

Invest  Italy

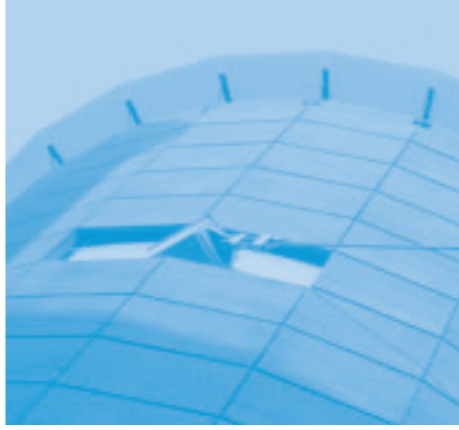
Invest  Italy

InvestInItaly is the Italian organization for investment promotion created by Sviluppo Italia, the National Agency for Enterprise and Inward Investment Development, and the Italian Trade Commission, the Government Agency which promotes the internationalization of Italian companies. Its mission is to offer a single and reliable national reference point to current and new foreign investors.



Investment Guide





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Sviluppitalia


Italian Trade Commission

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Country Profile

Political System

Italy is a Parliamentary Republic established by the 1948 Constitution. Sovereignty belongs to the people who exercise it as laid down by the Constitution. The Italian Republic acknowledges and guarantees human rights. All citizens have equal social status without regard to their gender, race, language, religion, political opinions or their personal and social conditions.

The Constitution stipulates a democratic state with powers divided between the Executive, the Parliament and the Judiciary.

President of the Republic

The President of the Republic is the Head of State and represents national unity. The members of Parliament in plenary session, with delegates from each region, elect the President for a seven-year term.

The President:

- Promulgates laws and issues decrees with the force of law
- Can ask Parliament to re-examine a law
- Can dissolve Parliament then call parliamentary elections
- Commands the armed forces
- Declares war according to the decision of Parliament
- Chairs the Superior Council of the Judiciary (CSM)
- Appoints Senators for Life
- Nominates the Prime Minister and in accordance with his indications also the Ministers
- Nominates a third of the judges of the Constitutional Court
- Order pardon for prisoners and commute penalties
- Ratifies international treaties.

The President mediates during political crisis.

Parliament

The Italian Parliament has two Chambers: the Chamber of Deputies and the Senate. The two houses have much the same powers and functions.

But there are these differences:

- Number of MPs (630 sit in the Chamber of Deputies; 315 in the Senate)
- The electoral system (Senators are elected in single regional constituencies while Deputies are elected in smaller local constituencies)
- Age of voters (18 years for the Chambers of Deputies, 25 for the Senate) and age of MPs (Deputies must be at least 25 and Senators 40 to be eligible).

The main functions of Parliament are:

- Definition of national policies
- Control of legislation.

Government

The Government must have the confidence of both Chambers and consists of the Prime Minister and the Ministers jointly constituting the Council of Ministers.

The Prime Minister conducts, and is responsible for, general government policy. The Council of Ministers sets the Government's general political agenda. It also governs all aspects of the Executive.

The Government may issue non-constitutional decrees if delegated by both Chambers. When necessary, it may issue non-constitutional decrees that Parliament must approve within 60 days.

Within the Government, important inter-ministerial committees manage issues concerning more than one Ministry:

- Inter-ministerial Committee on Prices (CIP)
- Inter-ministerial Committee for Economic Planning (CIPE)
- Inter-ministerial Committee for Credits and Savings (CICR).

Constitutional Court

According to the Constitution, the Constitutional Court passes judgment on disputes over the constitutional legitimacy of laws or of decisions with the force of law issued by the State or Regional Councils, on disputes between branches of Government over the division of State and Regional Council powers and on allegations directed at the Head of State.

Legal System

In the Italian legal system the jurisdictional functions are divided into:

- Ordinary, practiced by ordinary magistrates
- Administrative, practiced by the Regional Administrative Courts (TAR)
- Accounting, performed by the Court of Auditors in public accounting
- Tax-related, performed by the Provincial Tax Commission and the Regional Tax Commission on tax matters.

The judicial process is one of the three fundamental functions of the democratic state along with the legislative and the executive functions.

Administrative Divisions

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

Italy is divided into twenty Regions, five of which have a special status (Valle d'Aosta, Trentino-Alto Adige, Friuli-Venezia Giulia, Sicily and Sardinia). The Italian Regions are divided into 103 Provinces and 8,101 Municipalities.

Reforms

The Italian Government is committed to promoting reform policies on a national and local level.

National Reforms

The Italian Government has carried out several structural reforms to improve long-term growth and competitiveness, such as company law, tax system and labor market reforms. It is also committed to promoting and supporting business internationalization, R&D as well as e-government procedures to simplify red-tape.

Federal Reforms

Constitutional Law No. 3 of October 18, 2001, has enhanced the regional legislative powers. Regional governments have gained new powers in several important areas such as foreign trade, education and local government. Furthermore, regional governments intervene in the legislative process of the EU when European laws deal with regional matters.

Nevertheless, the central Government remains responsible for the following issues:

- Foreign Policy
- Immigration
- Religious Affairs
- Defence
- National Currency
- Electoral Laws
- Central Public Administration
- Public Safety
- Citizenship
- Justice
- Minimum Levels of Healthcare Services
- Guidelines on Education
- Pensions
- Electoral Laws for Provinces and City Councils
- Environmental Protection.

The following subjects belong to the competitive legislation between central and regional government:

- International relations with the European Union of the Regions
- Foreign trade
- Education
- Technological and scientific research and sustain to innovation for the productive sectors
- Local government
- Civil ports and airports

- Big transportation and navigation networks
- Energy production, transportation and distribution - at national level -
- Public budgets and public finance coordination and also that of the tax system.

In the competitive legislation subjects, the Regions maintain the legislative power except for the determination of basic principles that normally belongs to the central Government.

Local Taxation

Local taxation grants financial autonomy to Regions, Provinces, City Councils and Metropolitan Cities (art. 119 of the Constitution). Thus local governments may establish and levy their own taxes and pay their due to the central Government.

Regional Council for Local Authorities

The regional Council for Local Authorities co-ordinates city and provincial councils within the same Region.

Local Government Representatives in Parliament

A transitional law gives local government representatives the right to take part in the works of the Parliamentary Commission for Regional Affairs with the aim to support the establishment of a Chamber of Regions.

I. Setting up a Business

I.1. New Business Environment

Foreign companies looking to invest in Italy have the same kinds of choices and guarantees for setting up business that other leading developed countries offer. Following a thorough reform of Italian business law in early 2003, the legal framework for companies can now be considered one of the most modern and dynamic in Europe. The reform amended and supplemented portions of the Italian Civil Code (ICC) and modified Italy's Unified Rules on financial intermediation (Law 58/1998, known as the *Testo Unico Finanziario - TUF*) which now include specific provisions for listed companies.

The TUF has been significantly amended by means of law No. 262 dated December 28, 2005 which provides rules aimed to safeguard savings.

Overall the 2003 reform successfully introduced:

- Changes to the structure of commercial companies (Joint Stock Company, Limited Liability Company) which simplify and speed up the procedures for establishing a business
- New financial instruments for companies to create special categories of shares
- New rules providing greater flexibility and choice in corporate governance
- Corporate responsibility for groups clarifying issues related to liability, transparency and publicity.

Business Solutions

Prospective foreign investors wanting to set up a business in Italy may either:

- a) establish a representative office, branch; or
- b) incorporate a company with a more permanent presence.

It may also set up a representative office to explore local marketing and business opportunities and later decide to incorporate a company.

Foreign investors that prefer to establish a more stable organization may incorporate a company. The Joint Stock Company (*Società per Azioni - SpA*) and Limited Liability Company (*Società a Responsabilità Limitata - Srl*) are the most common types. For both, liability for social obligations is limited to the company's corporate assets.

Representative Office & Branch

Foreign companies intending to establish a representative office must comply with certain formalities at local Company Registries. The following information should be filed: corporate details of the representative office, personal details of the individual(s) accountable for the representative office, together with the responsible Company Registry. Failing to comply, the individual(s) accountable for the representative office are personally liable, without limitation, for the office's obligations.

Branch Office

Foreign investors not intending to incorporate an Italian subsidiary may conduct their business in Italy through a branch office. It's considered as a permanent establishment and is consequently subject to corporate income tax and must keep proper books and file its VAT returns (see p. 36) as well as the annual financing statement of the parent company including profit and loss accounts.

The following documents are required to register a branch office in Italy:

- a) Certified copy of the deed of incorporation and by-laws of the parent company
- b) Certificate of good standing of the parent company
- c) Application for the VAT number of the branch and for the tax code number of the legal representative of the parent company and of the manager
- d) Registration of the deed of deposit in an official foreign Companies' Register of Chamber of Commerce.

1.2. Types of Companies

1.2.1. Joint Stock Company (Società per Azioni - SpA)

An SpA has autonomous legal personality and is therefore a separate entity from its shareholders. It has its own assets and resources, on which its creditors must rely completely for redress. The participation of stockholders is represented by shares of stock.

Incorporation

One may establish an SpA either by executing a contract or by the unilateral act of a single shareholder. An SpA can also be participated by partnerships (provided they are not informal partnerships) or by other SpAs. The minimum equity capital required is 120,000 Euro. There is no limit on the company's lifetime.

INCORPORATION PROCEDURE

A summary of the main steps:

- Executing contract (or unilateral act) with articles of association and bylaws, in the form of a notarial public deed
- Full underwriting of the equity capital
- Bank deposit of one-fourth of the financial contribution or the entire contribution in case of unilateral formation
- Checking for special legal requirements, e.g. Government authorization for activities envisaged by the company
- Checking with the Notary Public about the essential conditions, required by law, to form the company
- Filing by the Notary Public of all documentation with the Company Registry within 20 days of the signing of the articles of association.

Contributions

Contributions can be in money, in kind and/or by assignment of credits, of which, the latter two must be paid in full when underwriting the

corresponding shares. A designated expert of the competent territorial Court estimates the contributions and renders sworn statements regarding their value.

Shareholders Agreements

Shareholders agreements bind signatory shareholders only, and may cover:

- Voting trusts concerning the exercise of voting rights in the company or its subsidiaries
- Selling syndicates limiting the transfer of shares in the company or in its subsidiaries
- Agreements for exercising a dominant influence over the company or its subsidiaries.

The maximum duration of shareholders agreements is five years renewable. If the duration is unlimited, participants may withdraw giving six-months prior notice.

Governance

Following the ICC (Italian Civil Code) reform, there are three alternative models of governance for SpAs:

- **Ordinary model** – company management is entrusted to a Board of Directors; controlling powers over the Board of Directors are attributed to the Board of Statutory Auditors
- **One-tier model** – company management is entrusted to a Board of Directors, which appoints from amongst its members a Committee for the Control of Operations
- **Two-tier model** – a Shareholders Meeting (SM, see p. 14) appoints a Supervisory Board, which appoints a Management Board entrusted with the company's management.

Individuals linked to the company or to its subsidiaries and affiliates by an employment contract or by a consultancy relationship which may affect their independence may not be appointed as members of the Supervisory Board.

The tiered models are alternatives open to both listed and unlisted companies. The choice depends on the system best suited to that business's requirements.

The ordinary model allows the corporate bodies concerned to maintain their independence.

The one-tier model model allows more flexibility for efficient communications between the Board of Directors and the Committee for the Control of Operations.

Finally, the two-tier model, which transfers many of the Shareholders Meeting's powers to the Supervisory Board, is most likely to suit listed companies.

Directors have authority to act, in the extraordinary and ordinary course of business, to achieve the company's objectives, within the law and the

articles of association. The Board or the Managing Director represents the company vis-à-vis third parties.

Unless bylaws provide otherwise, a majority of the Board's members is necessary to validate Board meetings, and resolutions require approving by a majority of attending members.

The bylaws of listed companies which have adopted the ordinary model should provide that members of the Board of Directors are elected on the basis of candidates list and that at least one member is elected amongst the candidates of the list presented by minority shareholders. Furthermore, in case the Board of Directors is composed by more than seven members, at least one member should meet the integrity, experience and independence requirements provided for the members of the Board of Statutory Auditors.

In listed companies which have adopted the one tier model candidate elected by minority shareholders should meet the integrity, experience and independence requirements provided for the members of the Board of Statutory Auditors.

The election of the members of management bodies of listed companies shall occur by secret ballot.

Directors hold office for three financial years. The directorship may end by natural expiry, resignation, removal, death or personal inability (e.g. ineligibility).

Directors are jointly liable for the company if they:

- Act outside the duty of diligence imposed by law and the company's bylaws
- Fail to supervise or intervene where necessary in the actions of their subordinates
- Fail to avoid prejudices to the company
- Fail to comply with the duties imposed by law.

Controls

STATUTORY AUDITORS

Statutory Auditors (SA) duties include: reviewing the accounting system; auditing the accounts; supervising business compliance with the law and the articles of association; properly controlling the company's management; and ensuring the effectiveness of the governance rules and of the organization. The Board of Auditors (BA) has three or five regular members and two alternate members. An SA term in office may end following natural expiry, resignation, personal inability, removal (following a Shareholders Meeting resolution and Court approval), and death.

In listed companies the Chairman of the BA must be appointed by the SM amongst the statutory auditors elected by the minority shareholders. Furthermore the law provides for certain limits to the possibility to cumulate appointments whose content shall be set forth in a regulation to be enacted by CONSOB (*Commissione Nazionale per le Società e la Borsa*).

Bylaws of listed companies should also provide for the appointment of an executive in charge of the preparation of the accounting documents of the company who should certify the truthfulness of the information relating to the economic and financial condition of the company disclosed to the market.

EXTERNAL CONTROLS

Listed companies shall allow a general accounting control and assessment of their financial statements, including consolidated and extraordinary balance sheets by any external Auditing Company (AC) listed on a special CONSOB register.

The AC verifies the regular keeping of the company accounts and the consistency of the financial statements with the company's books and accounting records. The Shareholders Meeting appoints the AC, whose mandate runs for six financial years, renewable once only after three years have elapsed following the first mandate. In such a case the responsible of the AC for the auditing activity must be replaced with another responsible. AC (and their shareholders, directors and internal auditors) are banned to provide to companies which have appointed them to act as external auditing company services other than auditing services.

JUDICIAL AUTHORITY

A judicial authority exercises judicial control over the SpA's management. If directors are suspected, in breach of their duties, of committing serious operational irregularities that may prejudice the company or one or more of its subsidiaries, shareholders representing one-tenth of the share capital or one-twentieth in companies with recourse to the equity capital market, may present the facts in Court with a complaint.

If a breach exists and/or cannot be remedied, the Court may order appropriate provisional measures and call a Shareholders Meeting. It may also remove Directors and/or Statutory Auditors and appoint a judicial administrator to initiate legal actions for damages suffered by the company.

LISTED COMPANIES

Foreign and Italian companies that access the Italian financial markets must be subject to the rules and procedures of *Borsa Italiana SpA*, as well as the CONSOB, the public authority in charge of regulating transparency and correct behavior by securities market participants and of the disclosure of complete and accurate information to the investing public by listed companies.

