taxable profits declared by a corporation or a limited liability company that is utilized in the transformation or improvement of agricultural land in the Mezzogiorno is exempt from ILOR up to a maximum of 50% until December 31, 1980.

**New Industrial Plants, Corporations, and Limited Liability Companies in the Mezzogiorno.** Income derived from the establishment, enlargement, or reestablishment of industrial plants in the Mezzogiorno is exempt from ILOR for ten years from the date on which production commences. Corporations and limited liability companies organized in the Mezzogiorno for the purpose of carrying out production activities there are exempt from ILOR and have a 50% reduction in their liability to IRPEG for ten years from the date of their formation.
**Investments in other Depressed Areas.** New industrial enterprises organized for the production of goods in the depressed areas of Northern and Central Italy are exempt from ILOR for ten years from the date on which operations start if their investments in fixed assets do not exceed Lire 2,000 million. This concession also applies to the additional income derived from plant expansion, as long as the amount invested in fixed assets does not exceed Lire 2,000 million.
Part 2:
Income Taxes
Chapter 3

Italy

Tax Rates

3.01 Individuals

IRPEF, the income tax on individuals, is the most important element of the Italian system of direct taxation. The tax rates increase progressively from 10% on income of less than Lire 3 million to 72% on income over Lire 550 million (Rate Tables).

As a general rule, the tax rates are applied to the aggregate income of the individual and dependents, less allowable deductions and tax credits, as explained in Chapter 10.

3.02 Corporations

The income tax on legal entities (IRPEG) is levied on taxable income at the flat rate of 25%.

3.03 Local Income Tax—ILOR

The local income tax (ILOR) is levied on the income of both individuals and legal entities. Thus, these taxpayers are subject to two income taxes. While ILOR is referred to as a local income tax, it is collected by the central government and allocated to various regions, provinces, municipalities, and certain other local organizations. For the period from fiscal 1977 to December 31, 1980, the local income tax is levied at 15%.

For local income tax purposes, an individual is entitled to deduct 50% of taxable income from agriculture, business, and self-employment if such activity constitutes his main occupation, or a minimum annual deduction of Lire 6 million. The maximum annual deduction is Lire 12 million. Wages and salaries are not taxable for ILOR purposes. The types of income not taxable for ILOR purposes, for both individuals and corporations, are discussed at 6.05.

The taxable income of corporations and other legal entities is determined generally on the same basis as for IRPEG. For IRPEG purposes, the local income tax is deductible starting with the fiscal year in process on December 18, 1977. Taking this into account, the actual combined tax burden on a corporation has been reduced to 36.25%, without taking into account any tax incentives, the dividend tax credit discussed at 5.02, the possible tax credits discussed at 11.02, carryforward losses (7.08) and other adjustments discussed in Chapter 7.

Income from property had been subject to ILOR tax on a calendar-year basis. Such income is now reported and taxed on the basis of the annual tax return.
Returns, Assessments, and Payment of Tax

4.01 Returns and Assessments

In general, all taxpayers must prepare an annual tax return. However, those individuals who only have exempt income and/or income subject to final tax withholding at source, or only income from property (land and buildings) not exceeding Lire 360,000 or only income from employment not exceeding Lire 1,620,000 per year are not required to file tax returns.

Tax returns must be prepared on forms approved by the Ministry of Finance. Tax returns for IRPEF must be prepared on a calendar-year basis. They must be filed between May 1 and May 31 and include the income of the preceding calendar year. Tax returns for IRPEG must be filed by corporations within one month after the shareholders have approved the financial statements for the underlying accounting period. A copy of the financial statements must be attached to the tax return, which must be filed with the tax office of the municipality in which the corporation has its fiscal domicile. Tax returns must be signed by the taxpayer or a nominated representative.

If a corporation or other legal entity subject to IRPEG is put into liquidation, the liquidator must file a return within four months from the date on which the resolution to liquidate became effective. Such return must cover the period starting with the end of the last accounting period and ending with the date the resolution to put the entity into liquidation becomes effective. During the liquidation, the liquidator must file a tax return for every accounting period; and the return covering the final liquidation period must be filed within four months of the end of the period. (See also 9.07.)

The transformation of a legal entity may result in a change in its tax status, such as becoming subject to, or exempt from, IRPEG. In this event, a tax return for the interim period between the end of the last accounting period prior to the transformation and the date on which the transformation becomes effective must be filed within four months from the latter date.

In the case of a merger, the corporation (or limited liability company) resulting from the merger must file tax returns on behalf of the predecessor corporations for the interim periods ending on the date the merger became effective. These returns must be filed within four months of that date.

The tax office is authorized to issue assessments to taxpayers who have not filed a tax return or whose return has not been prepared in accordance with the law. In such cases, the tax office estimates the taxpayer's income on the basis of the information in its possession.
4.02 Payment of Tax

Income taxes may have to be withheld at the source, as outlined in Chapter 5. Taxes so withheld (other than those withheld on interest) must be paid to the tax collection office by the 15th of the following month. Taxes withheld on interest must be paid within two months after the end of the basic tax period in which they were withheld.

IRPEG must be paid to the tax collection office at the time of filing the annual tax return. IRPEF must also be paid when filing, but to designated banks and credit institutions. ILOR must also be paid to the tax collection office when the annual tax return is filed.

Advance tax payments of IRPEF or IRPEG were introduced during 1977. These advance payments are due by the end of November for IRPEF and for IRPEG by those companies that operate on a calendar-year basis. For companies operating on other than a calendar year, the advance tax payment is due by the end of the eleventh month of their fiscal years. The payment must be no lower than 75% of the tax paid for the preceding year or of the final tax due for the current year. Starting with the fiscal period in process at January 1, 1978, advance payments of ILOR must also be made on the same basis as outlined for IRPEG and IRPEF. The failure to make advance payments results in interest charges and surtax (4.04).

Any taxes not paid to the tax collection office as stated above are assessed on the basis of tax rolls prepared by the tax office, which state the amount of tax due. In practice, any adjustment of IRPEF, IRPEG, or ILOR paid directly by the taxpayer is assessed and paid on the basis of tax rolls. Interest for delayed payment, and any surtaxes and penalties, are also assessed on the basis of tax rolls.

4.03 Examination of Returns

The tax office reviews the income reported by business enterprises by referring to their financial statements and possibly their value added tax returns (which show the sales of the business). This review is generally made on the basis of tables furnished by the Ministry of Finance that contain the average rates of profit for various sectors of industry and trade. If the tax office comes to the conclusion that declared income is understated, it proposes an upward adjustment of such income. Any adjustments (and related assessments) must be communicated to the taxpayer within five years of the end of the year in which the return was filed. If no return was filed, the period for adjustment and assessment is extended to six years. After such period of five (or six) years, the return is no longer subject to adjustment.
The tax office may adjust income determined on the basis of the financial statements and accounting records if the data in the tax return do not correspond with such statements and records or if the business income was not determined in conformity with tax regulations. Moreover, the tax office may disregard the declared income and arrive at assessable income on a presumptive basis whenever a business has not kept the required accounting records, or they are not available for inspection, or the tax office determines by an investigation that the records are not reliable (6.01).

4.04 Interest and Penalties for Late Filing and Late Payment

The late payment of taxes (other than those assessed on the basis of tax rolls) imposes a liability for interest at the rate of 12% per year. For taxes assessed on the basis of rolls, interest of 12% per year is charged for the period starting six months after the due date for filing the return and ending when the rolls are delivered to the collection office.

The fine for failure to file a return is from two to four times the amount of the tax payable. If a return is filed within 30 days of its due date, the fine ranges from 25% to 100% of the amount of the tax.

The following fines are imposed for declarations of taxable income that are lower than those assessed by the tax office:

1. From one to two times the additional tax, or
2. As above, but increased by one-third if the additional tax relates to income produced abroad, and reduced by one-half if the additional tax is less than 25% of the total tax assessed.

If the tax payable exceeds Lire 5,000,000, the failure to file a tax return or the filing of an incomplete or inaccurate return makes the taxpayer liable to imprisonment for from three months to three years. If the tax payable exceeds Lire 30,000,000, such period of imprisonment may not be less than one year. In case of fraud, the signers of the tax return are subject to imprisonment for from six months to five years.

In the case of late payment of taxes, a fine of 15% of the unpaid taxes may be assessed. The fine is increased to 50% for late payment of withholding taxes. However, these fines are reduced to 2% and
10%, respectively, if the taxes are paid within three days of their due date. Other penalties may be imposed for failure to withhold income taxes or to transfer taxes withheld to the tax authorities, including:

- A surtax equivalent to 20% of the taxes that should have been withheld is imposed for failure to withhold income taxes.
- An additional fine ranging from 25% to 50% of such taxes is imposed for failure to pay taxes withheld at source in excess of Lire 50 million in the course of a calendar year.

A fine ranging from Lire 50,000 to Lire 300,000 is imposed for late payment of taxes inscribed in the tax rolls when the amount of tax exceeds Lire 500,000.
Chapter 5

Withholding Taxes

5.01 Withholding of Income Tax on Salaries and Wages

Salaries and wages are subject to income tax withholding on account of the employees’ liability to IRPEF. The amount of tax to be withheld is calculated by the employer by referring to each employee’s annual compensation, including the so-called 13th- and 14th-month salaries and any other bonuses. However, the amount of tax to be withheld on employment termination indemnities is calculated at the tax rate applicable to 50% of the employee’s aggregate compensation in the previous two years. The indemnity is reduced by 50% for tax purposes if it does not exceed Lire 10,000,000, by 30% if it exceeds Lire 10,000,000 but not Lire 20,000,000, and by 20% if it exceeds Lire 20,000,000 but not Lire 50,000,000. Also the indemnity is reduced by an allowance of Lire 100,000 for each year of service seniority.

5.02 Withholding on Interest, Dividends, and Other Payments

Interest. Interest on bonds is subject to tax withholding:
• at the rate of 10% if the bonds have been issued by an Italian resident bank or credit institution (or if the bonds are convertible into shares);
• at the rate of 20% if the bonds have been issued by another Italian resident legal entity;
• at the rate of 30% if the bonds have been issued by a foreign resident.

Other interest paid by banks or credit institutions is subject to tax withholding at the rate of 20% if the recipient is an Italian resident and of 15% if the recipient is a foreign resident; while other interest is subject to tax withholding at the rate of 15%.