Management bodies of the companies which access the Italian financial markets must adopt in compliance with general principles enacted by CONSOB rules aimed to ensure transparency and correctness in transactions with related parties. Control bodies supervise compliance with such regulation and must refer about thereof to the SM.

For further information: www.consob.it/eng_index.htm

Shareholders Meetings (SM)

The Board of Directors or in certain circumstances the BA, the Committee for the Control of Operations or the Supervisory Board, may convene a Shareholders Meeting.

The SM convenes to provide annual approval of the financial statements, when there is a majority of vacant posts on the Board of Directors, when the company loses a third or more of its capital, or at the request of a qualified minority of shareholders.

Approval of the financial statements must occur within 120 days from the closing of the financial year. The bylaws may provide for a longer term which in any case cannot exceed 180 days if the company is required to prepare consolidated financial statements or when special needs related to the organization and structure of the company require it. In listed companies the SM may be convened on request of two members of BA.

The SM's prerogatives vary depending on the company's rules of governance (ordinary, one-tier, or two-tier), and the type of meetings (regular or special). Special quorums decide the constitution of the SM and whether to adopt resolutions.

One may annul an SM resolution within ninety days if it contravenes the law or the articles of association. Resolutions are null and void if their purpose is unattainable or unlawful, if the SM does not convene, or there are no minutes of the SM meeting.

SHAREHOLDERS' RIGHT TO WITHDRAW

There is a special procedure for the withdrawal of shareholders who disagree, are absent or abstain from resolutions on certain matters.

Shareholders can also withdraw from unlisted companies of unlimited duration by giving 180 days prior notice. In listed companies, they can withdraw if, following a merger or a de-merger, unlisted shares are attributed, or if the SM approves a resolution for the de-listing of the company. Companies without access to equity capital markets can specify additional causes of withdrawal.

Winding up

An SpA liquidates:

- When its term expires
- If the company's purpose is attained or considered impossible to attain
- If the SM fails to operate or is continuously inactive
- If capital falls below the legal minimum for losses and is not restored
- If withdrawing shareholders cannot be reimbursed
- Upon resolution of the SM
- For any other causes contemplated in the articles of association
- Because of bankruptcy or compulsory administrative liquidation
- Because of an imbalance in the value of ordinary and saving shares (or other shares with limited voting rights) for listed companies.

Shares

Shares are represented by certificates. Shares issued by a listed company or by companies whose shares are widely distributed among the public

are dematerialized by law. SpA shares are registered. Under the bylaws, share transfers may be limited for up to five years. Pre-emptive rights and acceptance clauses may apply if shareholders maintain their rights to withdraw, or the company and/or the other shareholders have to buy up the shares on offer.

Categories of shares with different rights regarding the incidence of losses may be created. The law requires creating special Shareholders Meetings for each category of shares.

Sole Shareholder

The sole shareholder is a person (legal or physical) who is the beneficiary of all the shares. During insolvency, he/she has unlimited liability for the company's obligations:

- a) If contributions were made illegally, and
- b) Failing fulfilment of the obligations to make public information about the sole shareholder, a change of sole shareholder, or creating (or restoring) a plurality of shareholders.

Financial Instruments

CARRYING PROPERTY OR ADMINISTRATIVE RIGHTS

An SpA may issue special financial instruments against work, services or assets contributed by shareholders or third parties. Such instruments do not carry ordinary voting rights and are not allocated against the equity capital. They can benefit from fixed or indexed dividends and can undergo losses as provided by the bylaws. Owners of such instruments have the right to be informed about the company's activities and to vote on some matters.

ASSET AND LOAN ALLOCATIONS TO SPECIFIC PROJECTS

An SpA may isolate assets and allocate them exclusively to a special project. One may specify in the financing contract that all or part of the revenues deriving from the project repay all or part of the allocation. If the requirements for separating the assets are satisfied, then the company is liable for the project's obligations only up to the amount of the assets specifically allocated.

BONDS

The Board of Directors issues bonds unless laws or bylaws state otherwise. Bonds, bearer or registered, are issuable in an amount not exceeding twice the combined sum of the paid-in capital, legal reserve fund, and the statutory reserves under the latest approved financial statements.

For the purposes of calculating such amount also the amounts relating to the issuance of guarantees in any manner issued in favor of other companies including foreign companies should be taken into account.

The Italian Civil Code (ICC) sets out terms of issuance, obligations and rights of bondholders, meetings of the bondholders and, if any, the share ratios applicable for converting bonds into shares.

FUNDING

The SpA may raise:

- Funds
- Bills of exchange
- *Polizze di credito commerciale*, where the company borrows from another entity and guarantees repayment, assignable to third parties, by a standby letter of credit
- *Cambiali finanziarie*, similar to bills of exchange
- Investment certificates.

1.2.2. Limited Liability Company (Società a Responsabilità Limitata - Srl)

Quotas represent the extent of member participation. The Srl is accountable with its own assets for the obligations it undertakes. The minimum capital required is 10,000 Euro.

Incorporation

The Srl can have unlimited duration. Contributions include money and, depending on the articles of association, any items of economic value including services supplied by quota holders, if adequately guaranteed. Upon formation, each quota holder shall pay in one-fourth of his/her money contribution and the full premium. The articles of association and the bylaws shall be in the form of notarial deeds.

LIMITED LIABILITY COMPANY WITH SOLE QUOTA HOLDER

A sole quota holder Srl requires a unilateral deed, full payment of the capital contribution, and certain disclosure requirements. Should a sole quota holder acquire an existing, non-sole quota holder Srl, he/she must disclose publicly the changes of quota holders and cover outstanding contributions. During insolvency, sole quota holders are liable without limitation if contributions remain unpaid or disclosure requirements about them are incomplete.

FUNDING

The Srl may receive financing from quota holders. Reimbursement ranks after repaying the company's creditors. Any reimbursement made within the year preceding a bankruptcy declaration must be returned. Issuing bonds is allowable under the articles of association if subscribed to only by professional investors.

Management

The company is managed by one or more quota holders unless the bylaws provide otherwise. Management of the company may be entrusted also to third parties. The bylaws may grant quota holders special administrative rights such as the right to appoint directors or a veto on certain resolutions or appointments. Directors may serve unlimited terms.

The available models of management are:

- Sole managing director
- Board of Directors by adopted resolutions or by written consultations among members

- Several management
- Joint management.

Directors shall always adopt resolutions collectively on financial statements drafts, merger and de-merger projects, and capital increases.

Management may act on behalf of the Srl vis-à-vis third parties within the limitations given in the Company Registry.

Directors are jointly and severally liable towards the company for breach of their duties under the law and the bylaws, and towards quota holders and third parties for damages resulting from their negligent or fraudulent actions. This liability may not apply if there is evidence that they had disagreed with, or opposed the breach concerned. Any quota holder authorizing damaging actions would be jointly and severally liable along with the Directors.

Quotas and Quota Holders

Quota holders may adopt resolutions either collectively or by written consultation for:

- Approving financial statements and distributions of dividends
- Appointing Directors and Statutory Auditors
- Amending bylaws
- Operations entailing substantial changes in the company's purposes or quota holders' rights
- Matters expressly referred to in the bylaws.

Quota holders may assign various patterns for distributing dividends and covering losses (not necessarily proportional to contributions). Dividends, however, are paid only out of profits actually accrued and shown in the regularly approved financial statements.

Patterns aimed at excluding entirely one or more quota holder from profits or losses are null.

QUOTA HOLDERS AGREEMENTS

The limitations on SpA shareholders' agreements are not applicable to SRLs unless it acquires control of an SpA.

WITHDRAWAL OF QUOTA HOLDERS

Quota holders may withdraw:

- If the company's purpose or model changes
- In case of disagreement about a merger or de-merger
- In case of repeal of liquidation
- If causes of withdrawal are deleted from the bylaws
- If the company undertakes transactions substantially altering its purpose
- If the company's registered office moves abroad
- If the quota holder disagrees with approved amendments to individual quota holders' rights regards the company's management or distributing profits
- If the Srl has unlimited duration.

CIRCULATION OF QUOTAS

The company cannot purchase its own quotas, grant guarantees, or loans thus enabling third parties to purchase quotas. If the bylaws forbid transferring quotas, including upon death, quota holders may withdraw.

The bylaws, however, can prohibit withdrawal before two years from the forming the company or subscription of the relevant quota.

Transfers of quotas must be certified acts or notarial deeds, deposited with the Company Registry and registered in the quota holders' ledger. This renders the transfer enforceable against the company and third parties.

Controls

Appointment of a Board of Auditors (BA) is mandatory only if:

- The Srl's capital exceeds 120,000 Euro, or
- Certain thresholds (related to assets, profits, number of employees) are exceeded.

The rules governing the powers of the BA are the same as those for SpAs. The company may also elect to turn over administrative control to the BA while an accounting firm takes over accounting control.

1.2.3. Other Types of Companies

General Partnership (*Società in nome collettivo*)

All members of a *Società in nome collettivo* (SNC) are jointly and severally liable for the obligations assumed by the company. Nonetheless, creditors of the SNC cannot claim payments from the members until after all remedies against the SNC have been exhausted.

The SNC, although it is not a legal person (it is not incorporated), can to certain extents be regarded as an autonomous entity distinguished from its members.

Limited Partnership (*Società in accomandita semplice*)

Limited partnership both having unlimited liability for the partners. General members are jointly and severally liable without limits for the obligations of the partnership whilst silent partners are only liable to the extent of their contributions. The business name must consist of at least the name of a general partner, and a mention of the limited partnership status. The rules governing the general partnership are applicable to the limited partnership insofar as they are compatible with this model. The article of association must include the names of the general members as well as those of the silent partners.

Partnership Limited by Shares (*Società in accomandita per azioni*)

There are two categories of members: general partners, who are liable jointly and severally liable without limitation for the partnership obligations, and special partners who are liable within the limit of subscribed capital. Creditors of the *Società in accomandita per azioni* (SAPA) cannot claim payments from the general partners until after all remedies against the company have been exhausted. Participations are represented by shares. General partners are directors by operation of law and are subject to the same duties as the directors of an SpA. Rules concerning the Shareholders Meeting and the Board of Statutory Auditors of the SpA are also applicable, to the extent compatible, to the SAPA.

1.3. Groups of Companies

After the 2003 reform of business law in the Italian Civil Code (ICC), the concept of the 'group' and its ties to companies changed considerably.

A Group is not an autonomous legal entity. Direction of the companies in a Group may follow a common economic strategy but are distinct from each other as well as the Group. Each company is subject to the laws for the model under which it is incorporated.

Parent company resolutions do not, therefore, directly affect subsidiaries or controlled companies even if intended for direction and coordination. Nevertheless, the Group's interests can be pursued through acts, which may initially affect the interest of the subsidiary. The final result of the Group's act, however, must eventually favor the individual subsidiary.

Duties of Parent Companies Parent companies must disclose publicly financial information and other sensitive data regarding subsidiaries, controlled companies and affiliated entities. Parent companies are liable towards shareholders and creditors of their subsidiaries and controlled companies if such companies are mismanaged.

Duties of Subsidiaries Subsidiaries and controlled companies must make public their links with the Group's other companies and the parent company's powers of direction and coordination, as recorded at the Company Registry. They must also explain the reasoning behind any of their decisions derived from their dependence on a Group. Shareholders of subsidiaries or controlled companies may withdraw from the company under specific circumstances.

1.4. Litigation - Corporate Proceedings

Dispute Resolution The 2003 reform of the Italian Civil Code (ICC) amended comprehensively dispute resolution mechanisms for corporate disputes.

Out of Court Conciliation Procedure This procedure is chaired by a private or public entity registered with the Ministry of Justice. It does not prevent the parties having recourse to ordinary Courts. Should the Court believe the relevant bylaws to be broken, it may suspend the trial and fix a term for filing the conciliation request.

Special Judiciary Proceeding There are two special procedures, ordinary and summary, for corporate disputes within the ordinary judicial procedure. The competent Court has jurisdiction to deal with these specific procedures.

Arbitration The ICC reform amended arbitration clauses in company bylaws dealing exclusively with corporate matters. Disputes over the Courts' mandatory interventions during the lifetime of a company and public interest pursued by companies are excluded from arbitration. The reform also amended the terms for appointing arbitrators, precautionary measures, incidental

questions, intervention of third parties, and appealing against international arbitration. There is also a simplified arbitration procedure for disputes arising among the managing members of SRLs and partnerships about the company's management.

1.5. Bankruptcy

Failure by a company to meet its obligations may result in bankruptcy proceedings. The Italian Bankruptcy Law provides pre-liquidation, rehabilitation, or moratorium procedures aimed, providing certain conditions are met, at avoiding bankruptcy.

The Bankruptcy Procedure

There are two pre-requisites for bankruptcy proceedings:

- It involves a commercial entrepreneur, whether an individual or a company; and
- It must be in a state of insolvency.

Insolvency occurs when a business cannot pay its due debts by ordinary means, and the situation is permanent and not a temporary difficulty.

Bankruptcy proceedings are unavoidably collective because they concern all a debtor's assets, and the interests of all the creditors. Equality of treatment applies to creditors, subject only to cases of legal priority.

During the bankruptcy procedure certain categories of the business's acts or contracts may be subject to claw back actions, provided that certain requirements are met.

Such requirements have been recently amended following the coming into force of Law Decree No. 35 of March 14, 2005 converted by Law No. 80 of May 14, 2005 which has widened number of acts which may not be subject of claw back actions.

On January 9, 2006 the Italian Government has enacted a Legislative Decree aimed to reform the regulation applicable to bankruptcy procedures. Such Decree, whose provisions came into force in July 2006, provides for the following changes: the acceleration of bankruptcy legal proceedings; to enlarge the competences of the creditors committee; to amend the personal consequences of the bankruptcy; to amend the effects of the revocation; to reduce the term of exercise of claw back action; to modify the consequences of bankruptcy on the existing legal relationships including on the assets destined to a specific project; to modify the regulation of the provisional carry out of the business of the bankrupt company; to modify the debts assessment procedure, reducing the timing and simplifying the regulation applicable to the claims filing; the preparation by the receiver of a restructuring plan containing the timing and modalities envisaged for the liquidation of the assets; to modify the allocation of the assets reducing the timing of the procedure and simplifying the fulfilments associated thereof; to amend the rules applicable to bankrupt composition (*concordato fallimentare*) reducing the

timing and envisaging the subdivision of the creditors into classes; to introduce the debts discharge; to abrogate the summary bankruptcy procedure and moratorium (*amministrazione controllata*).

Pre-Liquidation Procedures

Italian Bankruptcy Law provides two special instruments for pre-liquidation, rehabilitation, and moratorium procedures, which enable a debtor to avoid a bankruptcy declaration:

- **Composition or deed of arrangement** (*concordato preventivo*): available to companies and individuals in business and supervised by the Courts. The debtor enters into a deed of arrangement with its creditors for settling its outstanding debts through available assets
- **Arrangement for debt restructuring** (*accordi di ristrutturazione dei debiti*): available to individuals and companies it is constituted by an arrangement reached between the debtor and creditors representing at least 60% of the receivables towards the debtor. The agreement should be filed with the competent companies' register and must be homologated by the Court.

Special Procedures

Special procedures apply to particular types of companies:

- **Compulsory administrative liquidation** (*liquidazione coatta amministrativa*): this procedure applies to certain types of businesses depending on both the sector and number of employees, e.g. insurance companies, credit institutions and co-operative societies
- **Extraordinary administration** (*amministrazione straordinaria*): this particular insolvency procedure applies to industrial and commercial enterprises with 200 employees or more and whose debts amount to no less than two-thirds both of the assets and of income derived from the latest financial year.

2. Real Estate Law

Real Estate Law is governed mainly by the Italian Civil Code (ICC) and by special laws or specific issues. Real estate development projects and renovation works require approval by local authorities entailing administrative licenses and permits.

2.1. Holding Real Estate Assets

Real estate assets may be:

- Stand alone assets
- Part of a joint property (*condominio*); specific provisions of the Italian Civil Code (ICC) apply to assets forming part of a coproperty
- Part of a going concern; rules relating to the transfer of a business apply.

There are four titles for classifying real estate assets:

- Full ownership
- Long lease
- Lease of business
- Usufruct and Right of Common.

2.2. Purchase Contracts

Agreements for purchasing or selling real estate properties, and creating or transferring real estate rights, must be in writing. These agreements are enforceable following registration with the local real estate registry.

A real estate sale in Italy is void unless the seller holds a valid administrative building concession for the property.

Purchase contracts can be:

- Preliminary contracts
- Final contracts
- Forward sale agreements.

Preliminary contracts are the most common since both parties must fulfill certain conditions (e.g. the satisfactory outcome of the necessary title searches) before entering into the final contract.

2.3. Buildings under Construction

Italian Legislative Decree No. 122, June 20, 2005 has provided for a regulation aimed to protect purchasers of buildings under construction. Buildings under construction are deemed those buildings for which the construction permit has been released and whose building procedure is ongoing or those buildings whose construction procedure is at stage which does not enable the release of the fitness for use certificate. In particular the above mentioned Legislative Decree provides for: the obligation of the construction company to file a performance bond for an amount equal to the amount paid by the purchaser, the obligation for the construction company to deliver an insurance policy aimed to cover the purchaser from eventual risks for defects showed up following the execution of the purchase contract; specific provisions to be inserted in the purchase contract; a specific regulation for situations of financial crisis of the construction companies; and the creation of a fund aimed to provide the reimbursement of the purchasers which have suffered a loss upon bankruptcy of the construction company (the mentioned fund has been created throughout Ministerial Decree of February 2, 2006).

2.4. Lease Contracts

Residential Rental Agreements

Specific provisions regulate residential rental agreements and apply to all properties except those seen as having historical, artistic, archaeological or ethnic significance.

There are two general types of rental agreements:

- **Unregulated agreements** – the parties can determine the rental rate and any periodic increase; these agreements run for four years, renewable, with some exceptions, for additional four-year terms
- **Regulated agreements** – these must comply with the standards terms and conditions, national and local, of standard agreements negotiated between landlords associations and the main tenants associations.

In both cases, tenants may terminate their agreement at any time, but must give six-months prior written notice to their landlord. Clauses and agreements either indicating a term exceeding that set by law or a rental rate higher than that declared in the written and registered rental agreement, or in the standard agreement, are null and void.

Commercial Rental Agreement

Rental agreements for commercial properties follow separate specific rules. Commercial properties include those for industrial, commercial, tourist, business, workshop or similar use. Commercial rental agreements must be for a minimum term of six years, or nine years for hotels and similar businesses. These are automatically renewed for another 6, or 9-year term, unless either party gives the other 12 months, 18 months for hotels, prior written notice of its intention to leave.

Also, a landlord can deny renewal upon expiration of the first contractual term if he/she needs to use the property:

- As his/her own domicile
- For productive activity carried out by himself/herself or by a close relative
- To carry out substantial restructuring of the property.

The rent is set by the parties, subject to any periodic increase required by law. If the landlord terminates the rental agreement other than for just cause, he/she must give the tenant compensation for the loss of goodwill, equalling 18 months rent, or 21 for hotels leases. Compensation doubles if the landlord then rents out the same property within one year to someone in the same or a similar business as the original tenant.

There is no right to compensation if the property is for:

- Businesses without direct contact with the general public
- Professional business or temporary activity
- Secondary properties in railway stations, ports, airports, highways, service areas, hotels and tourist resorts.

Any provisions or agreement limiting the contractual term set by law or introducing terms favoring the landlord in violation of the rent control (*equo canone*) law are null and void.

2.5. Real Estate Investment Funds

The regulatory framework for real estate funds sets out:

- Terms and conditions for real estate assets contribution to closed-end real estate investment funds
- Terms of real estates assets contributions from, or sales of real estates assets to, managing company shareholders of the relevant fund or companies affiliated with the managing company.

The investment fund can hold, at most, real estate of its managing group equalling 60% of the fund's aggregate value. It can take up loans amounting to 60% of the value of the real estate assets held.

It is provided for an exception to this rule with reference to speculative funds, as regulated by article 16 of Ministerial Decree No. 228 of May 24, 1999, as modified by Ministerial Decree No. 256 of October 14, 2005. Also, the investment fund, can hold interests in real estate companies active in construction.

2.6. Financing Acquisition

Type of Acquisition Vehicle

The acquisition of real estate assets is through a special purpose vehicle. Limited Liability Companies (*Società a Responsabilità Limitata - Srl*) are used especially for tax reasons.

Security Package

A customary security package in a real estate acquisition would include:

- Pledge on the shares or quotas of the vehicle
- Mortgage for the acquired estate
- Pledge on the bank accounts of the company holding the estate
- Pledge on the VAT (see p. 36) receivables for the tax authorities.

Also, under Italian Banking Law, mortgages granted to secure mortgage loans are not subject to claw back action if mortgage registration takes place at least ten days before the bankruptcy declaration. Italian Legislative Decree No. 122 of June 20, 2005 amended article 39 of Italian Banking Law, introducing the possibility to share out the loan and, as a consequence, the mortgage itself.

Financial Assistance Rules

Italian law prohibits financial assistance from a company to a buyer for the latter's acquisition or subscription of the company's shares. This applies to all types of Limited Liability Companies, making it illegal to directly use the target's assets to finance the acquisition or to secure the loan received by the buyer. This provision remains in full force after the updating of Italy's Company Law in 2004.

With the 2004 Company Law, merger-based leverage buy-out transactions are legal in Italy, subject to compliance with the Italian Civil Code. This applies to mergers between companies, one of which has incurred debt in order to purchase a controlling stake in the other, if, as a result of the merger, the latter's assets are an implicit guarantee or source for the repayment of the debt. Certain formalities apply when implementing a merger between an acquiring company that has incurred debt and the target company. The merger plan must indicate the sources of funds available to the company after the merger for meeting its obligations. The Directors must show that the surviving company has sufficient funds to repay the acquisition debt and file a business and financial plan giving details of such sources.

2.7. Due Diligence Checks

Due diligence verifications in real estate transactions cover various items in the following areas.

Encumbrances, Restrictions

on the Seller's Freedom of Sale

Before purchasing real estate, prospective buyers should conduct an appropriate ownership (cadastral) search to ensure against encumbrances, in particular of mortgages or easements.

Archaeological Restrictions

Italy's Ministry of Culture (*Ministero per i Beni e le Attività Culturali*) has a pre-emptive right to the sale or transfer of any real estate property in Italy with historical or archaeological value or significance. Prospective purchaser of real estate properties with historical or archeological value or significance must notify the Ministry of any transfer or sale involving such properties. Statutes or contractual provisions may also establish such pre-emptive rights.

Town Planning Restrictions

Each Italian municipality decides the permitted use of real estate properties under its jurisdiction in keeping with local laws and regulations.

Inter vivos (inherited) property deeds, involving partition of co-owned so-called *diritti reali* (rights enforceable against third parties), are null without a certificate from the local authorities stating the property's intended destination. The certificate is mandatory for establishing or transferring any real estate rights, irrespective of type or destination. It must mention the intended destination of the property in accordance with local area regulations. Any subsequent change in the destination or use of the property requires the local authorities' advance approval. The certificate provides any prospective buyer with information on the terms, conditions and limits applying to the property under sale.

Construction Permits

These are required only for:

- Construction of new buildings
- Urban restructuring
- Restructuring works modifying the structure, size and/or use of a property.

Other real estate works do not require prior authorization if relevant local authorities receive administrative notice.

Environmental Issues

Italian environmental regulations are for public safety. Some provisions relate to reclaiming polluted land or facilities. If pollution levels exceed the legal threshold, the owner or occupier of the polluted property or the party responsible for the pollution is liable. He/she must bear all the costs necessary for reclaiming the area or implementing specific safety measures preventing future pollution. The reclamation process must respect administrative procedures and periodical reviews. Failure to implement the reclamation plan may result in fines and even criminal liability.

3. Intellectual and Industrial Property Rights

3.1. A Secure Setting for Innovation

Foreign companies investing in the Italian market can rely on the same legal protection of Intellectual Property Rights (IPR) granted to Italian companies. These rights extend to all the key areas – patents, trademarks, copyright, and designs – that companies are used to enjoying in their home countries. The foundations of this legal certainty rest on Italy's membership of and respect for all the leading international agreements on IPR.

As a founder member of the European Union, Italy is at the forefront of European IPR developments and has some of the most modern and up-to-date intellectual property practices in the world. Recent innovations include introducing new measures to combat counterfeiting, protection for internet-related intellectual property, merging and simplifying patent and trademark rules, and the advent of online filing options for claims.

3.2. International IP Treaties ratified by Italy

Italy has ratified these International Treaties:

- Paris Convention for the Protection of Industrial Property (1884)
- Bern Convention for the Protection of Literary and Artistic Works (1887)
- Madrid Agreement Concerning the International Registration of Marks (1894)
- Madrid Agreement for the Repression of False and Deceptive Indications of Source on Goods (1951)
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks (1961)
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration (1968)
- European Patent Convention (EPC) (1973)
- Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1975)
- Locarno Agreement Establishing an International Classification for Industrial Designs (1975)
- Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms (1977)
- International Convention for the Protection of New Varieties of Plants (UPOV) and Contracting Parties to the International Convention for the Protection of New Varieties of Plants (UPOV) (1977)

- Strasbourg Agreement Concerning the International Patent Classification (1980)
- Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite (1981)
- Patent Co-operation Treaty (PCT) (1985)
- Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure (“Institution” Advanced Biotechnology Center - ABC, 1986)
- Hague Agreement Concerning the International Deposit of Industrial Designs (1987)
- Agreement on Trade Related Aspects of Intellectual Property Rights (since 1995)
- Protocol relating to the Madrid Agreement Concerning the International Registration of Marks (2000)
- Patent Law Treaty (PLT) (2005).

For further information: www.wipo.int

3.3. Basic Principles of the Italian IP System

3.3.1. Patent Law

Under the Italian system, one may patent new products or processes in any technological field. One may not, however, patent methods for human or animal therapy, plant varieties or essentially biological methods for producing plants or breeding animals.

To be patented, any filed invention must have the following features:

- An industrial application, in one or more sectors
- A novelty: the filing party must not disclose any information before the filing date of the patent application
- An inventive step: the invention must represent a technological advance that would be non-obvious to an expert in the relevant field of industry.

The filing of an Italian patent can represent the basis for a claim in any member country of the Paris Convention.

3.3.2. Trademark Law

Italy’s trademark system grants trademark owners the exclusive right to use new, lawful and distinctive signs capable of graphical representation. This includes the right to request custom seizure of any counterfeited good, as set down in the TRIPs Agreement.

Under Italian law, three-dimensional signs, graphically represented sounds, color combinations and original shades of colors are also enforceable marks. Using symbols to indicate that the trademark has been filed or is registered is not mandatory under Italian law.

A trademark enjoys protection once filed with the Italian Patent and Trademark Office (*Ufficio Italiano Brevetti e Marchi - UIBM*).

Protection is also granted to non-registered trademarks, according to the Paris Convention on unfair competition.

Trademarks are valid for ten years from the filing date, renewable for an unlimited number of subsequent ten-year periods.

The international classification of goods and services in Italy is based on the Nice Agreement system. One may transfer or license a trademark for all or part of the goods and/or services related to it.

3.3.3. Copyright Law

Italy's copyright law is based on the principles of the Berne Convention for the protection of literary and artistic works. An author's original work is protected by copyright from the moment it is created. No application or other formalities are required to enjoy intellectual property protection.

Copyright protected works of authorship include literary works, motion pictures, musical works, sound recordings, software, databases, architectural works, and drawings amongst others.

Protection lasts for the lifetime of the author plus a further seventy years; different terms apply to secondary works of authorship.

3.3.4. Design Protection

A design qualifies for protection if it is:

- A novelty: no such design was available to the public before filing the application
- An individual character: the overall impression it gives to an informed user must differ from that of any other design publicly available before the application was filed.

Following registration, the design is protected for one or more periods of five years from the filing date, renewable for a total of up to twenty five years. The registration of a design gives the holder the exclusive right of use (i.e., to make, offer, put on the market, import, export) and of preventing any third party from using it without their consent.

3.4. Recent Developments in Italy's Intellectual Property Laws

In recent years, Italy has further increased the protection of Intellectual Property Rights.

NEW PROVISIONS

- **Setting up of 12 Intellectual Property Tribunals**

Under Law Decree No. 168 of June 27, 2003, the Italian Government has established 12 Intellectual Property Tribunals (*Sezioni Specializzate in materia di Proprietà Intellettuale*) in the following major Italian cities: Bari, Bologna, Catania, Florence, Genoa, Milan, Naples, Palermo, Rome, Turin, Trieste, Venice.

- **Adoption of EC Directive 29/2001 on the harmonization of certain aspects of copyright and related rights in the information society (the “Information Society Directive”)**

Italy was one of the first EU countries to amend its domestic copyright laws to keep pace with the provisions of the recent Information Society Directive, embodying the provisions of the WIPO (World Intellectual Property Organization) Copyright Treaty and the WIPO Performances and Phonograms Treaty of 1996. Law Decree No. 68 of April 9, 2003, brought the changes into effect.

- **Setting up of the *Alto Commissariato per la lotta alla contraffazione***

Law Decree March 14, 2005 converted by Law No. 80 of May 14, 2005 established an Anti-counterfeiting Committee to co-ordinate the fight against piracy and counterfeited goods. Administrative sanctions for individuals who put into the market counterfeited goods have been increased by from Euro 1,032 up to Euro 20,000.

- **Made in Italy**

The 2004 Fiscal Law also recognized a new form of collective label to distinguish and increase demand for Italian-produced goods worldwide. Using the “Made in Italy” label on non-Italian originating goods and services is punishable by law. A National Fund of 35 million Euro in 2004, 55 million in 2005, and 35 million in 2006 is available to encourage Italian companies to adopt the label.

Further, in May 2002 the Italian Parliament granted the Government law-making powers to reorganize and update the current patent and trademark rules into a ‘single law’ (*Testo Unico*).