The tax withheld on interest paid to an individual is in final settlement of the latter’s liability to IRPEF on such interest income. The tax withheld on interest paid to an Italian resident company or other Italian resident legal entity is on account of the latter’s liability to IRPEG, while that withheld on interest paid to a foreign resident company or other foreign resident legal entity is in final settlement of their tax liability.

Tax withholding on interest received from or paid to a foreign resident may also be affected by the provisions of an international tax treaty applicable to such foreign resident.

Dividends. Dividends paid by an Italian resident company to an Italian resident are subject to tax withholding at the rate of 10% on account of the recipient’s liability to IRPEG, except for dividends on certain preferred bearer shares that may be issued by quoted companies. Such dividends are subject to tax withholding at the rate of 15% in final settlement of the recipient’s liability.
Dividends paid by an Italian resident company to a foreign resident are subject to tax withholding at the rate of 30% in final settlement of the recipient’s liability. The foreign resident may then claim reimbursement of the tax so withheld up to a maximum of two-thirds of the taxes that he can prove to have paid abroad on the dividends in question. However, the rates may also be affected, of course, by possible international tax treaties.

The distribution of shares as a stock dividend, or an increase in the par value of shares deriving from the capitalization of paid-in surplus, or a revaluation of assets or the capitalization of revenue reserves do not represent taxable income for the recipients and, therefore, are not subject to tax withholding. However, if the increase in capital deriving from a revaluation of assets is later reimbursed to the shareholders (or if an increase in capital deriving from the capitalization of reserves is reimbursed to the shareholders within the subsequent five years), then the cash so distributed would represent taxable income for the recipients and would, therefore, be subject to withholding.

**Dividend Tax Credit.** For IRPEG and IRPEF tax purposes, the shareholders of a corporation, a limited liability company, or a joint stock partnership (2.02) that has its registered or administrative offices or the main object of its activity in Italy are entitled to a tax credit equivalent to one-third of the dividends received from such company. The amount of the tax credit must be added to the assessable income and deducted from the tax liability declared to the revenue authorities. If the amount of the tax credit exceeds that of the liability (before deducting the credit), the taxpayer is entitled to a refund of the difference.

**Example:**

<table>
<thead>
<tr>
<th></th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other net income of a corporation</td>
<td>5,000</td>
</tr>
<tr>
<td>Dividends received from a subsidiary corporation, net of income tax withholding (5.02)</td>
<td>900</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Income tax withheld at source</td>
<td>100 1,000</td>
</tr>
<tr>
<td>Tax credit thereon</td>
<td>333</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td>6,333</td>
</tr>
<tr>
<td>IRPEG tax at 25%</td>
<td>1,583</td>
</tr>
</tbody>
</table>

**Deduct:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax withheld at source on account</td>
<td>100</td>
</tr>
<tr>
<td>Tax credit</td>
<td>333 433</td>
</tr>
<tr>
<td><strong>Tax payable</strong></td>
<td>1,150</td>
</tr>
</tbody>
</table>
Dividends paid to nonresident individuals and to corporations or other legal entities having their registered or administrative offices or the main object of their activity outside of Italy are subject to withholding at the rate of 30%. The foreign receiver of the dividends is entitled to obtain reimbursement of the tax withheld upon proof of payment of foreign tax on these dividends, up to a maximum of two-thirds of the tax withheld at source. These rules are subject to the provisions of applicable international tax treaties.

Other Payments. Fees paid to self-employed persons resident in Italy for artistic or professional services, and for services as a director or statutory auditor, are subject to tax withholding of 15% on account of such persons' liability to IRPEF.

Withholding on account of IRPEF also applies to fees, royalties, and the like paid to residents for the use of patents, trademarks, copyrights, etc. The withholding rate is 15% on 70% of the fee. However, no withholding is required if the patents, royalties, etc., are paid to a business enterprise.

Fees, royalties, and similar payments to nonresidents for the use of patents, trademarks, etc., are subject to tax withholding at the rate of 20% on 70% of their amount; while fees for artistic or professional services rendered in Italy by nonresidents are subject to tax withholding of 20%. Such withholding is required even if the services are rendered by a business enterprise as part of its operations. In theory, the amounts withheld are on account of the foreign recipient’s liability to income taxes. Consequently, the foreign recipient should file an annual declaration of actual net income from Italian sources. These rules are subject to the provisions of international tax treaties.
Chapter 6

Income Subject to Tax

6.01 The Nature of Income—Nontaxables

As a rule, the taxable income of business enterprises organized as limited liability companies is based on profit from operations as recorded in their annual accounts and the underlying accounting records prescribed by the Civil Code and fiscal legislation (Chapter 8). In practice, however, if the declared profits are lower than those arrived at by revenue authorities using profit margins deemed to be normal, or if the declared profits are not in line with past profits of the same company, the revenue authorities may not accept the declared profits on technical or other grounds. The tax laws give the revenue authorities the right to determine assessable income on the basis of presumptions if the taxpayer has not maintained the required accounting records or if they conclude that the records are unreliable. In these circumstances, the assessable profits eventually agreed on with the revenue authorities may bear little relation to the profits disclosed in the accounts.

Business Income. Business income is income derived from commercial operations and is determined on the basis of financial statements. Expenses or losses relating to items of income that are exempt from taxation as well as items of income subject to final tax withholding at source are not taken into account in the determination of taxable income. The income and expenses of property not used for business purposes are also not taken into account; taxable income from these assets is determined on the basis of cadastral valuations (national income listed in the national property register).

Sundry Nonoperating Income. Sundry nonoperating income is part of taxable income. In this context, sundry nonoperating income is either income of a previous accounting period not fully taken into account in that period or income derived from the release of excess provisions for expenses or costs in a previous period. Receipts in money or in kind as a contribution or act of generosity (other than contributions for operating expenses paid by the state or other public institutions in accordance with a law) are also treated as sundry nonoperating income. However, the taxpayer has the alternative of accounting for such receipts by crediting a reserve account. In this event, said receipts are included in business income only when and to the extent the reserve is eventually used for other purposes than absorbing a loss from operations, or if the assets received are used for purposes unrelated to the business or assigned to the owners of the business.
The following transactions by partners of general or limited partnerships are not considered as sundry nonoperating income for tax purposes:

(1) Contributions made in proportion to the partners’ respective participation in the business.

(2) The proportionate waiver of claims arising from a previous financing of the business.

6.02 Capital Gains and Losses

All business transactions are deemed to be entered into for speculative purposes. Accordingly, any gains from sales of capital assets are subject to taxation as business income, and losses are treated as admissible expenses. However, the tax on capital gains may be deferred if the gains are credited to a separate reserve account and reinvested in fixed assets before the end of the second subsequent financial year. When the fixed assets are acquired, the amount reinvested must be transferred from the reserve account to the account for accumulated depreciation, and the annual provision for depreciation of the new assets is calculated on the difference between their cost and the amount reinvested.

Individuals are subject to tax only on those capital gains that arise from transactions entered into with speculative intent. Business transactions of individuals are considered to be transactions entered into with speculative intent as are any sale of real estate (other than that acquired for the personal use of the taxpayer or his family) within five years from the date of purchase; any sale of works of art, antiques, and collection articles within two years from the date of purchase; and the apportionment and settlement of land and its subsequent sale for the erection of buildings.

A taxable gain is considered to have been realized if an asset distributed to stockholders is deemed to have a current value higher than its book value.

6.03 Taxable Income for IRPEF Purposes

Individuals resident in Italy are subject to IRPEF on the whole of their income from any source, either in cash or in kind, and including income of an occasional character. Nonresidents are subject to IRPEF only on income earned in Italy (10.04). Individual income is reported under the following five categories:

• Income from property
• Interest and dividend income
• Salaries, wages, and professional income
• Business income
• Miscellaneous income

Total taxable income is determined by adding these categories (subtracting any losses from business or professional activities) and taking the deductions referred to in Chapter 10 into account. Certain items of income are taxed separately (10.01). Certain personal allowances are allowed as tax credits against IRPEF payable (10.03).

6.04 Taxable Income for IRPEG Purposes

Broadly speaking, the taxable income of a corporation or other legal entity is equivalent to the income before taxes earned in the accounting period, as shown in the financial statements. Exempt income and/or income subject to final withholding at source are not taken into account in determining taxable income.

The tax liability is subject to adjustment for:
• Taxes withheld on account (Chapter 5)
• Taxes paid abroad on foreign income (11.02)

If taxes withheld exceed IRPEG due, the taxpayer is entitled to a refund.

Corporations or other legal entities that do not have their registered or administrative office or the main object of their activity in Italy are subject to IRPEG only on income earned in Italy.

For IRPEG tax purposes, the losses of a tax period may be applied to reduce assessable profits arising in the ensuing five accounting periods (7.08). The amount of the losses that may be carried forward must be determined and agreed upon with the revenue authorities on the same bases as assessable profits.

6.05 Taxable Income for ILOR Purposes

Local income tax applies to income earned in Italy as well as to business income earned in another country by an individual resident in Italy or a corporation or other legal entity having its registered or administrative office or the main object of its activity in Italy, provided they do not have a permanent establishment in such other country. However, the following income is not subject to local income tax:
• Wages and salaries
• Distributions of profits by partnerships, corporations, and other legal entities subject to IRPEG
• Income subject to final tax withholding at source
Individuals are entitled to a 50% reduction in taxable income arising from certain occupations (3.03).

6.06 Special Concessions

Special legislation exists to provide incentives for the development of depressed areas. Certain of these laws grant complete or partial exemption from IRPEG and ILOR taxes. These matters are discussed at 2.04.
Deduction Items

7.01 Business Expenses

Only ordinary and necessary expenses incurred to carry on business operations may be deducted for income tax purposes. Moreover, such expenses must be accounted for in the books and financial statements. As previously mentioned, a copy of the financial statements must be enclosed with the income tax return.

Revenues as well as costs and expenses are recognized in the accounting period to which they pertain. However, if their realization is not certain or their amount cannot be determined with reasonable accuracy, they are recognized in the period in which these conditions no longer apply. Thus, costs and expenses recorded in a given accounting period may be deducted for income tax purposes in a subsequent period.

Costs and expenses that are not specifically dealt with in tax legislation are deductible if, and to the extent, incurred for business purposes and related to activities that give rise to business income.