THE INDUSTRIAL PROPERTY CODE

On February 10, 2005 the Government has enacted Legislative Decree No. 30/2005 (the “Industrial Property Code”) which provides for the following major changes to the previous regulation:

- The reorganization in a single law of the regulation applicable to trademarks, patents and designs
- The introduction of a wider definition of Industrial Property
- A reform of the regulation applicable to inventions created by employees and physicians in research
- The reorganization and the enlargement of the tasks entrusted with the Italian Patent and Trademark Office (*Ufficio Italiano Brevetti e Marchi - UIBM*)
- A better definition of the competences of the 12 Intellectual Property Tribunals and the application to legal proceedings relating to Industrial Property Rights of dispute resolution mechanisms and special procedures for corporate disputes approved in 2003
- Stronger criminal sanctions for serious infringements of Industrial Property Rights
- New actions aimed to fight against piracy and counterfeiting goods.

The Industrial Property Code is already in force also with reference to the regulation applicable to legal proceedings actually subjected to the 2004 Company Law reform.

The Industrial Property Code provides for a new definition of Industrial Property which expressly includes also designations of origin (*denominazioni d'origine*) geographical indications (*indicazioni geografiche*) and company confidential information. Company confidential information are deemed those information which are secret within the meaning they are not in their configuration known or easily accessible by experts in the same field of activity, have an economical value due to their secrecy, are subject to adequate control procedures aimed to keep such information as secret or which relate to tests conducted on products before their marketing.

With reference to inventions created by employees in accordance with the Industrial Property Code, they belong to the employer so long as they relate to the tasks defined in the employment contract and specific compensation is paid to the employee. If a specific compensation for the invention is not envisaged by the employment contract and the invention is created in the performance of the employment relationship, the invention, if patented, belongs to the employer but a fair compensation must be paid to the employee. If the above conditions are not met and the invention relates to the field of activity of the employer, the invention belongs to the employee but the employer is granted with an option right to use on an exclusive or not exclusive basis or to purchase the invention. In case an agreement is not reached between the employer and the employee on the amount of the fair compensation or of the consideration for the invention, the assessment thereof is made by an arbitrators panel.

Criminal sanctions related to the infringement of Industrial Property Rights are stricter. Furthermore, in determining the amount of damages arising from a counterfeiting, the Courts shall be entitled to consider also the proceeds obtained by the counterfeiter and the royalties he should have paid to be granted a license to use the Industrial Property Right infringed.

Furthermore a new definition of piracy has been introduced. Based on such new definition, piracy acts on Industrial Property Rights are deemed those acts which are carried out with fraud and in a systematic way. Even if no specific discipline has been enacted yet, Internet domain names are protected under article 22 of the above mentioned Industrial Property Code, which has extended to domain names the same kind of protection provided for the other industrial property rights.

The UIBM offers online users access to a new database of Italian patents and trademarks.

For further information: www.uibm.gov.it/uibmdev/

4. Italian Tax System

4.1. Introduction to the Italian Tax System

As from January 1st, 2004 a broad reform of the corporate tax system (the "Reform") entered into force. The Reform aims at simplifying the tax legislation and at creating a favorable tax environment for domestic and foreign investments.

The main features of the reformed corporate tax system are:

- Reduction of corporate income tax rate to up to 33%
- Partial exemption of capital gains arising from the disposal of qualified participations into Italian and foreign corporations ("Participation Exemption")
- Abolishment of the full imputation system on distribution of corporate profits, i.e., the dividend tax credit, and introducing a 95% exemption on dividend distributions
- Introduction of a group taxation regime for Italian/foreign corporations belonging to the same group to consolidate their tax base at the level of the Italian parent
- Introduction of the so-called 'thin capitalization rule' whereby a debt/equity ratio aims to avoid thin capitalization of Italian corporations.

4.2. Types of Taxes in Italy

4.2.1. Direct Taxes

The Italian tax system is composed of two main types of taxes: direct taxes (or income taxes) and indirect taxes.

Personal Income Tax (IRE)

Personal Income Tax (*Imposta sul Reddito - IRE*) is regulated by the Consolidated Tax Code (CTC), *Testo Unico delle Imposte sui Redditi*. Italian resident individuals are subject to IRE on their worldwide income. Non-Italian resident individuals are subject to IRE only on Italian source income. Progressive tax rates apply, with a maximum rate of 39% and minimum tax rate of 23%. In addition a 4% solidarity surcharge tax is due for the portion of income exceeding 100,000 Euro (see p. 53).

Corporate Income Tax (IRES)

Corporate income tax (*Imposta sul Reddito delle Società - IRES*) is regulated by the Consolidated Tax Code (CTC). Italian resident corporations are subject to IRES on their worldwide income. Non-Italian resident corporations are subject to IRES only on Italian source income. The flat tax rate on taxable income is 33% (see pp. 38-48).

Regional Tax on Business Activities (IRAP)

Regional tax on business activities, (*Imposta Regionale sulle Attività Produttive - IRAP*), is a local tax applied on the value of the production generated in each taxable period by persons carrying out business activities in a given Italian region. Non-Italian resident corporations are subject to IRAP only on the production generated through Italian permanent establishments.

Value-Added Tax (VAT)

4.2.2. Indirect Taxes

The Italian Value-Added Tax (VAT) system conforms fully to European Union VAT rules. In principle, the system ensures that VAT is borne by the ultimate consumer only and that, at the upper level, input VAT is deducted by the suppliers of goods and of services. VAT is charged on any supply or service deemed to be made or rendered within the Italian territory. The ordinary VAT rate is set at 20%.

Transfer Tax

Transfer tax (*Imposta di Registro*) is due on specific contracts if formed in Italy, and contracts including those formed abroad, regarding the transfers or leases of business concerns or immovable properties situated within the Italian territory. The taxable base and rates depend on the nature of the contracts and on the status of the parties.

When transferring immovable properties, cadastral and mortgage taxes also apply. These are due for formal transcription in the public registers. The tax base matches that of the transfer tax, with tax rates set respectively at 1% and 2%.

Transfer tax, cadastral and mortgage taxes are imposed as a lump sum of 168 Euro on transfers of immovable properties subject to VAT. Alternatively, transfer tax rates may vary from 4% up to 15% depending on the type of real property.

Municipal Tax on Immovable Property (ICI)

Any owner, resident or non-resident, of real properties located within Italian territory must pay annually the municipal tax on immovable property (*Imposta Comunale sugli Immobili - ICI*). The taxable base equals the sum of the estimated value for the type and class of immovable property, as determined by the Cadastral Office, i.e., the cadastral income, and a given multiplier. The municipality where the immovable property is located sets the tax rate at not less than 4‰, and no more than 7‰.

Inheritance and Gift Tax

Inheritance and gift tax were abolished in 2001. Subsequently, only gifts made to persons not having a certain degree of relationship with the donor are subject to other indirect taxes, i.e., transfer tax, cadastral, and mortgage taxes.

4.2.3. Withholding Taxes

There are three main withholding taxes applicable at source on certain payments: dividend withholding tax, withholding tax on interest, and withholding tax on royalties.

Dividend Withholding Tax

In principles, dividends paid to Italian resident individuals, other than those carrying out business activities, from non-substantial participations in Italian corporations are subject to a 12.5% final withholding tax. Dividends from substantial participations in Italian corporations are not subject to withholding tax.

As from January 1st, 2006 dividends received by Italian resident individuals, other than those carrying out business activities, are subject to a 12.5% advance withholding tax to the extent that they derive from non-substantial participations in non-listed corporations resident in tax heavens (so-called "Black List").

Dividends paid to Italian resident corporations, or to Italian permanent establishment of non-resident corporations, are not subject to withholding tax.

Dividends paid to non-resident corporations without, or not through, an Italian permanent establishment, from substantial and non-substantial participations in Italian corporations are subject to a 27% final withholding tax. The withholding tax rate is reduced to 12.5% for dividends from saving shares.

Reduced rates are possible under any tax treaties, Italy has concluded with the recipients' country of residence.

The withholding tax is not due, in line with the EU Parent-Subsidiary Directive, for dividends paid by Italian resident corporations to its EU parent company. The benefit is subject the parent's current ownership dating back at least one year, of no less than 25% of the Italian subsidiary's share capital.

Withholding Tax on Interest

In principle, interest from bank accounts and deposits, certain bonds, and similar securities are subject to withholding tax at rates of 27% or 12.5%. These taxes, if any, on interest received by Italian residents generally consist of an advanced payment of income tax due by the recipients. As such, gross interest must be included in the recipient's tax base and the withholding tax deducted from the aggregate taxable income.

In most of the cases, withholding taxes on interest received by non-resident individuals are final.

If non-Italian residents receive interest from bank accounts and deposits through an Italian permanent establishment, no withholding tax is due.

Interest and other profits from certain bonds issued by the State, by banks and by Italian-listed corporations are subject to a 12.5% substitute tax.

If Italian resident corporations receive interest from such bonds no substitute tax is due. If residents in countries listed in the so-called "White List", i.e., those with adequate exchanges of information with the Italian tax authorities, receive interest from such bonds, not through an Italian permanent establishment, no substitute tax is due.

Withholding Tax on Royalties

In principle, interest from loans received by residents other than business entities is subject to a 12.5% advance withholding tax. If non-residents receive interest from loans, not through an Italian permanent establishment, the withholding tax is a final payment of tax. The withholding tax rate is set at 27% for recipients resident in countries listed in the so-called “Black List”, i.e., countries granting privileged tax regimes.

The withholding tax rate may be reduced under any tax treaties Italy has concluded with various foreign countries. In line with the provisions of the EU Directive on Interest and Royalties, the withholding tax on interest payments is not levied if these payments are made by Italian resident companies or by Italian permanent establishments of EU resident companies to (i) companies resident, for tax purposes, in another EU Member State or to (ii) permanent establishments of companies resident, for tax purposes, in another EU Member State. In line with the above-mentioned Directive the benefit is applicable if certain requirements are satisfied.

Royalties paid to Italian resident corporations, or to Italian permanent establishments of non-resident corporations, are not subject to withholding tax. In principle, royalty payments to non-Italian residents are subject to a 30% final withholding tax. Under certain conditions, the tax base may receive a 25% flat deduction.

The withholding tax rate, if due, can be reduced under any tax treaties Italy has concluded with various foreign countries. In line with the provisions of the EU Directive on Interest and Royalties, the withholding tax on royalty payments is not levied if these payments are made by Italian resident companies or by Italian permanent establishments of EU resident companies to (i) companies resident, for tax purposes, in another EU Member State or to (ii) permanent establishments of companies resident, for tax purposes, in another EU Member State. In line with the above-mentioned Directive the benefit is applicable if certain requirements are satisfied.

4.3. Taxation of Resident Corporations

4.3.1. Corporate Income Tax (IRES)

As of January 1st, 2004 corporations are subject to a new set of tax rules enacted by the Government in compliance with the principles of the Reform.

Under the new set of rules, the imputation system has been abolished and replaced with the so called ‘partial exemption’ method, under which corporate profits are subject to income tax at the level of the company and partially exempted at the level of the shareholders. In addition, other significant measures have been introduced, e.g., reductions in corporate income tax, the participation exemption regime, the thin capitalization rule, and the domestic tax consolidation regime.

4.3.1.1. Taxable Persons, Tax Rates and Taxable Period

Corporate Income Tax (IRES) applies to resident and non-resident corporations. Resident corporations are subject to IRES on their worldwide income, so-called 'unlimited taxation'. Non-resident entities are subject to IRES only on income considered sourced in Italy, 'limited taxation'.

Resident corporations include Joint Stock Companies (*Società per Azioni*), Limited Liability Companies (*Società a responsabilità limitata*), and Partnerships Limited by Shares (*Società in accomandita per azioni*).

Resident corporations also include companies formed under foreign jurisdictions which, for most of the taxable period, have their statutory office, place of effective management, or main object of their business in Italy.

Resident partnerships not limited by shares, are not subject to IRES. Such partnerships, namely *Società in nome collettivo*, or *Società in accomandita semplice*, are considered transparent entities. For tax purposes, their income is attributed to the partners and subject to tax accordingly.

For IRES purposes, the taxable period coincides with the company's financial year, as provided by the law or by the articles of association. Otherwise, the taxable period coincides with the calendar year.

IRES is levied at a flat rate of 33%.

4.3.1.2. Tax Base

Italy's Consolidated Text Code (CTC) provides the rules for calculating the tax base. Any item of income earned by companies is commercial income regardless of its nature.

Taxable income consists of all net (worldwide) income earned in the course of the financial year, as resulting from the profit and loss account, subject to certain adjustments according to the specific tax rules provided by the CTC. Exempt income and income subject to final withholding taxes are excluded from the taxable income.

Generally, positive and negative items of income are determined on the basis of the accrual principle, subject to certain exceptions, e.g., dividends subject to tax on a cash basis principle.

The main rules governing the determination of taxable income are the followings:

- Positive Items of income
- Negative Items of income

Positive Items of Income

Positive items of income are the following.

- **Gross receipts**

Include receipts arising from: ordinary business of the company, e.g., sale of goods, supplying of services; sale of raw materials, or semi-finished goods; and sale of financial instruments other than those recorded as financial assets for accounting purposes.

- **Extraordinary items of profits**

Include receipts from expenses deducted in previous taxable periods, from the non-existence of expenses deducted in previous taxable periods, and of debts recorded in previous balance sheets.

- **Capital gains**

Include items of profit arising from the disposal of assets and goods other than those from which the company derives gross receipts. Typically, capital gains arise from the disposal of goods entered as immovable, and financial assets on the balance sheet.

Capital gains are included in the tax base of the taxable period in which they are realized or, if the relevant assets have been held for at least three years, in equal instalments in the year of realization and in the following years, up to the fourth. The same rules apply for participations, other than those qualifying for the participation exemption regime, entered into the last three balance sheets as financial assets.

PARTICIPATION EXEMPTION REGIME

91% of capital gains realised by Italian resident corporations upon disposal of qualified participations in Italian and foreign corporations or partnerships are exempted from IRES. Such qualified participations must satisfy the following requirements:

- a) Uninterrupted holding period as from the first day of the eighteenth month preceding that in which the disposal takes place, considering disposal of the last acquired shares
- b) Recording as financial assets in the first balance sheet closed during the holding period
- c) Tax residence of the participated company in Italy, or in a state or territory not blacklisted by Ministerial Decree as a tax haven, unless the shareholder obtains a tax ruling confirming that the foreign company has directly produced at least 75% of its own income in a country not included in the Black List
- d) The carrying out of an actual commercial activity by the participated company.

At the time of the disposal, requirements at points c) and d) above must be satisfied uninterruptedly from the beginning of third tax period before the disposal.

Capital losses, depreciations and expenses suffered in connection with the disposal of participations (i) satisfying conditions at points b), c) and d) above, and (ii) held uninterruptedly from the first day of the twelfth month preceding that in which the disposal takes place, are not deductible.

In any case, capital losses are not deductible up to the amount of dividends non subject to tax (95%) received by the seller in the 36 months preceding the disposal of the qualified participation.

In addition, a pro-rata rule limits the interest deduction on loans obtained to finance the acquisition of participations qualifying for the participation

exemption regime. For this purpose, participation are deemed qualified if held uninterruptedly from the first day of the twelfth month preceding that in which the tax period is closed.

PARTIAL EXEMPTION FOR DIVIDEND DISTRIBUTIONS

Dividends received by Italian resident corporations are excluded from the IRES taxable base up to 95% of their amount if the dividends are paid by:

- a) Italian resident corporations
- b) Corporations resident in a state or territory not blacklisted by Ministerial Decree as a tax haven, unless there the shareholder obtains a tax ruling confirming that the foreign company has directly produced at least 75% of its own income in a country not included in the Black List.

Negative Items of Income

Costs and expenses are deductible from the tax base provided they refer to activities or goods contributing to the production of taxable income, and they appear in the profit and loss account.

Costs and expenses referring generally to taxable and exempt income are deductible for the amount resulting from the ratio between taxable profits and gross profits. One may deduct certain negative items, specifically and exclusively for tax purposes, regardless of their allocation to the profit and loss account.

DEPRECIATION OF TANGIBLE FIXED ASSETS

In each tax period, tangible fixed assets can be depreciated for an amount not exceeding that resulting from the application of certain rates set-forth by a Ministerial Decree to the tax basis of the relevant assets.

For tangible fixed assets, the ordinary depreciation rate can be exceeded in proportion to the most intense use of the assets compared to that usually valid for the relevant sector of activity ("accelerated depreciation"). The same measure can be increasable up to twice during the year of first utilization and the subsequent two years ("anticipated depreciation"). For second-hand tangible assets, the benefit is claimable only in the year of first utilization of the assets. One may claim the benefit regardless of its prior imputation to the profit and loss account if the accelerated depreciation (or anticipated depreciation) does not reflect the actual depreciation of the assets, according to the ordinary accounting rules.

INTEREST- THIN CAPITALIZATION RULE

The thin capitalization rule, or 'thin-cap rule', aims at restricting the deductibility of financial costs, and at limiting tax exploitation of thin-capitalization.

The principle applies if, during each taxable period, a 4:1 ratio between the average amount of loans granted or secured by each 'qualified' shareholder and/or its related parties; and the qualified shareholder's portion of the company's accounting net-worth is exceeded. Financial costs remunerating such excess amount of debt instruments are non-deductible for tax purposes.

Tax Losses**4.3.1.3. Tax Losses, Withholding Taxes and Foreign Tax Credit**

A tax loss arises when, during a certain taxable period, deductible negative items exceed in value taxable positive items of income.

One may carry forward tax losses for five taxable periods. One may not carry tax losses back. One may carry forward tax losses generated in the first three 3 years of activity without any time limit.

One may not carry forward tax losses if:

- The majority of the voting rights of the corporation is transferred, also for a limited period of time; and
- In the taxable period in which the voting rights are transferred, or in the two preceding or following periods, the corporation modifies the activity that generated the tax losses.

This indicative rule does not apply if the transfer of the voting rights takes place within the same group. Neither does it apply if the company generating the tax losses satisfied certain economic requirements in the two years preceding the transfer of the voting rights, i.e., minimum number of employees, minimum turnover and costs for employees.

Withholding Taxes

Withholding taxes on profits received by Italian resident corporations consist of the advanced payment of income tax due by the recipients. One must include profits subject to withholding taxes in the recipient's taxable base, and deduct the withholding taxes from gross income tax.

Profits received by Italian resident corporations are subject to withholding taxes in very few cases, namely, interest from bank accounts and deposits, and interest from certain bonds and similar securities. Dividends and royalties are not subject to withholding taxes.

Foreign Tax Credit

If a resident corporation receives taxable foreign source income, foreign taxes definitely paid abroad on such foreign source income are creditable from IRES. Italian domestic tax rules do not permit foreign tax credit if the foreign source income has not been taxed abroad. The foreign tax credit is equal to the lower between: the amount of taxes paid abroad and an amount equal to that part of the Italian tax, which is proportional to the ratio between foreign-source income and gross income.

Some tax treaties concluded by Italy with other countries include a so-called 'matching credit' clause. Under the clause, Italian residents can benefit from foreign tax credit irrespective of the circumstance that the foreign source income has been subjected to taxation in the State of source at a lower rate or has been exempted from taxation according to favorable domestic provisions.

Step-up of the Tax Basis of Tangible and Intangible Assets

For the tax period 2006, the financial law has introduced an optional regime providing for the step-up of the tax basis of tangible and intangible assets. The step-up is recognized upon payment of a 12% (depreciable assets) or a 6% (non-depreciable assets) substitute tax on revaluated

values. The substitute tax must be paid within the ordinary term for paying the 2005 income tax. The step-up is effective from the third tax period subsequent to that in which it is made (i.e. 2008). The same law also contemplates the possibility to eliminate the tax suspension regime on the reserves of capital deriving from the step-up paying an additional 7% substitute tax.

4.3.1.4. Domestic Tax Consolidation Regime

Under the Domestic Tax Consolidation (DTC) regime, Italian companies belonging to the same group can opt to consolidate their taxable base with the taxable base of the Italian parent.

In particular, the DTC regime provides, at the level of the parent company, the calculation of a single taxable base for the group resulting from the sum of the taxable base of the parent and those of each controlled corporation, subject to certain adjustments.

The consolidation covers the entire taxable base of the controlled corporation regardless of the percentage of shareholding owned by the parent. Consequently, the DTC regime allows the offsetting of taxable income realized by certain group members with tax losses generated by other group members.

In addition, under the DTC regime, transfers of goods other than those generating gross receipts, e.g., fixed assets or branch of activities, between consolidated corporations can take the benefit of a tax deferral regime. In particular, regardless of the accounting values, no capital gain is realised by the transferor and in the hands of the transferee the tax basis of the good is the same it was in the hands of the transferor.

To apply for the DTC regime various conditions must be satisfied:

- The parent must be an Italian resident corporation, or an Italian permanent establishment of a corporation resident in a state with which Italy has concluded a double tax treaty. In case of parent being an Italian permanent establishment of a non-resident corporation, the participations in the controlled corporations must be actually connected to the permanent establishment
- The controlled corporations must be Italian residents subject to the ordinary IRES regime without benefiting from any reduction of the rate
- The relationship of control exists if the parent, from the beginning of each taxable period: owns, directly or indirectly, the majority of the votes for the ordinary shareholders meeting of the participated corporation; and participates, directly or indirectly, with a percentage higher than 50%, excluding non-voting shares, in the profits and in the share capital of the participated corporation
- The parent and the controlled corporations must have the same financial year, i.e., same taxable period, and must jointly exercise the option for the DTC regime. The option is irrevocable and lasts for three tax periods.

The DTC regime does not require exercising the relevant option for all of the controlled companies, i.e., cherry picking option.

The parent determines the consolidated taxable base as the algebraic sum of the single taxable base of each consolidated company, subject to certain adjustments.

4.3.1.5. Consortium Relief Regime

Under the consortium relief (CR) regime, the shareholders can opt to consolidate the IRES taxable bases of Italian resident corporations with their own taxable base. In particular, the CR regime provides for the imputation of the IRES taxable base of the participated corporation to the taxable income of each of the relevant shareholders on a pro-quota basis, i.e. on the basis of the relevant participation in the profit of the corporation.

To apply for the CR regime various conditions must be satisfied. Amongst them:

- The shareholders must be Italian resident corporations, Italian resident individuals or non Italian resident persons for whom no dividend withholding tax is applicable
- The participation owned by each shareholder should not be lower than 10% and not be higher than 50% of the voting rights for the ordinary Shareholders Meeting
- The option for the CR regime must be exercised by all of the shareholders, is irrevocable and lasts for three tax periods.

4.3.2. Regional Tax on Business Activities (IRAP)

The regional tax on business activities (*Imposta Regionale sulle Attività Produttive - IRAP*) is a local tax applied in each taxable period on the value of production generated, amongst others, by Italian resident corporations.

The Law of Reform has empowered the Government to gradually abolish IRAP; such abolishment should be progressively achieved allowing in the meanwhile a progressive deduction of costs of labor and other cost from the IRAP taxable base.

4.3.2.1. Taxable Base, Tax Rates

The taxable base of IRAP equals the value of production generated in a specific region.

For industrial and commercial companies:

- Positive items of income include all the proceeds derived by the corporation except for certain capital gains, e.g., from disposal of going concerns or participations, extraordinary items of income, and financial proceeds, e.g., dividends, interest

- Negative items of income include all cost and expenses incurred by the company except for some labor costs, interest payments, and capital losses and extraordinary negative items.

As from January 1st, 2005 costs of labor regarding personnel dedicated to Research & Development activities are deductible from the IRAP taxable base.

In addition, for commercial companies increasing the number of employees (compared to the average number of employees of 2004), certain costs of labor are deductible for each new employee. In particular, the exemption from the IRAP taxable base of the costs of labor for increasing number of employees for an amount not higher than 20,000 Euro (under certain conditions it becomes 100,000 Euro or 60,000 Euro for undeveloped areas) is applied for each new employee during the taxable periods following December 31, 2004 until December 31, 2008.

This benefit will be valued every year examining the increase of the number of employees of a certain taxable period in comparison (i) with the number of employees of the previous taxable period, besides the comparison (ii) with the average number of employees of 2004. The applicability of this latter incentive is subject to the prior approval of the European Commission as to the compatibility with the EU rules on state.

The positive and negative items of the value of production are determined according to the same rules applicable to IRES.

IRAP is not deductible from IRES taxable basis.

For industrial and commercial corporations, the ordinary tax rate is 4.25%. The regions, however, may increase the tax rate by up to 1%.

The value of production comes under a certain region if the corporation, for at least 3 months in the relevant taxable period, disposes of a fixed place in that region. One apportions the value of production to those regions where the business activity takes place on the basis of labor costs allocated to each region.

4.3.2.2. IRAP Benefit for New Assumptions

For the tax periods 2005-2007, taxpayers can deduct the cost of labor deriving from personnel newly hired under open term contracts. The benefit is limited to 20,000 Euro for each employee. Such amount is increased to 100,000 Euro for taxpayers based in certain areas.

4.4. Taxation of Non-resident Corporations operating through an Italian Permanent Establishment

4.4.1. Corporate Income Tax (IRES)

Italy considers income derived by non-Italian resident corporations through an Italian permanent establishment to be sourced in Italy and, as such, subject to corporate income tax (IRES).

Apart from some specific exceptions, the definition of permanent establishment provided by the Consolidated Tax Code (CTC) mirrors substantially that provided by the OECD (Organization for Economic Co-operation and Development) Model Convention.

Calculating the aggregate income of non-resident corporations with a permanent establishment in Italy follows the same rules applicable to Italian resident corporations. It also occurs on the basis of appropriate profit and loss accounts relating to the management of the permanent establishment.

For the permanent establishments of foreign corporations, however, the CTC provides for a limited 'force of attraction'. Other items of income sourced in Italy are, regardless, attributed and included in the aggregate income of the Italian permanent establishment, for:

- **Gains and losses** on assets destined for, or in any event related to, the business activity engaged within the territory of Italy
- **Capital gains** on disposals of participations in Italian resident corporations and partnerships
- **Profits** distributed by Italian resident corporations.

The limited force of attraction does not apply if the foreign corporations are resident in countries which concluded a tax treaty with Italy. Therefore, income attributable to the permanent establishment is limited to income actually derived through the permanent establishment.

4.4.2. Regional Tax on Business (IRAP)

Non-Italian resident corporations are subject to IRAP only on the value of the production generated through Italian permanent establishments. One calculates the value of the production according to the same rules applicable to Italian resident corporations.

4.4.3. Branch Tax

Italy does not tax the repatriation of profits generated through an Italian permanent establishment.

4.4.4. Example of Computation of Taxable Income

Table I
Computation of Taxable Income for Non-resident Corporations

Positive items of income on the P&L account	
A. Proceeds from sale of goods	1,300
B. Dividends from controlled corporations	500
C. Capital gains from disposal of qualified participations	200
D. Interest on bank account	10
E. Capital gains from disposal of fixed assets held for three years	50
F. Increase of inventory at the end of the financial year	30
Total	2,090
Negative items of income on the P&L account	
G. Costs of raw materials	500
H. Costs of labor	400
I. Depreciation of fixed assets (machinery)	100
L. Depreciation of participations	200
M. Directors fees unpaid at the end of the financial year	10
N. Interest expenses (upon satisfying both pro-rata and thin-cap rules)	150
Total	1,360
Accounting profit before taxes	730
Accelerated depreciation not entered into the P&L account (100% x I.)	100
Withholding tax on interest from bank account	3
Computation of IRES taxable basis	
Positive items of income on the P&L account	2,090
Tax adjustments of positive items:	
Dividends excluded from taxation (95% x B.)	-475
Exemption for capital gains on qualified participations (C.)	-200
Capital gains on fixed assets taxed in three instalments (66% x E.)	-33
Total adjustments of positive items of income	-708
Positive items for IRES purposes	1,382
Negative items of income on the P&L account	1,360
Tax adjustments of negative items:	
Depreciation of participations (L.)	-200
Directors fees unpaid at the end of the financial year (M.)	-10
Accelerated depreciation of fixed assets	100
Total adjustments of negative items of income	-110
Negative items for IRES purposes	1,250
IRES taxable basis	132
IRES tax rate	33%
Gross IRES	44
Withholding taxes on interest from bank account	3
Net IRES due	41

Computation of IRAP taxable basis

Positive items of income on the P&L account	2,090
Tax adjustments of positive items:	
Dividends (B.)	-500
Capital gains on qualified participations (C.)	-200
Interest on bank account (D.)	-10
Capital gains on fixed assets taxed in three instalments (66% x E.)	-22
Total adjustments of positive items of income	-732
Positive items for IRAP purposes	1,358
Negative items of income on the P&L account	1,360
Tax adjustments of negative items:	
Cost of labor (H.)	-400
Depreciation of participations (L.)	-100
Directors fees unpaid at the end of the financial year (M.)	-10
Interest expenses (N.)	-10
Total adjustments of negative items of income	-520
Negative items for IRAP purposes	840
IRAP taxable basis	518
IRAP tax rate	4.25%
IRAP due	22

4.5. Tax Treaties and EU Directives

Tax Treaties

Italy has concluded tax treaties to avoid double taxation with the following countries:

Albania	France	Mauritius	Sweden
Algeria	Georgia	Mexico	Switzerland
Argentina	Germany	Mozambique	Tanzania
Australia	Greece	Norway	Thailand
Austria	Hungary	New Zealand	The Netherlands
Bangladesh	India	Oman	Trinidad & Tobago
Belgium	Indonesia	Pakistan	Tunisia
Brazil	Ireland	Philippines	Turkey
Bulgaria	Israel	Poland	Uganda
Canada	Ivory Coast	Portugal	Ukraine
China ¹	Japan	Romania	United Arab Emirates
Cyprus	Kazakhstan	Russia	United Kingdom
Czechoslovakia ²	Kuwait	Senegal	USA
Denmark	Lithuania	Singapore	Uzbekistan
Ecuador	Luxembourg	Soviet Union ³	Venezuela
Egypt	Macedonia	Spain	Vietnam
Estonia	Malaysia	Sri Lanka	Yugoslavia ⁴
Ethiopia	Malta	South Africa	Zambia
Finland	Morocco	South Korea	

The treaties generally provide more favorable taxation of Italian non-residents than the treatment provided under local Italian law. Most of these treaties are based on the OECD Model Convention.