Losses and sundry nonoperating charges resulting from the cancellation of income reported in a preceding period, or the inadequacy of provisions for expenses made in preceding periods, are deductible from taxable income at the time of their realization.

7.02 Depreciation

The Ministry of Finance has established maximum depreciation rates for the various categories of fixed assets used in each line of business. These rates generally correspond to the estimated useful lives of the various assets and must be applied to the cost of each fixed asset (less estimated salvage value) on the straight-line method. Cost includes all expenses directly connected with the acquisition, construction, and assembly of the assets. The depreciation rates referred to above may be increased by demonstrating a higher utilization of the assets than is normal in that line of business.

Depreciation of fixed assets must start from the date on which the assets are brought into use. However, new business enterprises may defer depreciation of fixed assets to the first period in which income is obtained. Assets that cost less than Lire 50,000 may be written off in the year acquired.

**Accelerated Depreciation.** Accelerated depreciation is routinely available up to a maximum of 15% of cost in each of the first three accounting periods in which the assets are brought into use, thus providing a maximum aggregate accelerated depreciation equivalent to 45% of cost.
Repairs and Maintenance. Expenses for maintenance, repairs, modernization, and transformation are deductible to a maximum of 5% of the aggregate book value of all tangible depreciable assets in the balance sheet at the beginning of the year. Any excess must be amortized in equal instalments over the next five years.

Amortization of Patents, Trademarks, and Similar Intangible Assets. Amortization of the cost of patents, trademarks, copyrights, and similar intangible assets is deductible in equal instalments over their useful lives, whether determined by law or agreement. If the useful life is not determinable, amortization is deductible at a maximum rate of 20% per year.

7.03 Depletion and Other Items Attributable to Mineral Resources

Italian tax legislation does not contain provisions about expenses incurred in the search for or the exploitation of mineral resources. However, the Ministry of Finance issued a circular on December 23, 1975, which makes clear that such expenses cannot be treated as research and development expenses (7.17), inasmuch as they do not result in a patent or similar intangible asset. The circular states that such expenses as seismic and geologic surveys, drilling, etc., may be charged to income when incurred.

A corporation requires a government concession to exploit natural resources. The annual cost of such concession is deductible from income.

7.04 Bad Debts

It is permitted to provide for possible losses on doubtful accounts at a maximum rate of one-half of 1% of the total accounts receivable shown in the balance sheet until the provision is equivalent to 2% of the accounts receivable. Thereafter, it is permitted to increase the provision at the rate of one-fifth of 1%, until the provision is equivalent to 5% of the receivables. No further increase is then allowed.

Actual losses are deductible from taxable income only to the extent they are not covered by the provision.

7.05 Payments of Rents, Royalties, and Technical Assistance Fees

Rent expense necessarily incurred in the production of income is deductible.

Royalties and technical assistance fees may be paid by Italian corporations to foreign affiliated companies. They are deductible within the limits stated in 8.05, provided they have been subjected to income tax withholding as explained in 5.02 and 11.01.
7.06 Taxes
Taxes, other than IRPEG and IRPEF, are deductible in the period in which they are paid or in which the tax rolls start falling due. Local income tax (ILOR) is deductible in computing taxable income for both IRPEG and IRPEF.

7.07 Interest
Interest is deductible only in the proportion that the aggregate taxable revenues bear to the aggregate of all revenues, including exempt income but excluding any item subject to final withholding at source. For purposes of this calculation, interest on bonds issued by the Italian treasury and other public institutions must be taken into account for 90% of the amount, and income from property is taken into account on the basis of the property's cadastral valuation. Sales of securities are taken into account to the extent of any gains. Any increase in the carrying amounts of inventories and work in progress under long-term contracts is also taken into account.

Interest accruing on loans used to acquire or construct fixed assets is accounted for as part of the cost of such assets up to the period preceding that in which the assets start being utilized.

Interest paid by business enterprises in a preoperating stage is considered an organization expense, to be amortized at a rate of 20% per year.

7.08 Operating Losses
Agreed losses for purposes of IRPEG may be carried forward by corporations to offset income of the next five years. There are no provisions for carrybacks. There are no provisions for the carryforward or carryback of losses for IRPEF or ILOR purposes.

7.09 Worthless Stocks, Securities, and Other Assets
Losses arising on the sale, exchange, and the total or partial write-off of assets carried in the balance sheet of a previous period are deductible, but only at the time the losses are realized.

7.10 Casualty Losses
Italian tax legislation does not provide specifically for the deductibility of casualty losses. As a general rule, the tax principles stated in 7.09 also apply to casualty losses.

7.11 Charitable Contributions
Charitable contributions are not considered to be business expenses and are normally not deductible. However, contributions for specified
purposes to legally recognized entities may be deductible to the extent of 2% of reported taxable income.

7.12 Advertising, Entertainment, and Travel Expenses

Advertising expenses may be either charged against income in the period incurred or amortized in equal installments over three accounting periods, starting with the period in which incurred.

Entertainment and travel expenses are deductible only when incurred in connection with the operations of a business and when these expenses are properly documented.

7.13 Legal Expenses

Legal expenses are normally deductible. However, any legal or notary's fees incurred in connection with the formation of a limited company must be deferred and amortized over five years (7.17).

7.14 Insurance

Ordinary insurance placed with Italian insurance companies is deductible. Under the general insurance law, an Italian company may place insurance with a foreign company only when not obtainable locally.

7.15 General and Special Reserves

Amounts set aside as general or special reserves, and not for specific accrued liabilities or losses, are not deductible for income tax purposes.

The "Taxed Reserve." The deferred method of interperiod tax allocation is not used in Italy. When an item of expense is disallowed by the revenue authorities on the grounds that the expense should have been capitalized or deferred and amortized over a number of years, the common practice is to restore the item in the accounts as a fixed asset or deferred charge, and to credit a so-called taxed reserve. This provides for charges against future taxable earnings of the appropriate depreciation or amortization.

7.16 Accruals for Employment Termination Indemnities

Provisions for indemnities payable on termination of employment are deductible, provided they do not exceed the legal and contractual liabilities accrued in the period.

Employment termination indemnities are based on service seniority and current compensation. Therefore, labor agreements providing for general increases in salaries and wages may necessitate material
retroactive adjustments of prior provisions for employment termination indemnities. These retroactive adjustments may be amortized over a maximum period of three years.

7.17 Deferred Costs and Expenses

**Goodwill.** Goodwill may be carried as an asset only if a specific payment was made for goodwill at the time of acquisition of the business enterprise. The value of goodwill cannot be higher than its purchase price. Goodwill must be amortized on the basis of the prudent judgment of the directors and auditors. The maximum rate at which goodwill may be amortized is 20% per year.

**Research and Development Expenses.** Up to one-half of research and development expenses is deductible in the year incurred. If the research has produced tangible results, the balance may be amortized in subsequent periods under the same provisions as for intangible assets (7.02). If the research has not been successful, the balance may be charged against income in either of two ways: (1) fully written off in the period following that in which the research expenses were discontinued, or (2) amortized over the five periods following that in which the research expenses were discontinued.

**Organization Costs.** Organization costs and similar expenses are often incurred before a corporation produces income. Such expenses may be deferred and amortized over five periods, starting with the first period in which income is realized. Up to 50% of the aggregate amount of such expenses may be deducted in any one period.

7.18 Prizes to Customers

Provisions for prize contests are deductible up to 50% of the value of the commitments undertaken in the period. A separate provision must be set aside for each period and can be utilized only for awards of the period for which it was set aside. Any difference between the provision and actual prizes awarded for a given year must be credited or debited to income. Any provision not used at the end of the fourth period after the one in which it was set aside must be credited to income of that fourth period. Provisions charged against the income of a given period and used for expenses other than prizes are taxable in the period in which the prizes should have been paid.

7.19 Dues and Subscriptions

Dues and subscriptions paid by business enterprises to industry associations are deductible if they are paid periodically and on the basis of formal resolutions by such associations.
7.20 **Employee Welfare Expenditures**

Expenditures on behalf of employees for the specific purposes of education, training, recreation, charity, culture, or social welfare are deductible up to a maximum of one-half of 1% of the total expenses for salaries and wages reported in the tax return.
Accounting for Income and Expenses

8.01 Tax Accounting Generally

Business enterprises are required to maintain prescribed accounting records. No taxpayer claim or assertion may be sustained unless it is based on the relevant accounting records. The following records are required of all corporations, limited liability companies, and other business enterprises:

- General journal (*Libro giornale*)
- Register of accounts (*Libro degli inventari*)
- Fixed assets register (*Libro dei beni ammortizzabili*)
- Inventory register (*Registro riepilogativo di magazzino*)
- Whenever a business enterprise uses mechanical or electronic data processing equipment, details of the code and copies of the programs, flow charts, etc.
- Certain registers required for value added tax purposes (13.01)
- Such other records as may be considered necessary having regard to the nature and volume of operations

Moreover, Article No. 2421 of the Civil Code requires corporations to keep a share register and a minutes book for each of the following: shareholders, directors, bondholders, statutory auditors, and the executive committee.

**Required Records of Taxes Withheld.** Taxpayers who make payments to third parties, and are required to withhold taxes from such payments, must maintain the following other accounting records:

(a) Payrolls showing the salaries and wages paid to employees. Moreover, employers must keep an official register of employees (*libro matricola*) showing the number of dependents of each employee and the tax credit to which each employee is entitled. The compensation paid to each employee and the amounts of taxes and social insurance contributions withheld must be entered in the payrolls.

(b) Fees paid to professional consultants. Each payment must be individually entered in chronological order in separate accounts showing the name of the recipient, the type of service, and the amounts of the fees and taxes withheld therefrom.

(c) Interest paid or accrued. Interest paid or accrued, other than on bonds and bank and postal accounts, must be recorded as in (b) above.

(d) Dividends, as in (b) above.
Formalities and Retention of Accounting Records. As a general rule, the pages of the prescribed accounting records must be numbered consecutively and each sheet stamped by the business registry office or a notary public before being used.

Prescribed accounting records must be retained for a minimum period of five years and, in any event, until the tax liabilities related to the transactions entered therein have been agreed upon with the tax office.

Changes in Accounting Principles. Accounting principles must be applied consistently over succeeding periods. If the taxpayer intends to utilize a different accounting principle, he must inform the tax office before filing the tax return. The proposed change may not be implemented if the tax office notifies the taxpayer of its disagreement.

8.02 Accrual of Business Income and Expenses

Net income is determined, in the first instance, by the results of the profit and loss statement. The result is then subjected to the variations required by the tax laws. Accrual accounting for income and expenses is customary for both financial statement and tax purposes.

8.03 Long-Term Contracts and Instalment Sales

Income on long-term contracts must be accounted for on the basis of the stage of completion of the work. Where the underlying contracts or specific provisions of the law allow possible claims for price adjustments, not less than 50% of any such claims must be included in income. The deduction of allowances for contingencies in connection with contract guarantees is permitted up to a maximum of 2% of income.

Instalment sales constitute income for tax purposes at the time they are invoiced. This applies even when the right of ownership is not transferred to the buyer until he has paid the last instalment of the sales price.

8.04 Valuation of Inventories

Each category of inventory must be valued at cost or market, whichever is lower. Cost must be determined on the last-in, first-out basis. Increases in stock quantities during an accounting period must be determined at their average cost during that period. Market is defined as the “normal value” during the last quarter of the period. General, administrative, selling, and interest expenses are not considered elements of cost for inventory valuation purposes. Any
adjustment of the value of inventories by the tax office must be reflected in the value of opening inventories of the following period.

Upon request of the taxpayer, the tax office may authorize the use of a method of valuation different from that outlined above.

8.05 Transactions with Foreign-Related Companies

A problem often arises when local subsidiaries of multinational groups have material transactions with their foreign parent or affiliated companies because the revenue authorities are not able to check whether these transactions are at arm’s length. The tax legislation provides that the products and services supplied by an Italian enterprise to a foreign company that controls the Italian enterprise, directly or indirectly, or to a foreign company controlled by the same company that controls the Italian enterprise, must be invoiced at “normal” prices. Similarly, the products and services supplied to the Italian enterprise by such foreign companies must be invoiced at “normal” prices. It often happens, therefore, that the revenue authorities challenge the fairness of the prices of purchases, sales, and services between an Italian company and its foreign parent or affiliated companies.

8.06 Valuation of Securities

Shares, bonds, and similar securities must be valued at the lower of cost or market, following the same rules as apply to inventories. The value of free shares, or quotas, or the increased nominal value of the shares as discussed in 5.02, is not to be added to the carrying value of securities to enjoy the tax benefit. Only the actual number of shares received must be added to the existing physical quantities to obtain a lower unit carrying value.

The market value of securities quoted on a stock exchange is based on their average price quoted during the last quarter of the period. The carrying value of shares not quoted on a stock exchange may be reduced if the net equity of the issuing company decreases on the basis of the most recent financial statements approved by the latter’s shareholders and statutory auditors. The carrying value of bonds and similar securities not quoted on a stock exchange may be reduced only when there is precise and reliable information of a decrease in their value.

8.07 Revaluation of Assets

The Civil Code provides that fixed assets must be carried at cost. This principle is confirmed by tax legislation which provides that any surplus arising on a revaluation of the book value of assets is subject to income taxation in the period in which the revaluation
occurs. Contrary to this principle, a law of December 2, 1975, permitted business enterprises to revalue the cost of fixed assets, patents, trademarks and similar intangible assets, as well as equity investments acquired before December 31, 1973. The revaluation, which was made by most Italian business enterprises, was accomplished by:

(a) Applying a coefficient varying with the year of acquisition to the cost and accumulated depreciation or amortization of each asset, as set forth in the law, or

(b) Taking the various assets as a whole and appreciating them, in the aggregate, to 50% of the net total of paid-in capital, reserves, and prior years’ unappropriated retained earnings (or accumulated deficit) as appeared in the accounts at the end of the financial period closed in 1971 or in the period in which the revaluation is made, whichever is lower.

However, general and limited partnerships and sole proprietorships could only revalue their assets by method (a).

In any event, assets may not be assigned a value higher than that currently attributable to them, having regard to their condition, productive capacity, and prospects of use, as well as current market prices. These matters must be specifically confirmed by the directors and statutory auditors in their reports to the shareholders. The revaluations were effectuated within the second financial period following the period during which the law was issued. The surplus arising on the revaluation is shown separately in the balance sheet and may be used only to increase capital or cover losses. The surplus is not subject to income taxes unless it is distributed to the members of the business. Any reduction of capital effected after a revaluation of assets would constitute a distribution of the surplus arising from such revaluation and would be subject to tax.
Provisions Peculiar to Corporations

9.01 Resident and Nonresident Corporations Compared

A domestic Italian company is taxable on all income, whether earned in Italy or abroad. However, beginning with the tax period in course on December 18, 1977, only 40% of the dividends received from corporations (or limited companies) not having their registered or administrative office or the main object of their activity in Italy are included in the taxable income of the domestic Italian company if the latter owns at least 10% of the capital of the corporation (or limited company) paying the dividend or at least 5% if such corporation is quoted on a stock exchange. The related tax paid abroad must be reduced by 60% for the computation of the tax credit discussed in 11.02.

Corporations and other legal entities that do not have their registered or administrative office, or the main object of their activity, in Italy are subject to IRPEG and ILOR only on income earned in Italy. All income items listed in 10.04 are considered earned in Italy. Capital gains and losses on assets used for business purposes in Italy are taxable even if not realized by a local permanent establishment.

9.02 Tax on Accumulated Profits

No special tax or tax rate is levied on accumulated undistributed profits.

9.03 Consolidated Tax Returns

Each entity is taxed separately. There is no provision for the joint taxation of affiliated companies.

9.04 Corporate Tax Period (IRPEG)

The tax period corresponds to the accounting period of the corporation or other legal entity. As a rule, each accounting period involves a separate tax liability. However, as noted in 7.08, losses of corporations and other legal entities engaged in commercial activities may be carried forward to offset the income arising in the five subsequent accounting periods.

9.05 Change in Legal Form

A corporation or other legal entity may change its form of organization. Such transformation does not imply the realization of capital gains or losses for tax purposes, unless the capital gains are brought to account in the financial statements.

9.06 Mergers

Mergers do not by themselves imply the realization of capital gains or losses for tax purposes. For income tax purposes, the corporation
or other legal entity, resulting from or surviving after a merger, takes the place of the merged entities. Any capital gains brought to account in the financial statements of the surviving corporation are treated as taxable income only if, and to the extent, their amount exceeds that of the difference between the cost of the shares of the merged corporation and the value of the latter’s net assets.

9.07 Liquidations

When a corporation or other legal entity is liquidated, the income for the interim period up to the date on which the resolution to put the entity into liquidation becomes effective is determined on the basis of the financial statements attached to the tax return, which is filed by the liquidator. If the liquidation is still in progress at the end of the accounting period, the taxable income from the date on which the resolution to put the entity into liquidation became effective to the end of the accounting period, and then for each subsequent accounting period, is provisionally determined on the basis of the returns filed by the liquidator. These returns are subject to adjustment on the basis of the final balance sheet prepared at the closing of the liquidation. However, no such adjustment is made if the liquidation continues for more than five periods, including the initial period, from the date on which the resolution to put the entity into liquidation becomes effective.
Provisions Peculiar to Individuals

10.01 General

For IRPEF purposes, the taxpayer and spouse may file a joint tax return or may elect to file separate tax returns. In deciding whether to file joint or separate returns, the property laws in Italy must be taken into account. Under the Italian Civil Code, each spouse (and also a third party, possibly by will) may set up a *fondo patrimoniale* (family wealth) and assign to it real estate or other assets for the purpose of satisfying the family’s needs. As a general rule, such assets would then belong to both spouses while the income derived from such assets would be used to meet the family’s needs. Also, unless otherwise agreed, all assets acquired or businesses established by each spouse after marriage, and all income derived from such assets and businesses, or from the activities and any personal assets of each spouse, are the common property of both spouses and constitute the so-called *comunione legale* (legal aggregation). With the above as general legal background, taxable income for IRPEF purposes of a husband and wife is determined as follows:

1. Each is taxable on one-half the net income derived from:
   (a) the *fondo patrimoniale* as formally settled to meet the family’s needs
   (b) the *comunione legale* for assets and businesses acquired after the marriage

2. Each is taxable on one-half the net income of minor children living with and under the authority of their parents.

*Items of Income Taxed Separately.* Unless they form part of business income, the following items are not taken into account for the purpose of arriving at the taxpayer’s aggregate income subject to individual income tax at progressive rates. Instead, these items are taxed separately at the rates noted below.

- A capital gain on the sale or liquidation of a business
- Compensation for loss of goodwill
- Employment compensation for prior years
- Employment termination indemnities and indemnities in lieu of notice of termination
- Agency termination indemnities
- Indemnities received on termination of other forms of business relationships, as per the underlying contract

The tax payable on employment compensation for prior years is computed at the rates applicable to the taxpayer’s aggregate net
income for those years. The other items of income listed above are
taxed at the rate that would have applied to 50% of the taxpayer’s
aggregate net income of the two prior tax years. If the taxpayer had
no taxable income in one of the preceding years, IRPEF is computed
at the rate applicable to the aggregate net income of the other year.
If the taxpayer had no income in either year, a rate of 10% applies.
The taxation of employment termination indemnities is subject to
special allowances (5.01).

10.02 Deductions from Aggregate Income

For individual income tax (IRPEF) purposes, the main allowable
deductions from aggregate income are:

- ILOR assessed, provided the tax rolls started to become due
  before the end of the year
- Interest of up to Lire 3,000,000 actually paid to Italian residents
  or permanent establishments of nonresidents on agricultural loans
  or loans guaranteed by mortgages on estate property
- Social security contributions
- Life, illness, and accident insurance premiums
- Medical and funeral expenses, up to specified limits
- Alimony payments
- Tuition for high school and university

The deduction for interest paid in connection with the operation of
a business enterprise is subject to the rules outlined in 7.07.

10.03 Personal Allowances

Personal allowances and allowances for dependents are granted in
the form of tax credits from IRPEF otherwise payable. As a general
rule, the taxpayer is entitled to the following tax credits:

<table>
<thead>
<tr>
<th>Tax Credit</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed personal allowance</td>
<td>Lire 36,000</td>
</tr>
<tr>
<td>Dependent spouse</td>
<td>72,000</td>
</tr>
</tbody>
</table>

and credits for additional dependents ranging from Lire 7,000 for
one dependent to Lire 150,000 for eight dependents, and Lire
72,000 for each dependent above eight. In the case of families with
only one parent, the tax credit is Lire 72,000 for the first dependent
child and any subsequent dependent affords a double deduction to
be added to Lire 72,000 less a fixed amount of Lire 14,000.