EU Directives

EU PARENT-SUBSIDIARY DIRECTIVE

Italy has implemented the EU Parent-Subsidiary Directive for the abolition of double taxation on corporate profits generated by an EU subsidiary, and distributed to an EU parent resident in another EU Member State. According to the rules on taxation of dividends, dividends received by Italian parent corporations are 95% exempt from IRES regardless of the size of the underlying shareholding, and of the relevant holding period. Dividends paid by Italian subsidiaries are exempt from withholding tax provided that the EU parent corporations hold, for an interruptive period of one year, a direct shareholding of at least 25% in the Italian subsidiaries. Italy has not yet implemented the Directive 123/2003 regarding, amongst the others, the reduction of the relevant threshold to 20%.

¹ Tax Treaty between Italy and China will not be applicable with respect to Hong Kong and Macau.

² Tax Treaty between Italy and Czechoslovakia will be applicable with respect to Czech Republic and Slovak Republic.

³ Tax Treaty between Italy and Soviet Union should be applicable with respect to Belarus and Moldova.

⁴ Tax Treaty between Italy and Yugoslavia will be applicable with respect to Serbia and Montenegro, Croatia and Slovenia.

EU MERGER DIRECTIVE

Italy has fully implemented the EU Merger Directive regarding the tax ramifications arising from mergers, divisions, transfers of assets and exchange of shares between EU-resident corporations.

In line with the EU Merger Directive, Italian tax law specifies the conditions under which income, profits and capital gains from the above indicated business reorganizations – occurring between Italian and other EU-resident corporations – are deferrable.

EU DIRECTIVE ON INTEREST AND ROYALTY PAYMENTS

The EU Directive on Interest and Royalty Payments authorize provides for the abolishment of withholding tax on payments of certain interest and royalties between corporations resident in different EU Member States.

The Italian Government has implemented the Directive with Legislative Decree No. 143 of May 30, 2005 (entered into force as from July 26, 2005). The benefit of the exemption from withholding tax on payments made in favor of EU beneficiaries is subject, amongst the others, to the following conditions:

- (i) the recipient is the beneficiary of the interest and royalties payments. To this end, the recipient is regarded as the beneficial owner only if it receives the payment for its own benefit and not as an intermediary, such as an agent, trustee or authorised signatory, for some other person
- (ii) by a company which directly holds at least 25% of the voting rights in the ordinary Shareholders Meeting of the company which receives the payment
- (iii) to a company which directly holds at least 25% of the voting rights in the company which makes the payments
- (iv) to a company whose voting rights are directly held for a percentage not less than 25% by a third company which also directly holds said minimum percentage in the company which makes the payments and in the company which receives the payments;
- (v) the minimum 25% stake at points above is held without interruptions for at least 12 months.

For the purposes of the exemption, the beneficial owner of the payments shall have to attest its residence through a certificate issued by the Tax Authorities of its State of residency.

The Implementing Decree provides that the exemption is applicable on interest accrued or royalties payable as from January 1st, 2004.

In addition, the Legislative Decree introduces a withholding tax of 30% on payments made to non-Italian residents deriving from licences of industrial, commercial and scientific equipments.

4.6. Transfer Pricing

Transfer pricing consists of a set of rules for determining prices in cross-border transactions between related parties.

Under Italian tax law, items of income derived by Italian resident corporations from transactions entered into with non-resident related parties must be evaluated on the basis of the so-called 'normal value'. This equals the price, or consideration, paid for goods and services of the same nature under free market conditions, and at the same stage of commerce, i.e., fair market value.

In 1980, the Italian tax authorities issued rules on transfer pricing substantially in line with the guidelines provided by the 1979 OECD Report.

Taxpayers, under a special ruling procedure, the 'international tax ruling', can agree in advance with the tax authorities appropriate transfer pricing methodologies.

The advance ruling is valid for a maximum of three years and is binding for the tax authorities unless the conditions on which the ruling is granted change in due course.

4.7. Controlled Foreign Company Rules

Italian tax law includes a comprehensive set of rules on Control Foreign Companies (CFC). These rules aim at avoiding the allocation of income to foreign subsidiaries located in certain low tax jurisdictions, i.e., those countries blacklisted by Ministerial Decree as tax havens.

In particular, under certain conditions, e.g., percentage of shareholding in the foreign company, black listed jurisdiction, income earned by the CFCs is attributed to the Italian shareholder proportionally to the participation held. Therefore, regardless of an actual dividend distribution, income earned by the CFCs is included in the taxable income of the parent and taxable accordingly.

In some cases CFC rules do not apply if the Italian parent proves that: a) the CFC actually carries out an industrial or commercial activity in its home country; or b) from holding the participation in the CFC, income does not take the benefit of the preferential tax regimes granted by the foreign tax jurisdiction. To invoke the safe-harbor rules, the Italian parent must apply for an advance ruling with the tax authorities.

4.8. Tax Administration

Tax Returns

Taxpayers must report their annual income to the tax authorities. Italian resident corporations must file their tax returns usually within 10 months of the end of the relevant financial year.

Italian resident individuals must file their tax returns within 10 months of the end of the tax period. The deadline for taxpayers filing tax returns in paper form, at a bank or post office, is the end of July.

Tax Payments

For each taxable period, the payment of IRES and IRAP is generally based on two advance payments and on one balance payment:

- The first advance payment is due when the balance for the previous year is paid
- A second advance payment is due within the eleventh month of the relevant taxable period
- The remaining balance payment is due within 20 days of the sixth month following the end of the relevant taxable period.

In principle, the same rules apply for resident individuals regarding the payment of IRE and IRAP.

Audits & Litigation

The tax authorities carry out formal and substantial reviews of tax returns. Formal reviews aim at assessing mistakes or omissions by a simple check of the data contained in the tax returns. Discovering mistakes or omissions, the tax authorities ask for clarification and documentation from the taxpayer and in case issue a formal assessment notice.

Substantial reviews take place on a sample basis and involve substantial control over the income reported by the taxpayers.

The tax authorities may also carry out special audits at the premises of taxpayers.

On completion of reviews or audits, discovering failures or violations, the tax authorities issue a final tax assessment.

Statute of Limitation

For income tax purposes, the statutory period of limitation is usually 4 years, as of the end of the year for which the income tax return is filed. The statutory period is extendible by 1 year if no income tax return has been filed.

Tax Litigation

Notice of assessments issued by the tax authorities are subject to appeal before the tax Courts. Appeals against the assessments must be filed within 60 days before the competent tax Court of first instance, Commissione tributaria provinciale. Its decisions are subject to appeal, either by the tax authorities or the taxpayer, before the competent tax Court of second instance, Commissione tributaria regionale. Its decisions are subject to appeal, before the Supreme Court, either by the tax authorities or the taxpayers, only on matters regarding interpretation of law.

Tax Rulings

Taxpayers can apply for advance rulings, which, under certain conditions, are binding for the tax authorities.

A special system of advance ruling specifically addresses international tax issues such as transfer pricing, royalties and dividends. These rulings are valid for a maximum three years and are binding for the tax authorities barring a change in the conditions on which the rulings are based.

4.9. Taxation of Individuals (IRE)

Italian resident individuals are subject to IRE on their worldwide income. Non-Italian resident individuals are subject to IRE only on certain items of income considered of Italian source.

For individual taxpayers, the taxable period coincides with the calendar year.

Tax Residence

Individuals are considered Italian residents if, for the greater part of the calendar year:

- They are registered in the Italian civil registry; or
- They have their residence or domicile in Italy, as defined by the civil law.

According to the Civil Code, 'residence' is the place of habitual abode; 'domicile' is the place where an individual has his/her main center of interests (center of vital interests).

Categories of Income and Taxable Income

The requirement for applying IRE is the ownership of income falling within one or more of the following categories:

- Income from real estate
- Income from capital, e.g., dividends, interest
- Income from employment, e.g., salaries, wages
- Income from independent work, e.g., professional fees
- Business income
- Miscellaneous income, e.g., capital gains from disposal of shares, securities.

Each of the above-indicated categories of income has different rules for determining the amount of taxable income. The overall taxable income equals the sum of the net income of each category. Exempt income and income subject to final withholding taxes, e.g., interest from bonds, or dividends, fall outside the computation of the overall taxable income.

Regarding employment income, taxable income includes any compensation, in cash or in kind, including gifts, received during the taxable period in connection with the employment activity.

Under certain conditions, some fringe benefits for employees are not considered taxable income. These include stock options, stock granting, canteen food, transportation between home and work, education and training provided by the employer to benefit all employees, recreation, health, and religious purposes and social assistance.

Tax Rates (2006 calendar year)

Certain types of income, such as indemnities for termination of employment, are taxed separately at reduced rates.

Under certain conditions, employment income deriving from an activity performed abroad is taxable, regardless of the actual salary received, on the basis of figurative salaries determined annually by Ministerial Decree.

As of January 1 2005, tax rates applicable to aggregate income are the following:

Taxable income	Rates
Up to 26,000 Euro	23%
26,000 Euro – 33,500 Euro	33%
Over 33,500 Euro	39%

In addition, a 4% solidarity surcharge tax is due for the portion of income exceeding 100,000 Euro.

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

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

4.10. International Accounting Standards

As of April 1st, 2001 the International Accounting Standards (IAS) are worked out by the International Organism called "International Accounting Standards Board" (IASB), inside which the European Commission is represented. As of the above-mentioned date, the International Accounting Standards are identified as International Financial Reporting Standards (IFRS).

In particular, according to article 4 of the Regulation (EC) 1606/2002, companies (i) listed on stock exchanges in the European Union and (ii) obliged to arrange consolidated accounts must present their accounts according to International Financial Reporting Standards.

In this context, article 25 of Law No. 306 of October 31, 2003 regarding the exercise of the options provided by Regulation (EC) 1606/2002, has empowered the Government to regulate the implementation of the International Accounting Standards provided by said Regulation to financial statements of companies listed on Italian stock exchanges and financial statements and consolidated financial statements of certain other

companies (e.g. banks and financial institutions). In addition, said Decree also provides for the possibility for companies other than those obliged to elect for the application of IFRS as from the 2005 period. The relevant regulation has been implemented by the Government through Legislative Decree No. 38 of February 28, 2005.

Decree No. 38 also regulates the tax ramifications arising from the transition/adoption of IFRS. The amendments to the Income Tax Code are based on a principle of neutrality: the transition to the IFRS should not imply adverse/positive consequences compared to companies not transitioning/applying IFRS.

As a consequence: (i) the IRES tax basis shall take into account not only the costs and profits directly booked to the profit and loss account but, if relevant, also those items that, according to IFRS, are directly booked against the company's net-equity; (ii) for the inventory, the departure from the LIFO evaluation criterion (IAS 2) shall not create a taxable profit since, for tax purposes only, the taxpayer will have the option to adopt the LIFO criterion; (iii) certain expenses that cannot be capitalised (IAS 38) shall be deductible over a period of five years.

5. Incentives

5.1. General Overview on National and European Fundings

National Fundings

Incentives are subsidies disbursed by EU, national and local bodies. Their purpose is to support entrepreneurial development, business creation, strengthen existing or recently-started initiatives, provide business-support services, and promote and integrate research, innovation and training.

Many incentive opportunities are based on national laws to support investments that encourage:

- Creation of new and existing production plants (e.g., Law 488/92)
- Investments in re-launching and production areas (e.g., Law 181/89)
- Support to young entrepreneurs (e.g., Decree 185/00)
- Women entrepreneurship (Law 215/92)
- Research and technological innovation (Law 140/97 and the *Pacchetto Integrato di Agevolazioni - PIA Innovazione*)
- Agro-industry development (Law 266/97)
- New investments and new employment (Law 388/00, art. 7, 8).

Other opportunities arise from EU national programming documents, such as Regional Operational Programs (*Programmi Operativi Regionali - POR*) and Single Programming Documents (*Documento Unico di Programmazione - DOCUP*).

These often specify investment priorities in fields like research and technological innovation, training, development of local entrepreneurship, and business creation.

European Fundings

The European Union supports economic and social cohesion to bridge the development gap between regions by means of 'Structural Funds'.

Structural Funds are made available through the European Regional Development Fund (ERDF), the European Social Fund (ESF), the European Agricultural Guidance and Guarantee Fund (EAGGF) and the Financial Instrument for Fisheries Guidance (FIFG).

These Structural Funds make up and finance multi-annual programs for the development of European regions (so-called 'programming') based on growth strategies drawn up by the EU Member States and the European Commission.

These funds support EU Member States, including Italy, to carry out their economic policies:

- Promoting the development and structural adjustment of the less developed EU regions (Objective 1)
- Supporting economic and social change of areas facing structural difficulties (Objective 2)
- Promoting training and employment policies (Objective 3).

5.2. Eligible Areas for Business Activities

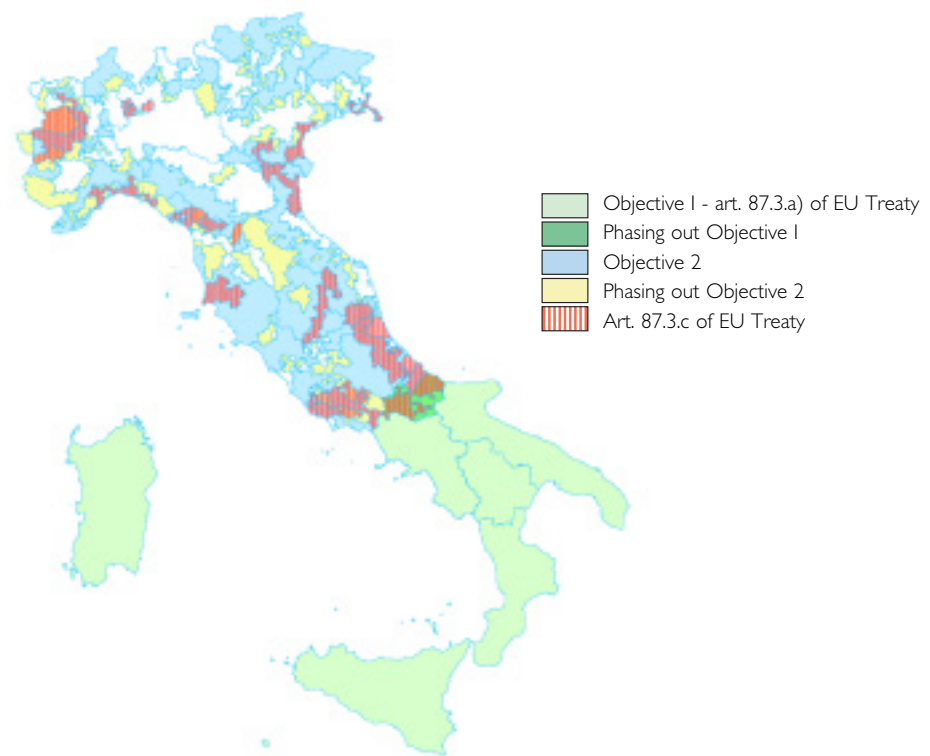
Objective 1 areas (art. 3.a of the EU Treaty) in Southern Italy: Basilicata, Calabria, Campania, Puglia, Sardegna and Sicilia.