If the aggregate taxable income includes salaries of one or more
persons (or wages or business income not exceeding Lire 4,500,000
Italy

per person), there is an additional tax credit of Lire 84,000 per year for each such person. If one or more persons receive pensions, a tax credit of Lire 36,000 per year is granted for each such person.

If the provisional tax withheld exceeds the taxpayer’s final tax liability, the taxpayer may obtain a refund of the excess withholding. A tax credit is available for taxes paid abroad (11.02).

10.04 Resident and Nonresident Individuals Compared

Residents are subject to IRPEF on all income wherever earned, while nonresidents are subject to IRPEF only on income earned in Italy. Among other items of income, the following are considered as arising in Italy:

• Income from property located in Italy
• Interest paid by the Italian government or by Italian residents or by permanent establishments of nonresidents
• Income from employment for services performed in Italy, or for services performed abroad on behalf of the Italian government or public institutions
• Professional income for services performed in Italy
• Business income earned in Italy through a local permanent establishment
• Other income from “speculative” transactions or business or professional transactions of an occasional character carried out in Italy
• Capital gains on the sale or liquidation of a business, or the sale of a property in Italy, and compensation for loss of goodwill
• Income from the exploitation of trademarks, copyrights, patents, etc., if received from Italian residents or local permanent establishments of nonresidents

The same tax rates apply to residents and nonresidents. However, the only deductions from aggregate income that are available to nonresidents are those for ILOR, interest paid, and expenses related to income from property. The personal allowances available to nonresidents are the tax credits of Lire 84,000 for each person, and Lire 36,000 for each person receiving a pension.
Relief from Double Taxation of Foreign Income

11.01 Tax Treaties

The countries with which Italy has entered into treaties for the avoidance of double taxation are listed in Appendix A. These treaties were entered into prior to the fiscal reform referred to in 2.01; and, in most cases, it is not yet clear whether and to what extent they will continue to apply. For example, it is not clear whether the provisions of certain treaties apply to ILOR, a tax that came into effect after the reform. Negotiations to solve these problems are in progress with the various governments.

The provisions of certain treaties provide for income tax withholding at lower rates than those noted in Chapter 5. For example, a corporation resident in the United States is not subject to tax withholding on royalties, fees, and the like received from Italy, but is subject to a 15% tax withholding on interest. Dividends are subject to a tax withholding of 15%, but the rate is reduced to 5% if the United States shareholder controls at least 95% of the voting power of the Italian corporation and not more than 25% of the latter’s income consists of interest and dividends from unrelated business enterprises.

11.02 Credit for Foreign Income Taxes

Subject to the provisions of the treaties against double taxation, individuals resident in Italy, and corporations and other legal entities having their registered or administrative office or the main object of their activities in Italy, are subject to IRPEF or IRPEG on income earned abroad. To avoid double taxation of such income, Italy provides relief for income taxes definitively paid in a foreign country. The relief is in the form of a direct tax credit from IRPEF or IRPEG, on the same terms applied by the foreign country in granting a tax credit for similar income earned in Italy. Such tax credit is limited to an amount not exceeding two-thirds and not less than one-quarter of that proportion of the Italian tax corresponding to the proportion which the foreign income bears to total assessable income. If the foreign country does not grant any tax credit, the credit is allowed up to an amount equivalent to one-quarter of said proportion of the Italian tax.

Income earned in a foreign country is exempt from ILOR, except when such income has been earned by an individual resident in Italy, or by a corporation or other legal entity whose registered or administrative office or main object of its activity is in Italy and the entity does not have a permanent establishment in such foreign country.
Pensions, Pension Funds, and Other Retirement Benefits

12.01 Taxation of Retirement Benefits and Contributions

Government pension plans provide relatively generous benefits (Chapter 14). Contrarily, few business enterprises provide additional private pension benefits to employees, and the number that do is decreasing steadily.

Provisions in respect of indemnities payable to staff on termination of employment and contributions payable in respect of government pension plans are both compulsory and deductible. Employees are subject to IRPEF tax on termination indemnities received, within the limits outlined in 5.01. Pension payments are also taxable to employees, but a special tax credit is provided (10.02).

12.02 Approval of Pension Plans

No official government approval is required to operate a private pension plan.

12.03 Deduction of Pensions and Contributions to Pension Funds

Contributions of a business enterprise to its private pension plan may be deductible if the contribution falls within the limitation applied to all employee welfare expenses, as noted in 7.20. Pensions paid by such private plans would be subject to IRPEF tax (12.01).
Part 3:
Other Taxes
Taxes on Sales, Commodities, and Property

13.01 IVA—Value Added Tax

Value added tax (IVA) is levied on transfers of goods and services. Imports are taxable regardless of who is the importer, while other transfers of goods and the rendering of services are taxable only when effected by a business enterprise or an individual carrying on a business or a professional activity.

Territoriality of IVA. In principle, the transfer of goods and rendering of services are taxable only when carried out in Italy. Exports are not considered to be carried out in Italy and, therefore, are not subject to IVA. The transfer of goods to customary exporters is exempt from IVA, within certain limits. As a general rule, services are considered to be rendered in Italy whenever they are rendered by an individual (or a legal entity) that has his domicile in Italy or his residence in Italy, provided that he does not have his domicile abroad, or by the permanent establishment in Italy of a legal entity that has its domicile and residence abroad. (For this purpose, the law defines the domicile of a legal entity as the place where the latter has its registered office while the residence is the place where it has its headquarters). However, there are a number of exceptions to such rule. For instance, advertising services or professional advice and assistance rendered on technical, financial, legal, or insurance matters are considered to be rendered in Italy if the client is an Italian resident who does not have his domicile abroad or is the local permanent establishment of a legal entity that has its domicile and residence abroad and provided that the services are not used outside the European Economic Community. The above services would also be considered to be rendered in Italy if the client has his domicile or residence in another country of the E.E.C. and is not liable to IVA in that country. International services or services connected with international trade are exempt from IVA.

Transactions Exempt from IVA. Leases of property and transactions by banks, credit institutions, the postal service, public transport services, etc., are exempt from IVA. Certain other transactions similarly exempt from IVA are:

• Transfers of domestic and foreign currencies
• Transfers of shares and bonds
• Transfers of partnership interests
• Transfers of land which by law is not susceptible of being used for building purposes
• Transfers of a business in whole or part

The contribution of assets to a company is exempt from IVA; however, such transaction is subject to other taxes (13.06).
**Tax Rates and Taxable Base.** The standard rate is 14%, but special rates apply to certain categories of goods and services. For instance, sales of foods and pharmaceuticals are taxed at reduced rates of 1% and 6%, respectively, while a special rate of 18% is levied on beef. Luxury articles are taxed at 35%.

The tax is due on the total consideration in cash or in kind paid by the buyer. Imports are subject to IVA on their value for customs duty purposes plus the duties themselves. Amounts charged for the following are not subject to IVA:

- Interest and penalties for late payment
- Advances made in the name and on behalf of the buyer
- Packing and containers, as specifically agreed by the buyer

The business enterprise or individual supplying the goods or rendering the services is responsible for charging the appropriate tax. The supplier is not permitted to absorb the tax, but must charge it to customers at the full rate. When the IVA charged to customers is reported to the tax authorities, the supplier of the goods or services deducts the tax payable on its own purchases of goods or services, and remits only the difference.

**Method of Payment.** At the end of each month (or at the end of each quarter if the annual turnover does not exceed Lire 360 million), taxpayers must pay the difference between the tax they have charged to customers and the tax they have paid to suppliers. At the end of the year, taxpayers must file an annual summary return with the IVA tax office. If this return shows that IVA paid to suppliers exceeds that charged by the taxpayer to customers, the taxpayer may either claim reimbursement of the balance or apply it to reduce the liability in the following year.

Taxpayers subject to IVA must maintain a register of invoices issued to customers and a register of invoices received from suppliers.

**13.02 INVIM—Tax on Appreciation of Real Estate**

INVIM is a tax on the increase in value of real estate located in Italy. This tax is payable every time real estate is sold, whether the seller is an individual or a legal entity. The tax is also levied on property owned by any type of company or association for ten years even if not sold. However, the following types of property are exempt from the ten-year INVIM:

- land and buildings owned by a company and used directly in its own business activities
- land being used for a quarry or to obtain peat
- buildings owned by leasing companies for rental to others
The increase in value subject to INVIM is the difference between the market value of the real estate at the time of sale or at the expiration of ten years of ownership and its cost. The market value is that appearing on the deed of sale, or declared by the owner, or assessed by the authorities (if they conclude that the deed of sale or the declaration of the owner does not fairly reflect market value). An allowance of 4% of the cost is deductible for each year of ownership. Effective December 18, 1977, the 4% allowance has been increased to 10% for each year of ownership between December 31, 1972, and December 31, 1979.

The tax is payable at rates increasing progressively from a minimum of 3% on that portion of the increase in value exceeding 10% of the original cost or market value up to a maximum of 30% on that portion of the increase in value in excess of 200% of the original cost or market value.

INVIM is deductible for purposes of IRPEF, IRPEG, and ILOR.

13.03 Registration Tax

A tax is levied on the registration of certain deeds; e.g., if the deeds are to be presented as evidence in a legal proceeding.

13.04 Stamp Duties

Stamp duties are imposed on a wide range of deeds, documents, and records, but do not represent a significant expense. Certain deeds, etc., are subject to stamp duties only if presented as evidence in a legal proceeding.

13.05 Mortgage and Cadastral Duties

Transfers of real estate must be entered in the public property register. Similarly, any mortgage, mortgage renewal, cancellation, or transfer must be entered in such register. These entries are subject to a mortgage duty of 0.80% of the market value of the property (as determined for registration duty purposes) and a cadastral duty of 0.20%.

13.06 Direct Taxes on Business Entities

Certain taxes are imposed on the formation and various changes in legal entities. These taxes are within the range of similar taxes in other countries. They are imposed on the activities noted below.

Formation of a Company. The tax on capital when a company is formed varies according to the type of assets involved (money, real estate, contributions in kind, etc.). The creation of Italian branches by foreign companies is subject to similar taxation.
Increase in Capital. An increase in capital is taxed similarly to the formation of a company. However, if the capital is increased by the transfer of capital reserves on which tax has already been paid (e.g., share premium reserves) such amount is not part of the taxable basis. Increases in capital to reach the new minimum capital requirements of corporations and limited liability companies (2.02) are subject only to a fixed tax of Lire 20,000.

Mergers. Mergers of companies are taxable at the rate of 1% of the net equities in the statements of financial position of the companies involved. These statements are not necessarily prepared on the basis of historical costs (as is required for the annual financial statements).

The same tax rate is due on contributions of a business or segments of business to a company. If the contribution is made to a corporation, limited liability company, or joint stock partnership, the 1% tax is on the estimated value in the judgment of a court-appointed expert.

Assets Distributed to Partners. When an asset distribution to partners involves goods subject to IVA, or shares or bonds, or partnership equity, a fixed tax of Lire 5,000 is payable. When the distribution involves other assets, the same tax rates are applied as on the formation of companies. The distribution of assets to partners upon the liquidation of a company whose capital had not been increased to the new requirements (2.02) is subject to a fixed tax of Lire 20,000.

Transfer of Property. Deeds of transfer of property are subject to tax of 8%. If the transferred property was subject to another transfer within the prior five years, the tax rate is reduced to 6% on the previously taxed value and restored to 8% on any balance.
Employment Taxes

Taxes are imposed on both employers and employees to provide a variety of benefits, such as health insurance, pensions, etc. Taken as a whole, these employment taxes constitute a significant additional element of labor costs. A brief outline of the relevant legislation follows. The cost of these benefits is shown in the Rate Tables.

Sickness. For most employees in the private sector, the insurance against sickness is provided by INAM, *Istituto Nazionale Assistenza Malattie*. However, certain categories of employees, such as the executives of industrial and commercial concerns, seamen, and professional newspapermen, are covered by other schemes. Moreover, many business enterprises operate mutual funds to provide their employees with supplementary assistance in addition to that furnished by INAM.

INAM applies to employees and their dependents. It covers doctors’ and surgeons’ fees, medicines, hospital charges, and provides for a daily indemnity if the employee is unable to work for up to a maximum of 180 days. Employers are obliged to insure their staff with INAM. This requires the transmission of the relevant information at the time of engagement and the payment of contributions equivalent to a percentage of each employee’s gross salary or pay (Rate Tables). Employers who fail to register their employees with INAM are subject to fines. Employees have a right to INAM assistance as soon as they have been engaged by a private business enterprise, whether or not the latter has insured them.

Special assistance is provided for women in case of pregnancy and after childbirth. A woman must abstain from work in the two months prior to the expected date of childbirth and in the three following months, and may request a further leave of six months during her child’s first year. A mother whose child is under three may also abstain from work when her child is ill. Women are entitled to an indemnity from INAM equivalent to 80% of their salary or pay during the period of compulsory leave and to 30% of their salary or pay during the period of facultative leave. Special contributions are made in this respect by employers.

Old Age, Disablement, Tuberculosis, and Unemployment. For most employers in the private sector, insurance in respect of the above is provided by INPS, *Istituto Nazionale della Previdenza Sociale*. Here again, certain categories of employees are covered by other insurance schemes while certain business enterprises provide their employees with benefits in addition to those supplied by INPS.

Employers are obliged to insure their staff with INPS, to provide the latter with the relevant information, and to pay contributions equivalent to percentages of each employee’s gross salary or pay,
as detailed in the Rate Tables. Employers who fail to register with INPS are subject to fines.

An individual may also provide for old age or disablement and insure himself against tuberculosis by contributing to INPS schemes on a voluntary basis, provided he has been working (and contributing to the scheme) as an employee for at least one year. INPS provides:

(a) An old age pension, payable to men at 60 and women at 55 years, provided they have made contributions for at least 15 years. The amount of the pension depends on the contributions by the insured person and his compensation. As a maximum, after 40 years of employment, the monthly pension is equivalent to 80% of average monthly salary or pay in the three highest-earning years of the last ten years of employment. However, the amount of the pension cannot be more than Lire 840,000 per month.

(b) A seniority pension payable to any unemployed person who has accumulated contributions for at least 35 years.

(c) A disablement subsidy, payable when the insured person’s earning capacity has been reduced to less than one-third and provided he has accumulated contributions for at least five years.

(d) Assistance in case of tuberculosis of the insured and/or his dependents. This could include, for instance, hospitalization in a sanatorium and the payment of a subsidy, if the insured person is unable to work.

(e) A subsidy in case of unemployment, provided the insured person has accumulated contributions for at least one year in the two years prior to his unemployment. At present, such subsidy is Lire 800 a day for a maximum of 180 days.

An industrial business enterprise may suspend or reduce its activity because of events beyond its control, such as a business recession. In such a situation, the employees may be granted a special subsidy of 80% of the pay they would receive under normal circumstances for up to 40 hours work per week. This special subsidy is normally paid for up to three months but, as an exception, the period may be extended to one year and even longer. Before filing the necessary application with INPS, the employer must inform the trade unions and discuss the situation with them. The decision to pay the subsidy is taken by INPS on the basis of the opinion of a committee formed in each province by representatives of the employers and the trade unions.

**Family Allowances.** An employee in the private sector is entitled to fixed daily allowances for such dependents as his wife, children, and
parents. These allowances are paid on behalf of INPS by the employer who then deducts the family allowances from the contributions to INPS in this respect (Rate Tables).

**Housing.** A scheme to provide employee housing, the so-called *Gestione Case Lavoratori* (or GESCAL), which covers most employees in the private sector, is operated by INAM.

**Insurance Against Accidents.** Employees are obliged to insure their staff against the risk of accidents from the use of certain machinery and equipment, such as automatic machines, as well as the risk of disease from work that is prejudicial to health. Except for seamen, who have their own fund, this insurance is provided by INAIL, *Istituto Nazionale Assicurazione Infortuni sul Lavoro*.

Employers must report the nature of their activities to INAIL, and are subject to INAIL’s control over compliance with regulations to prevent accidents and for periodic medical checkups of those engaged in prejudicial work. Based on the employers’ replies, INAIL issues insurance policies. The premiums paid by employers are based on the aggregate annual compensation of employees and workmen covered by such policies. The rates are fixed by law and depend on the risks involved. Employers must submit to INAIL the necessary payroll and other data.

In case of accident, the injured employee is entitled to full salary or pay at the employer’s expense for the first four days of disablement, and at INAIL’s expense for 60% of the salary or pay from the 5th to the 90th day of temporary disablement and 75% of the salary or pay for any further period of temporary disablement. Moreover, INAIL provides medical assistance in such forms as hospitalization, prostheses, etc.

**International Agreements on Social Security.** International agreements on social security have been stipulated with several foreign governments—the agreement with the United States became effective November 1, 1978. This agreement primarily deals with social security taxes and benefits on retirement, disability and survivor’s insurance. An individual may apply separately to either country for any benefits to which he may be entitled that are not covered by the agreement.
Estate and Gift Taxes

The tax reform has affected estate and gift taxation. The present system includes unified estate and gift tax rates, as follows:

- A tax payable on the value of an inheritance or gift.
- A surtax payable when the heirs or the beneficiaries of a gift are neither direct descendents, nor parents or grandparents, nor spouses of those deceased. This surtax is payable by such heirs or beneficiaries of a gift on their respective shares.

These taxes on inheritances and gifts are payable at progressive rates, as listed in the Rate Tables.

The entire estate of an Italian resident, wherever situated, is subject to taxation. Taxes are levied on the fair market value of the deceased’s assets, less liabilities, and less funeral expenses of up to a maximum of Lire 500,000. The taxes are payable by the heirs who are jointly liable for their payment.

Nonresidents are subject to Italian taxes only on that portion of an inheritance or gift consisting of assets located in Italy. This includes, for example, any real estate located in Italy, and securities of Italian legal entities. Similarly, an Italian resident who receives an inheritance or a gift from a nonresident is subject to tax only on any assets located in Italy.

Italy has concluded estate tax treaties with several countries (Appendix A).

Taxable gifts must be transferred by contract, which must be confirmed by a notary public or other authorized public official. The contract must state the value of the gift and must be registered at the registration office, at which time the gift tax must be paid. The donor and donee are liable for the tax separately. The tax rates are identical with those for inheritances. If the donor is an Italian resident, the tax is payable on all assets transferred, even to donees in other countries. Tax paid abroad may be recovered, within limits.
Part 4: Rate Tables and Appendices
### Individual Income Tax Rates (IRPEF)

The rate of individual income tax is 10% of the taxable income up to the amount of Lire 3 million. Higher amounts are subject to the following taxation:

<table>
<thead>
<tr>
<th>Taxable Income in Lire Millions</th>
<th>Tax on Lower Amount in Lire Thousands</th>
<th>Percentage on Excess over Lower Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 3 - 4</td>
<td>300</td>
<td>13</td>
</tr>
<tr>
<td>4 - 5</td>
<td>430</td>
<td>16</td>
</tr>
<tr>
<td>5 - 6</td>
<td>590</td>
<td>19</td>
</tr>
<tr>
<td>6 - 7.5</td>
<td>780</td>
<td>22</td>
</tr>
<tr>
<td>7.5 - 9</td>
<td>1,110</td>
<td>25</td>
</tr>
<tr>
<td>9 - 11</td>
<td>1,485</td>
<td>27</td>
</tr>
<tr>
<td>11 - 13</td>
<td>2,025</td>
<td>29</td>
</tr>
<tr>
<td>13 - 15</td>
<td>2,605</td>
<td>31</td>
</tr>
<tr>
<td>15 - 17</td>
<td>3,225</td>
<td>32</td>
</tr>
<tr>
<td>17 - 19</td>
<td>3,865</td>
<td>33</td>
</tr>
<tr>
<td>19 - 22</td>
<td>4,525</td>
<td>34</td>
</tr>
<tr>
<td>22 - 25</td>
<td>5,545</td>
<td>35</td>
</tr>
<tr>
<td>25 - 30</td>
<td>6,595</td>
<td>36</td>
</tr>
<tr>
<td>30 - 35</td>
<td>8,395</td>
<td>38</td>
</tr>
<tr>
<td>35 - 40</td>
<td>10,295</td>
<td>40</td>
</tr>
<tr>
<td>40 - 50</td>
<td>12,295</td>
<td>42</td>
</tr>
<tr>
<td>50 - 60</td>
<td>16,495</td>
<td>44</td>
</tr>
<tr>
<td>60 - 80</td>
<td>20,895</td>
<td>46</td>
</tr>
<tr>
<td>80 - 100</td>
<td>30,095</td>
<td>48</td>
</tr>
<tr>
<td>100 - 125</td>
<td>39,695</td>
<td>50</td>
</tr>
<tr>
<td>125 - 150</td>
<td>52,195</td>
<td>52</td>
</tr>
<tr>
<td>150 - 175</td>
<td>65,195</td>
<td>54</td>
</tr>
<tr>
<td>175 - 200</td>
<td>78,695</td>
<td>56</td>
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<td>200 - 250</td>
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<td>250 - 300</td>
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<td>300 - 350</td>
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<td>350 - 400</td>
<td>182,695</td>
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<tr>
<td>400 - 450</td>
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<td>450 - 500</td>
<td>247,695</td>
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<td>500 - 550</td>
<td>281,695</td>
<td>70</td>
</tr>
<tr>
<td>550 - upward</td>
<td>316,695</td>
<td>72</td>
</tr>
</tbody>
</table>