Objective 2: some areas in Central-Northern Italy.

Exception to art. 87.3.c) of the EU Treaty: it includes areas in Central-Northern Italy which, regardless whether they are included in Objective 2 or not, are eligible for funding.

Map I

Funding Areas for Business Activities



5.3. Beneficiaries and Available Incentives

In order to benefit from funds investors must apply to the relevant regional, national or European bodies.

As for national incentive schemes, funds are provided directly by institutions and bodies such as the Ministry of Industry (*Ministero dello Sviluppo Economico*), Mediocredito Centrale (Credit Institution), Sviluppo Italia (Italy's national agency for enterprise creation and inward investment development) and the Ministry of University and Research (*Ministero dell'Università e della Ricerca*). In most cases, these bodies make efforts to draw up integrated and favorable incentive packages for investors.

Regardless the type of incentive investors cannot be granted a higher amount than the one foreseen by the EU, according to geographical location and size of business (for financing rates and requirements, see Table I - EU Aid Intensities, p. 60, and Table 4 - EU Parameters for Micro, Small and Medium-sized Enterprises, p. 69).

For small amounts of financial aids that will not have a significant impact on competition between Member States, investors have to observe the “De minimis” rule, according to which they may benefit from up to 100,000 Euro over a three year period. Such aid does not require preliminary notification to European Commission.

Table I
EU Aid Intensities

This table provides a breakdown of the grants investors may benefit from in Italy. The level of subsidy varies by business type and geographical location.

Areas			Beneficiaries	Aid intensities		
				NGE ⁵	GGE ⁶	Total net equivalent ⁷
Calabria	Objective 1	In exception to art. 87.3.a)	SME ⁸	50%	15%	60%
			LE ⁹	50%	/	50%
Campania	Objective 1	In exception to art. 87.3.a)	SME	35%	15%	45%
Puglia			LE	35%	/	35%
Basilicata						
Sicilia						
Sardegna						
Molise	Phasing out Objective 1	In exception to art. 87.3.c)	SME	30%	/	30% ¹⁰
			LE	20%	/	20%
		Not in exception to art. 87.3.c)	SE ¹¹	/	15%	10%
			ME ¹²	/	7.5%	5%
			LE	/	/	/
Abruzzo	Objective 2 and non Objective Areas	In exception to art. 87.3.c)	SME	20%	10%	27%
			LE	20%	/	20%
		Not in exception to art. 87.3.c)	SE	/	15%	10%
			ME	/	7.5%	5%
			LE	/	/	/
Centre-North	Objective 2 Phasing out	In exception to art. 87.3.c)	SE	8%	10%	15%
			ME	8%	6%	12%
	Objective 2 and non Objective Areas	Not in exception to art. 87.3.c)	LE	8%	/	8%
			SE	/	15%	10%
			ME	/	7.5%	5%
			LE	/	/	/

⁵ NGE = Net Grant Equivalent. It expresses the benefit to the company at updated values (in % of eligible costs) after taxes due on the incentive.

⁶ GGE = Gross Grant Equivalent. It expresses the benefit to the company at updated values (in % of eligible costs) inclusive of taxes due on the incentive.

⁷ Total net equivalent = sum of NGE and two thirds of GGE.

⁸ SME = Small and Medium-sized Enterprise according to the EU definition below.

⁹ LE = Large Enterprise.

¹⁰ A higher percentage of NGE is due to be approved by EU, by adding 10% of GGE to NGE, hence the Total Net Equivalent will amount to 30%.

¹¹ SE = Small Enterprise.

¹² ME = Medium Enterprise.

5.4. Disbursement

Here follow the typologies of disbursement.

- **Capital-account** – incentives are normally granted in two or three tranches upon submission of the eligible costs sustained duly documented by the company; recipients are not required to refund any of the amount.
- **Interest-account (soft loans)** – a reduction of the interest rate paid by the beneficiary company on the requested loan, with respect to the market rate.
- **Tax credit** – a reduction of the tax burden on new investments (tangible and intangible assets).

Table 2 shows the most frequently approved disbursement by type of incentive. Capital-account contributions are the main type of incentives disbursed by the Ministry of Industry (*Ministero dello Sviluppo Economico*).

Table 2
Approved disbursement by type of incentive

Type of incentive	Approved application rate 2001-2002	Approved application rate 2003-2004
Capital-account	53,9	36,3
Interest-account	11,0	18,3
Tax credit	5,0	2,8

Source: Report of the Ministry of Industry, 2004.

5.5. Application Procedures

Incentives are granted through a call-for-tender procedure or by applying to the relevant office. In the first case, a grading of the projects submitted is established, while in the latter case resources are available until their exhaustion.

There are three main types of appraisal:

- The automatic procedure applies when no evaluation is required. The intervention is approved as long as the applicants meet the necessary requirements for accessing the incentives (e.g., Law 140/97).
- The evaluation procedure is needed if projects require a technical feasibility evaluation process. Projects are selected through a compared assessment based on predetermined parameters (e.g., Law 181/89).
- The negotiation procedure refers to projects applying to larger local development programs. This type of incentive is particularly favorable for investors as it ensures the commitment of Public Administration, at central and local level, for stepping up support measures.

5.6. Incentive Types

Italy's business environment is very favorable for foreign investors thanks to a variety of incentive typologies that support production, R&D and training activities.

5.6.1. Industry

This section outlines the main incentives related to tangible (factory site, buildings, machinery, computer equipment) and intangible investments (brands, patents, licenses).

Law 488/92

Law 488/92 fosters the development of production activities in Italy's underused areas. It is based on call-for-tender procedures. Law 488/92 is marked by highly flexible operational modalities and pre-determined timeline procedures, as established by the calls for tender. Projects are selected through an efficient method that allows the allocation of resources based on clear and transparent criteria. Interventions provided by Law 488/92 can be adapted to investment projects that support the various goals of local industrial policy. After receiving the application form including the technical report and business plan, the relevant authority will evaluate the feasibility of the project and decide its funding eligibility.

Law 488/92 provides funds for small, medium-sized and large enterprises operating in the following sectors: mining, manufacturing, trade, services and tourism, construction building, production and distribution of energy. Funds are available for investment projects aimed at setting up new plants as well as expansion, modernization, restructuring, re-activation, conversion and re-location of existing plants. Eligible areas are the Southern regions and the underused areas of the Centre-North with growth prospects and the greatest potential for development.

Law 181/89

Law 181/89 is targeted at all companies – small, medium and large enterprises – and aims at supporting investments for the reindustrialization and the re-launch of areas which had suffered sectorial crisis. Grants are provided exclusively for investments in specific areas of determined Southern and Northern Italian regions. Sviluppo Italia manages the funds and it is therefore entrusted to evaluate the projects and supply the available grants, as well as acquiring temporary and minority stakes in the company's equity.

Fact Sheet I

Law 181/89 - Revitalizing Production Areas

Beneficiaries

Incentives are available for small, medium and large companies that are financially and economically sound and operate in the relevant industrial sector (mining and manufacturing activities), and service providers.

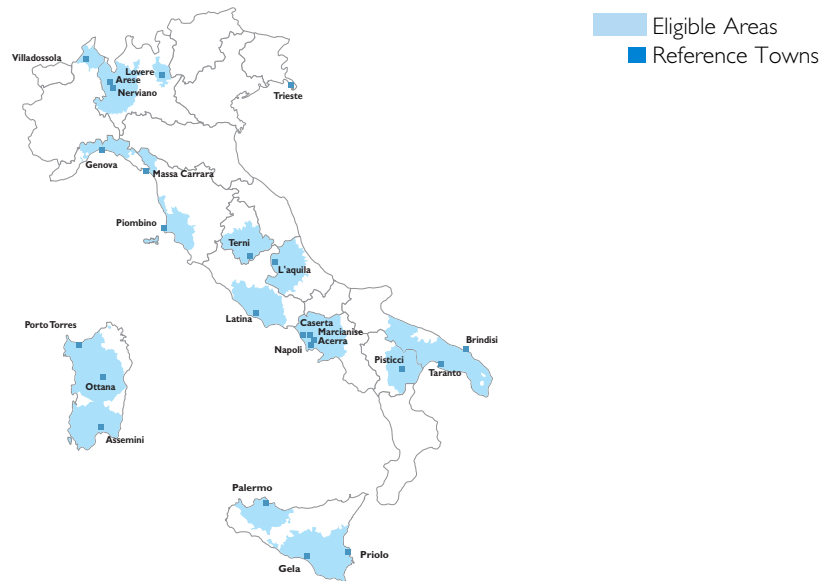
Description of the funding program

Support for business creation in industrial areas that need revitalizing.

Eligible areas

Incentives are available for investment projects in selected areas located in Southern as well as Northern and Central Italy (Map 2 – Law 181/89 Eligible Areas).

Map 2 Law 181/89 Eligible Areas



To obtain the complete list of all the municipalities eligible, please write to Sviluppo Italia at info@sviluppoitalia.it

Eligible investments

New business initiatives, expansion, modernization, relocation or reactivation of existing production units, which create additional new jobs.

Eligible costs

Eligible costs include:

- Planning and feasibility studies
- Industrial site, masonry works and infrastructures
- New equipment and machinery
- Patents related to new technologies and production processes
- Computer software, measured against the production and operational needs of the company
- Office furniture and fittings.

Type of subsidy and intervention rate

Sviluppo Italia acquires temporary and minority equity stakes which must be redeemed by the investor within 5 years. The investor can benefit from a grant that varies according to the geographic location:

- In the Centre-North up to 25% of the eligible investment
- In the South up to 40% of the eligible investment.

Companies located in the South may also benefit from a soft loan up to 30% of the eligible investment. Investors benefiting from Law 181/89 incentives may also benefit from other funding schemes related to the same investment programme, as long as the amount is allowed under EU rules.

Reference Institution

InvestInItaly c/o Sviluppo Italia
Inward Investment Development
Via Calabria 46
00187 Rome
e-mail: info@investinitaly.com

Interreg III

Furthermore, additional support may be available from the EU's Interreg III, which aims at stimulating interregional cooperation in the EU. This program is financed by the European Regional Development Fund (ERDF) and runs throughout 2006. At regional level, it aims at promoting European integration by eliminating barriers to mobility and communications. It applies nationwide and supports projects that foster the development of metropolitan and urban systems and the improvement of mobility and communication networks.

5.6.2. Research and Development

There is a wide range of incentives supporting R&D activities related to production investments and staff training. Most of them focus on integrated projects, where research relates directly to production investment programs. Under these funding schemes, investors can benefit from the highest levels of support for basic research (up to 100% of eligible costs).

PIA Innovazione

The Integrated Aid Package (*PIA Innovazione*) funding scheme refers to Measure 2 of the 'Local enterprise development' (*Sviluppo Imprenditoriale Locale*) Multi-regional Program (*Piano Operativo Nazionale - PON*) Eligible companies are located in Objective I areas (see Map I, p. 58).

According to this program, investors benefit from global support from production to feasibility studies and research activities for the industrialization of results. It is a *trait-d'union* between Law 488/92 and the Technological Innovation Fund (FIT). Thanks to this modern approach aimed at favoring investors, Italian institutions allow access to an integrated incentive through one single application.

Fund for Technological Innovation

The Fund for Technological Innovation (FIT) was established by Law 46/82 with the purpose of financing programs in the hi-tech field. It applies nationwide and supports pre-competitive development, industrial research projects and the creation of research centers. As stated, the FIT may be part of the *PIA Innovazione*, which facilitates it. In such cases it is available to companies wishing to promote organic and complete initiatives linked to a 'pre-competitive development' program, and to the related investment program aimed at the 'industrialization of results', within own production units located in Objective I areas.

Fund for the Support of R&D Activities

The Fund for the support of R&D Activities (FAR) was established by Decree 297/99. It supports applied research programs for the development of new products, production processes and services, and the enhancement of existing technologies.

Eligible investments are national research projects, included those submitted within cooperation agreements, projects aimed at the creation of new research centers or at restructuring existing ones, projects aimed at enhancing industrial competitiveness and, finally, research and training projects submitted under calls for tenders issued by the Ministry of University and Research (*Ministero dell'Università e della Ricerca*).

Law 140/97

Among the measures available to support R&D activities it is worth mentioning Law 140/97, a tax allowance that applies nationwide in the case of research and pre-competitive development projects. The relevant Regional Authorities issue the related call for tender.

There are also R&D incentives at EU level, as the following.

Sixth R&TD Framework Program

The Sixth R&TD Framework Program is aimed at research centers, scientific and technological organizations, public administrations and companies. Any organization operating in the territory of an EU Member State may access this program; several different forms of investments are eligible with grants that in some cases may cover up to 100% of some eligible costs.

ERDF Innovative Actions

The ERDF Innovative Actions (*Azioni Innovative FESR*) aims at supporting the regional economy by fostering a knowledge based and technological innovation development; information society projects (eEuropaRegio); promoting regional cohesion and competitiveness through an integrated approach to economic, environmental, cultural and social activities. Beneficiaries of this program are Objective 1 and Objective 2 regions. Funds are disbursed as grants. The rate or 'aid intensity' of EU co-financing varies by project and location. One may also benefit from double community participation during the 2000-2006 period.

e-Content

e-Content is a multi-annual Community program aimed at supporting the use and development of European digital content on global networks and promoting linguistic and cultural diversity through the use of EU Structural Funds. Eligible projects should aim to eliminate barriers to the development of a unified market in the area of public sector information; all companies present on Italian soil is a prospective beneficiary. Financing rates have a 2,5 million Euro ceiling.

5.6.3. Training

Development of human resources should be considered an indispensable requirement for a company's productive growth. In that respect, continuous professional training activities respond to the need of having staff members adapt to the continuous changes brought by the labor market.

This section analyses 'integrated' incentives, aids to business training and related community funds.

PIA Formazione

The Integrated Aid Package (*PIA Formazione*) provides grants for investment programs eligible under Law 488/92. To benefit from this incentive, companies must increase considerably the number of job units, which may in no case be below 10, and plan a specific training program. Eligible economic activities are in mining, manufacturing, production and distribution of energy, building construction and service providing. Eligible areas are Objective 1 regions (see Map I, p. 58). Investors must submit their applications within the deadline set in the Law 488/92 call for tender. A particular feature of this program is the opportunity for SMEs to benefit from a guarantee fund.

Law 236/93

Law 236/93 - actions of business and individual training. This aims at individual and company training and applies nationwide. It may concern a training need required by companies due to a general transformation process, or individual training to enhance individual skills. Eligible training support relates to technological and organizational innovation, safety, quality and environmental protection particularly when it enhances the company's competitiveness and employment level. The program is managed by the Local Authority that issues the call for tender.