**Note:**

See 10.01 for items of income taxed separately.
## Social Insurance Contributions
### Payable by Commercial Enterprises

### Workers

<table>
<thead>
<tr>
<th>Social Security Department</th>
<th>Paid by employer</th>
<th>Withheld from pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>INAM (sickness)</td>
<td>12.24</td>
<td>0.30</td>
</tr>
<tr>
<td>GESCAL (housing)</td>
<td>0.70</td>
<td>0.35</td>
</tr>
<tr>
<td>INPS (old age, disability, tuberculosis, unemployment)</td>
<td>19.94</td>
<td>7.15</td>
</tr>
<tr>
<td>Family allowances</td>
<td>6.50</td>
<td></td>
</tr>
<tr>
<td>INPDAC (old age—Note 1)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>FASDAC (sickness—Note 2)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

### Office Clerks

<table>
<thead>
<tr>
<th>Social Security Department</th>
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<th>Withheld from pay</th>
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</tr>
<tr>
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<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

### Executives

<table>
<thead>
<tr>
<th>Social Security Department</th>
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</tr>
<tr>
<td>INPDAC (old age—Note 1)</td>
<td>12.0</td>
<td>6.0</td>
</tr>
<tr>
<td>FASDAC (sickness—Note 2)</td>
<td>7.50</td>
<td>3.50</td>
</tr>
</tbody>
</table>

### Notes:
1. The maximum salary subject to this contribution is Lire 4,200,000 per year.
2. The maximum salary subject to this contribution is Lire 7,200,000 per year.
## Social Insurance Contributions
### Payable by Industrial Enterprises

#### Workers

<table>
<thead>
<tr>
<th>Social Security Department</th>
<th>Paid by employer</th>
<th>Withheld from employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>INAM (sickness)</td>
<td>13.96</td>
<td>0.30</td>
</tr>
<tr>
<td>GESCAL (housing)</td>
<td>0.70</td>
<td>0.35</td>
</tr>
<tr>
<td>INPS (old age, disability, tuberculosis, unemployment—Note 1)</td>
<td>20.39</td>
<td>7.15</td>
</tr>
<tr>
<td>Family allowances</td>
<td>6.50</td>
<td></td>
</tr>
<tr>
<td>Unemployment due to recession, etc. (Note 2)</td>
<td>0.75</td>
<td></td>
</tr>
<tr>
<td>INPDAI (old age—Note 3)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>FASDAI (sickness—Note 4)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

#### Office Clerks

<table>
<thead>
<tr>
<th>Social Security Department</th>
<th>Paid by employer</th>
<th>Withheld from employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>INAM (sickness)</td>
<td>11.96</td>
<td>0.30</td>
</tr>
<tr>
<td>GESCAL (housing)</td>
<td>0.70</td>
<td>0.35</td>
</tr>
<tr>
<td>INPS (old age, disability, tuberculosis, unemployment—Note 1)</td>
<td>20.39</td>
<td>7.15</td>
</tr>
<tr>
<td>Family allowances</td>
<td>6.50</td>
<td></td>
</tr>
<tr>
<td>Unemployment due to recession, etc. (Note 2)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>INPDAI (old age—Note 3)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>FASDAI (sickness—Note 4)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

(continued)
Social Insurance Contributions  
Payable by Industrial Enterprises (continued)

<table>
<thead>
<tr>
<th>Executives</th>
<th>Social Security Department</th>
<th>Paid by employer</th>
<th>Withheld from salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>INAM (sickness)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>GESCAL (housing)</td>
<td>0.70</td>
<td>0.35</td>
</tr>
<tr>
<td></td>
<td>INPS (old age, disability, tuberculosis, unemployment—Note 1)</td>
<td>4.48</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Family allowances</td>
<td>6.50</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unemployment due to recession, etc. (Note 2)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>INPDAI (old age—Note 3)</td>
<td>14.10</td>
<td>5.0</td>
</tr>
<tr>
<td></td>
<td>FASDAI (sickness—Note 4)</td>
<td>3.60</td>
<td>1.40</td>
</tr>
</tbody>
</table>

Notes:
1. On overtime pay, an additional 15% contribution is made by the employer.
2. If the business has more than 50 employees, the rate rises to 1%.
3. The maximum salary subject to this contribution is Lire 17,641,000 per year.
4. The maximum salary subject to this contribution is Lire 10,000,000 per year.
## Estate and Gift Taxes

Surtaxes payable on the respective shares of inheritances or gifts

<table>
<thead>
<tr>
<th>Taxable Amount (Lire Millions)</th>
<th>Tax rate on value of net inheritance or gift (%)</th>
<th>By other blood relatives to the 4th degree and relatives of the spouse of the deceased or donor to the 3rd degree (%)</th>
<th>By other (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 2</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>2 - 3.5</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>5 - 15</td>
<td>3</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>15 - 30</td>
<td>5</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>30 - 50</td>
<td>9</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>50 - 100</td>
<td>5</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>100 - 175</td>
<td>8</td>
<td>14</td>
<td>19</td>
</tr>
<tr>
<td>175 - 250</td>
<td>11</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>250 - 350</td>
<td>15</td>
<td>15</td>
<td>17</td>
</tr>
<tr>
<td>350 - 500</td>
<td>19</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>500 - 700</td>
<td>23</td>
<td>17</td>
<td>22</td>
</tr>
<tr>
<td>700 -1,000</td>
<td>27</td>
<td>18</td>
<td>23</td>
</tr>
<tr>
<td>1,000 -upward</td>
<td>31</td>
<td>19</td>
<td>24</td>
</tr>
</tbody>
</table>
## Countries with Which Italy Has Entered into Tax Treaties

### Income Tax Treaties

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>France</td>
<td>Norway</td>
</tr>
<tr>
<td>Austria</td>
<td>Germany</td>
<td>Spain</td>
</tr>
<tr>
<td>Belgium</td>
<td>Greece</td>
<td>Sweden</td>
</tr>
<tr>
<td>Brazil</td>
<td>Ireland</td>
<td>Switzerland</td>
</tr>
<tr>
<td>Canada</td>
<td>Israel</td>
<td>Trinidad and Tobago</td>
</tr>
<tr>
<td>Denmark</td>
<td>Japan</td>
<td>Union of South Africa</td>
</tr>
<tr>
<td>Egypt</td>
<td>Lebanon</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>Finland</td>
<td>Netherlands</td>
<td>United States</td>
</tr>
</tbody>
</table>

### Estate Tax Treaties

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>Sweden</td>
<td>United States</td>
</tr>
<tr>
<td>Greece</td>
<td>United Kingdom</td>
<td></td>
</tr>
</tbody>
</table>
## Specimen Tax Computations of an Italian Resident Corporation (IRPEG & ILOR)

### Computation of Taxable Income

#### Taxable income for IRPEG purposes:
- Pretax income per profit and loss account: 100,000
- ILOR tax for the year 1: (15,150)

#### Less nondeductible items:
- Excess provision for bad debts 2: 5,000
- Provision for possible losses on slow-moving inventory 3: 10,000
- Excess research expenses 4: 15,000
- Excess maintenance expenses 5: 2,000

#### Less nontaxable income:
- Interest on treasury bonds 6: (1,000)
- Dividends distributed by a non-resident affiliated company (60% of 10,000) 7: (6,000)
- Less operating loss from prior years 8: (30,000)

**Taxable income for IRPEG tax purposes before tax credits**

#### Taxable income for ILOR tax purposes:
- IRPEG taxable income as above: 79,850
- ILOR tax for the year 1: 15,150
- Add operating loss from prior years 8: 30,000
- Income attributable to a factory located in a "depressed" area 9: (20,000)
- Dividends from nonresident affiliated company (40% of 10,000) 7: (4,000)

**Taxable income for ILOR tax purposes**

(continued)
Appendix B
(continued)

Computation of Income Taxes Payable

<table>
<thead>
<tr>
<th>Note No.</th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable income for IRPEG purposes:</td>
<td></td>
</tr>
<tr>
<td>Tax credit on dividends from Italian sources</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total taxable income for IRPEG purposes</strong></td>
<td></td>
</tr>
<tr>
<td>IRPEG (25% of Lire 84,850)</td>
<td></td>
</tr>
<tr>
<td>Tax credit on dividends</td>
<td>10</td>
</tr>
<tr>
<td>Tax credit for taxes paid abroad</td>
<td>11</td>
</tr>
<tr>
<td>Net IRPEG due</td>
<td></td>
</tr>
<tr>
<td>ILOR (15% of Lire 101,000)</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total income taxes due (IRPEG and ILOR)</strong></td>
<td></td>
</tr>
</tbody>
</table>

Computation of net income for the period:

| Pretax income | 100,000 |
| Provision for income taxes, as above | (30,963) |
| **Net income for the period** | 69,037 |

Payment of income taxes:

| Net IRPEG due | 15,813 |
| Tax withheld on Italian-source dividends (10% of Lire 15,000) | 13 | 1,500 |
| Tax withheld on bank interest | 14 | (500) |
| Advance payment | 15 | — |
| **Net IRPEG payable** | 13,813 |
| Net ILOR due | 15,150 |
| Advance payment | 15 | — |
| **Net ILOR payable** | 15,150 |
| **Total income taxes payable with tax return** | 29,963 |

(continued)
Notes:
1. Income taxes payable are not deductible from taxable income. ILOR tax is deductible from taxable income for IRPEG purposes (6.04 and 3.03).
2. After the provision for bad debts reaches 5% of total trade receivables, no further provision is deductible (7.04).
3. Losses from obsolescent or slow-moving inventory items are allowed only when realized.
4. Only one-half of research and development expenses are deductible in the year incurred.
5. Repairs and maintenance expenses in excess of 5% of the aggregate book value of all tangible depreciable assets are not deductible (7.02).
6. Interest on government treasury bonds is exempt from income taxes.
7. The total dividends received by the nonresident associated company (10,000 in the example) are included in the pretax income, but only 40% is taxable for IRPEG purposes (9.01). The dividends are exempt from ILOR tax.
8. For IRPEG (but not for ILOR) tax purposes, losses in one tax period may be applied in reduction of assessable profits arising in the ensuing five periods (6.04).
9. For this example, we have assumed that the company established a factory in a "depressed" area (6.06).
10. The tax credit on Italian-source dividends (15,000 in the example) is allowed in the proportion of \( \frac{1}{3} \) of the dividends cashed and is added to the taxable income (5.02). The 15,000 is included in the pretax income of 100,000.
11. The tax credit for foreign income taxes is recognized within the limits discussed in 11.02. In this example, the foreign tax credit has been taken in the same proportion (40%) as taxation of the relevant dividends. (See Note 7.)
12. The ILOR tax is at the fixed rate of 15% (3.03).
13. Dividends have been subjected to 10% tax withholding on account of the total tax due (9.02).
14. Interest paid by banks has been subjected to withholding tax on account (5.02).
15. No advance payment (4.02) was made because the company declared a loss in the prior year. (See Note 8.)
## Specimen Tax Computation of an Executive of an Italian Corporation
(Taxable Years Ended After January 1, 1977)

<table>
<thead>
<tr>
<th>No.</th>
<th>Note</th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Tax credit on dividends</td>
<td>450</td>
</tr>
<tr>
<td>2</td>
<td>ILOR tax assessed in the year on income from real property with regard to prior year</td>
<td>59</td>
</tr>
<tr>
<td>3</td>
<td>Life insurance premium</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Interest on loan to purchase real property</td>
<td>500</td>
</tr>
<tr>
<td>5</td>
<td>Tuition for children’s school</td>
<td>(689)</td>
</tr>
</tbody>
</table>

### Computation of Taxable Income:

- Gross income: 25,000
- Employment taxes (health insurance, pension, etc.—Chapter 14): 2,380
- Taxable income from employment: 22,620
- Dividends received: 1,350
- Cadastral income from real property occupied by the taxpayer: 400
- Aggregate income: 24,370

### Taxable income: 24,131

### Computation of Income Taxes Payable:

- Gross IRPEF tax: 6,291
- Tax credit on dividends: (450)
- Fixed allowance tax credits (10.03):
  - Taxpayer: 36
  - Dependent spouse: 72
  - Dependent children: 30
  - Income production expense: (222)
- ILOR tax (15% on income from real property): 60

### Total income taxes payable: 5,679

### Notes:

1. The tax credit is 1/3 of the dividends and is added to the taxable income (5.02). This taxpayer was subject to tax withholding of 10% on account of the total IRPEF tax due.
2. Only from January 1978 must advance payments of ILOR tax be made (4.02).
3. This executive is assumed to have a dependent spouse and two dependent children.
4. ILOR tax does not apply to salaries and wages (6.05).
Specimen Tax Computation of a Director of an Italian Corporation
( Since January 1, 1977)

<table>
<thead>
<tr>
<th>Note No.</th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Computation of Taxable Income:</td>
<td></td>
</tr>
<tr>
<td>Gross income</td>
<td>25,000</td>
</tr>
<tr>
<td>Income production expenses</td>
<td>1</td>
</tr>
<tr>
<td>Net income from director’s office</td>
<td>2</td>
</tr>
<tr>
<td>Dividends received</td>
<td>2</td>
</tr>
<tr>
<td>Add: Cadastral income of real property occupied by the taxpayer</td>
<td></td>
</tr>
<tr>
<td>Aggregate income</td>
<td></td>
</tr>
<tr>
<td>Tax credit on dividends</td>
<td></td>
</tr>
<tr>
<td>Deductions from aggregate income (10.02):</td>
<td></td>
</tr>
<tr>
<td>ILOR tax assessed in the year</td>
<td>1,713</td>
</tr>
<tr>
<td>Life insurance premium</td>
<td>100</td>
</tr>
<tr>
<td>Interest paid on loan to purchase real property</td>
<td>500</td>
</tr>
<tr>
<td>Tuition for children’s school</td>
<td>30</td>
</tr>
<tr>
<td><strong>Taxable income</strong></td>
<td></td>
</tr>
</tbody>
</table>

Computation of Income Taxes Payable:

<table>
<thead>
<tr>
<th></th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross IRPEF tax</td>
<td>5,670</td>
</tr>
<tr>
<td>Tax credit on dividends</td>
<td>2</td>
</tr>
<tr>
<td>Tax credits (10.03):</td>
<td></td>
</tr>
<tr>
<td>Taxpayer</td>
<td>36</td>
</tr>
<tr>
<td>Dependent spouse</td>
<td>72</td>
</tr>
<tr>
<td>Dependent children</td>
<td>30</td>
</tr>
<tr>
<td>Net IRPEF tax due</td>
<td>5,082</td>
</tr>
</tbody>
</table>

Computation of ILOR tax:

<table>
<thead>
<tr>
<th></th>
<th>Lire Thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income from director’s office</td>
<td>22,500</td>
</tr>
<tr>
<td>Deduction of 50% (3.03)</td>
<td>(11,250)</td>
</tr>
<tr>
<td></td>
<td>11,250</td>
</tr>
<tr>
<td>Income of real property</td>
<td>400</td>
</tr>
<tr>
<td><strong>Taxable income for ILOR purposes</strong></td>
<td>11,650</td>
</tr>
<tr>
<td>ILOR tax (15% on 11,650)</td>
<td>1,748</td>
</tr>
<tr>
<td><strong>Total income taxes payable</strong></td>
<td>6,830</td>
</tr>
</tbody>
</table>

Notes:

1. Directors are considered self-employed and, as such, are generally entitled to a fixed allowance for expenses equivalent to 10% of their fees.
2. The tax credit is 1/3 of the dividends and is added to the taxable income. This taxpayer was subject to tax withholding of 10% on account of the total IRPEF tax due.
Taxes on Representative Earned Incomes
Since January 1, 1977
(Thousands of Italian lire)

<table>
<thead>
<tr>
<th>Employee</th>
<th>Taxable Income</th>
<th>Single</th>
<th>Married (no children)</th>
<th>Married (2 children)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>3,000</td>
<td>156</td>
<td>84</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>4,000</td>
<td>286</td>
<td>214</td>
<td>184</td>
</tr>
<tr>
<td></td>
<td>5,000</td>
<td>446</td>
<td>374</td>
<td>344</td>
</tr>
<tr>
<td></td>
<td>6,000</td>
<td>636</td>
<td>564</td>
<td>534</td>
</tr>
<tr>
<td></td>
<td>7,500</td>
<td>990</td>
<td>918</td>
<td>888</td>
</tr>
<tr>
<td></td>
<td>9,000</td>
<td>1,365</td>
<td>1,293</td>
<td>1,263</td>
</tr>
<tr>
<td></td>
<td>11,000</td>
<td>1,905</td>
<td>1,833</td>
<td>1,803</td>
</tr>
<tr>
<td></td>
<td>13,000</td>
<td>2,485</td>
<td>2,413</td>
<td>2,383</td>
</tr>
<tr>
<td></td>
<td>15,000</td>
<td>3,105</td>
<td>3,033</td>
<td>3,003</td>
</tr>
<tr>
<td></td>
<td>17,000</td>
<td>3,745</td>
<td>3,673</td>
<td>3,643</td>
</tr>
<tr>
<td></td>
<td>19,000</td>
<td>4,405</td>
<td>4,333</td>
<td>4,303</td>
</tr>
<tr>
<td></td>
<td>22,000</td>
<td>5,425</td>
<td>5,353</td>
<td>5,323</td>
</tr>
<tr>
<td></td>
<td>25,000</td>
<td>6,475</td>
<td>6,403</td>
<td>6,373</td>
</tr>
<tr>
<td></td>
<td>30,000</td>
<td>8,275</td>
<td>8,203</td>
<td>8,173</td>
</tr>
<tr>
<td></td>
<td>35,000</td>
<td>10,175</td>
<td>10,103</td>
<td>10,073</td>
</tr>
<tr>
<td></td>
<td>40,000</td>
<td>12,175</td>
<td>12,103</td>
<td>12,073</td>
</tr>
<tr>
<td></td>
<td>50,000</td>
<td>16,375</td>
<td>16,303</td>
<td>16,273</td>
</tr>
</tbody>
</table>

| Self-Employed | 3,000 | 264 | 192 | 162 |
|               | 4,000 | 394 | 322 | 292 |
|               | 5,000 | 554 | 482 | 452 |
|               | 6,000 | 744 | 672 | 642 |
|               | 7,500 | 1,299 | 1,227 | 1,197 |
|               | 9,000 | 1,899 | 1,827 | 1,797 |
|               | 11,000 | 2,739 | 2,667 | 2,637 |
|               | 13,000 | 3,544 | 3,472 | 3,442 |
|               | 15,000 | 4,314 | 4,242 | 4,212 |
|               | 17,000 | 5,104 | 5,032 | 5,002 |
|               | 19,000 | 5,914 | 5,842 | 5,812 |
|               | 22,000 | 7,159 | 7,087 | 7,057 |
|               | 25,000 | 8,509 | 8,437 | 8,407 |
|               | 30,000 | 11,059 | 10,987 | 10,957 |
|               | 35,000 | 13,709 | 13,637 | 13,607 |
|               | 40,000 | 16,459 | 16,387 | 16,357 |
|               | 50,000 | 22,159 | 22,087 | 22,057 |