European Social Fund

European Social Fund (ESF) is made operational through the Regional Operational Programs. In order to apply it is advisable to visit the local authorities web sites (e.g., regions, provinces) to check the call for tenders agenda. As a general rule, training projects may be submitted by a call for tender procedure or by applying to the Ministry of Labor or to the Labor Office of the regional authority.

Each project (or more projects jointly submitted and related to the same call for proposals) should be submitted by completing the application forms provided by the Region/Province and following the indications provided in the call for proposals.

The highest allowable financing rate is set in accordance with the Discipline on state aids for training, as outlined in the table below:

Table 3
Highest available financing rate

Financing rate by type of enterprise	Specific training¹³	General training¹⁴
Large enterprise	25%	50%
Small and medium-sized enterprise	35%	70%
Further incentives	Specific training	General training
Art. 87.3.a – Objective I areas	+10%	+10%
Art. 87.3.c) areas	+5%	+5%
Disadvantaged employees category	+10%	+10%

¹³ Specific training is by definition "training providing teachings directly and mainly related to the actual or future position held by the employee in the beneficiary company; this form of training provides qualifications that are not transferable (or transferable to a limited extent) to other enterprises or employment sectors".

¹⁴ General training is by definition "training providing teachings not exclusively or mainly applicable to the actual or future position held by the employee in the beneficiary company; this form of training provides qualifications that are broadly transferable to other enterprises or employment sectors, thus significantly improving the employee's employment opportunities". General training terminates with appropriate tests of the notions learnt, with a certificate of qualification or attendance issued by the Region or Province.

5.7. EU Parameters for Micro, Small and Medium-sized Enterprises

Eligible companies shall fulfil all three parameters in order to qualify either as a micro, small or medium enterprise. Failing that, the company shall be considered a big enterprise.

Table 4
EU parameters for micro, small and medium-sized enterprises

Parameters		Medium-sized enterprises	Small-sized enterprises	Micro enterprises
	Employees fewer than (number)	250	50	10
and/or	Turnover not exceeding (mln Euro)	50	10	2
	Total assets not exceeding (mln Euro)	43	10	2
Corporate Autonomy in relation to partner companies		No more than 25% of company capital or voting rights may be held by one company or jointly by several companies not falling within the small and medium-scale enterprise definition.		

6. Labor Market

6.1. New Flexibility for Employers

Italian Labor Market has become a significant factor in attracting foreign investors to Italy. Decree 276/03 introduced major changes to employment rules increasing flexibility in the market to help reduce unemployment. Two major changes stand out:

- New types of contracts have been created to enable companies to upfront special growth trends for limited periods, and to allow them to reduce labor costs significantly in periods of reduced output
- A new regime for independent contractors now permits job placements only where necessary for the performance of a specific project.

Some of these new provisions are already in force and being used successfully by companies. Work employment relationships are regulated by the Constitution, the Civil Code, the Workers Bill of Rights (*Statuto dei Lavoratori*) and other Laws and Decrees. Terms and conditions of employment are also periodically fixed by collective labor agreements in different professional categories.

6.2. The New Italian Labor Law Regime

6.2.1. Types of Contracts

Job Sharing

Job Sharing involves two or more employees sharing joint responsibility for a single position. Job sharers can choose their own schedules at their own discretion. Each person's pay is directly proportional to the personal performance.

Job on Call

Job on Call relates to a professional activity performed on a discontinued or intermittent basis. Regardless of the nature of the professional activity it may be entered into by employees younger than 25 years and older than 45 years also retired. Job on Call contracts must be put in writing, and may be on fixed or open terms. They must also make provisions for a stand-by allowance which must be equal to at least 20% of the salary envisaged by the applicable collective labor agreement.

Staff Supply

Staff Supply enables clients of the employment agencies to avail of the labor activity of workers who have entered into an employment agreement with an employment agency. The clients and the employment agencies are jointly liable towards the employee for payment of wage and social security contributions and for the compliance with the employee's safety regulation. Staff Supply contracts set down the rights and obligations of employment agencies and their clients. They can be both open term or fixed-term contracts.

Open-term Contracts

Open-term contracts (so-called 'staff leasing' contracts) are used frequently for porter and cleaning work, transportation and warehouse services, managerial consultancy services (including human resources management) and call center management. With reference to the agreement between the employment agency and the employee they may be entered into under the form of job sharing, part-time, job on call, training employment and entrance contracts.

Italian Ministry of Labor (*Ministero del Lavoro e della Previdenza Sociale*), referring to the regulation provided by Legislative Decree No. 368 of September 6, 2001 has extended the scope of application of fixed - terms contracts.

Ancillary Work

Ancillary Work covers the voluntary sector, occasional work by those at risk of social exclusion, or regularly-performed domestic help.

Training Employment Contracts

There are three categories of On-the-job Training Contracts (*contratti di apprendistato*) covering:

- Training and learning rights and duties obligations
- Apprenticeship leading to a professional qualification following on-site training and learning professional skills
- Training leading to a diploma or other types of professional qualification.

Entrance Contracts

Entrance Contracts (*contratti di inserimento*) cover individual projects for developing a worker's skills in a specific field for later reintegration in the job market. In the entrance contracts workers cannot receive a salary scheme lower than two levels compared with those envisaged by the applicable collective labor agreements for workers who require a qualification corresponding to the qualification aimed by the individual project which is the subject of the individual project.

Part-Time Work

Part-time work describes a working week of shorter duration than the full working week. It may be horizontal (reduced daily working time), vertical (full time but for limited periods with reference to weeks, months or years) or mixed (a combination of both). Part-time work requires the prior consent of the worker if the relevant collective labor agreement does not already permit the practice.

Secondment

Secondment involves the transfer of an employee, the 'seconded', to a different production unit located at least 50 km away from his usual work site. It is allowable only for technical reasons or needs related to production, organization or replacement. The employer remains liable for the legal and economic treatment of the seconded.

6.2.2. Autonomous or "Atypical Workers"

Project-Based Collaboration Contracts (*contratto a progetto*) concern one or more specific projects, work plans or development phases, which an independent collaborator manages autonomously to achieve a specific result. The collaborator carries out the required activity at his own discretion in line with the overall project development. Collaboration

contracts for specific projects must detail in writing the duration of the relationship (either fixed or indeterminate) and the remuneration package. The remuneration must be proportional to the quantity and quality of the work performed.

6.2.3. Outsourcing and Transfer of Business

A 'transfer of business' refers to contractual (re)assignments, mergers, lease agreements or usufruct. It may also refer to transferring a going concern identified by transferor and transferee at the point of transfer.

Following a partial or complete transfer of business employment relationships pass to the transferee with employees maintaining all their rights and obligations. Accordingly, the new controller cannot terminate or otherwise amend the terms and conditions of the employment contracts of the transferred business.

Transferor and transferee are jointly liable to the employees for any and all debts owed them at the date of transfer (including severance pay).

The transferor and transferee of a business with fifteen employees or more must give joint notice to the relevant trade unions, at least 25 days prior to its transfer. Notice should specify the reasons for the transfer, the possible consequences for the employees and any subsequently planned action which may affect them. Trade unions may request an assessment of the transfer's impact on the employees, jointly together with the transferor and the transferee. Non-compliance constitutes an "unfair unions practice" and may cause workers' representatives to take legal action before the Labor Court. The Court can impel the transferor and/or the transferee to comply with the consultation requirement.

6.2.4. Employment Agencies

The Ministry of Labor has established and keeps a register of all authorized employment agencies. A specific regulation has been enacted in order to set forth the requirements applicable to the agencies in terms of professional skills. Divided into various categories by function, these agencies operate on a sole ministerial authorization. These rules also allow the setting-up of multi-functional agencies.

6.3. Employment Regulation

Some general employment regulations are summarized hereinafter.

6.3.1. Hiring

There is no general requirement for an employment contract to be in writing although most collective labor agreements do so. Contracts for fixed-term and part-time employment must be in writing. Fixed-term contracts are permissible under certain circumstances, such as for seasonal work or for the replacement of temporary vacancies.

6.3.2. Competition and Confidentiality

Employees must not conduct business in direct competition with their employer, divulge confidential or classified information about their employer's business or production methods, or use such information to cause prejudice to the employer.

6.3.3. Inventions

With reference to inventions created by employees, in accordance with the Industrial Property Code enacted on February 10, 2005, they belong to the employer so long as they relate to the tasks defined in the employment contract and specific compensation is paid to the employee. If a specific compensation for the invention is not envisaged by the employment contract and the invention is created in the performance of the employment relationship, the invention, if patented, belongs to the employer but a fair compensation must be paid to the employee. If the above conditions are not met and invention relates to the field of activity of the employer, the invention belongs to the employee but the employer is granted with an option right to use on an exclusive or not exclusive basis or to purchase the invention. In case an agreement is not reached between the employer and the employee on the amount of the fair compensation or of the consideration for the invention, the assessment thereof is made by an arbitrators panel.

6.3.4. Pay and Benefits

There is no minimum wage as such, but the Italian Constitution guarantees the right to fair pay. Collective agreements regularly define minimum levels of wages and benefits.

As of 2004, national collective labor agreements provide that the parties negotiate salary increases every two years, taking into account the inflation rate.

6.3.5. Working Time

Averagely, there are eight working hours per day. The maximum working week is 48 hours (including overtime) over a reference period of maximum four months.

OVERTIME

Rules on overtime are set by collective labor agreements. If not specified otherwise, overtime cannot exceed 250 hours per year. Failure by the employer to comply with such limits may result in the application of administrative fines.

HOLIDAYS

In Italy there are eleven religious and national holidays. The Constitution guarantees everyone the right to one day of rest per week (usually Sundays). Employees are entitled to an annual holiday period of four weeks.

6.3.6. Absence from Work

PERSONAL LEAVE

Employees are entitled to 15-days, fully-paid leave for getting married and occasional days off for family responsibilities, including the death of a relative or a child's sickness.

MATERNITY LEAVE

Women may take maternity leave with 80% pay in the two months before delivery and the three months afterwards. Italy's social security system bears the cost.

Should a child's mother die or become seriously ill, the father, a male employee, may take paternity leave with the same conditions as the maternity leave.

SICK LEAVE

Sick employees have the right to retain their position, seniority and, for some categories of workers, regular pay for a period of up to six months or more, depending on the applicable collective labor agreement.

6.3.7. Dismissal

Under the Italian Law an employee is dismissible for:

- Just Cause (*giusta causa*) meaning a serious breach of the employee by his/her duties or other behavior that makes continuation of the working relationship unfeasible
- Justified Grounds (*giustificato motivo*) meaning:
 1. A breach by the employee of his/her duties which is not serious enough to constitute Just Cause, and which may consist, for instance, in failure to follow important instructions given by the management, material damages to machinery and equipment, low performance (the grounds for dismissal being "subjective reason")
 2. An objective reason whereby the employer needs to reorganize production or the labor force (i.e., making redundancies).

Dismissals must always be in writing and detail the reasons for dismissal. Failure to do so makes the dismissal ineffective. Should the employee believe to have been unfairly dismissed, he/she can challenge the decision in Court and the employer must observe the following rules:

- If the company employs up to 60 workers in total throughout Italy, or up to 15 in a single working unit, the employer may choose between reinstating the dismissed employee or paying an indemnity (between two and half, and six months pay)
- Under all other circumstances, the employee is entitled to reinstatement and compensation for damages amounting to five months salary at least.

Failure to reinstate an unfairly dismissed employee results in an award of 15-months salary plus compensation for damages against the employer. Following dismissal, whatever the cause or status (e.g. executive, white collar,

or blue collar), employees are entitled to the following mandatory payments:

1. Severance Pay (*Trattamento di Fine Rapporto - TFR*) – the amount is calculated by dividing each annual gross salary by 13,5; severance pay is taxable and free of social security contributions
2. Other Sums – where applicable, employees are entitled to indemnity for unused holidays, permits, and thirteenth and/or fourteenth monthly pay
3. Notice period – employees dismissed for reasons other than Just Cause are entitled to a notice period; employers may exempt the employee from working during the notice period by paying him/her an indemnity equal to the salary payable during the notice period.

Such an indemnity is liable to social security charges.

COLLECTIVE REDUNDANCY

If redundancy involves at least 5 employees within a 120 day period and an employer with 15 or more employees, the company must consult with trade unions under the “collective dismissal procedure”. Employees made redundant by certain companies (e.g. industrial, employing 15 or more workers), and having at least 12 months seniority there receive for a certain period an unemployment allowance from the Italian Social Security Agency (*Istituto Nazionale della Previdenza Sociale - INPS*). For each employee made redundant, employers must pay a financial contribution in 30 monthly instalments to INPS. Pending the outcome of any dismissal proceedings, the employer must provide advance payment of this contribution.

6.3.8. Social Security System

The Italian Social Security, managed by INPS, is compulsory and provides comprehensive benefits for all employees. Employee and employer contributions jointly finance social security costs, which are calculated on gross earnings. Employers pay two-thirds of contributions whilst employees pay the remaining third.

Wage Compensation Funds

Italian Labor Law makes special provisions for:

- Guaranteeing workers wages in case of a temporary lay-off or temporarily reduced company activity not attributable to the employer or to the employees or caused by the general economic situation
- Securing employment once production resumes.

A Wage Compensation Fund (*Cassa Integrazione Guadagni - CIG*) is available to industrial workers. The employer provides 80% of gross wage for hours not worked, and is subsequently reimbursed by INPS. An Extraordinary Wage Compensation Fund (*Cassa Integrazione Guadagni Straordinaria - CIGS*) helps to secure employment once production resumes in a restructured, reorganized or converted company. Only companies employing 15 or more employees are eligible for CIGS.

Compensation equals 80% of the worker's gross wage for hours not worked, and is payable in a 12 month continuous period.

For further information: www.inps.it

Retirement Provisions

The Italian compulsory state pension system is financed by social contributions paid by the employer during one's working life, and is based on actuarial fairness. The retirement age ranges between 57 and 65 years. On July 28, 2004 the Italian Parliament approved a new regulation envisaging substantial changes to the present pension system. Starting from January 2008, the reform envisages retirement:

- After 40 years of contributions; or
- At 65 years of age (60 for woman).

Such years of age requirement shall be increased of one year in 2010 and of an additional year in 2014. The reform includes incentives for workers who decide to continue working, although currently eligible for a public pension. Such incentives provide for a compensation equal to 32.7% of the salary of the worker who has decided to continue working.

Integrated Pension Funds

Supplementary pension provision in Italy is voluntary for workers and companies alike. The law guarantees freedom for individuals to subscribe to supplementary pension schemes whilst leaving companies free to choose whether to set up their own funds. Nearly all funds are based on a pre-established contribution rate. Regarding disbursement, beneficiaries can generally withdraw up to 50% as a lump sum then the entire or remaining amount as an annuity.

On December 5, 2005 the Italian Government has approved Legislative Decree No. 252 aimed to redefine, starting from January 1st, 2008 the entire regulation applicable to supplementary pension schemes for employees of private companies. The main features of the new regulation are the following:

- An increase in the amount of financing flows dedicated to supplementary pension schemes
- An homogeneity in the supervision system applicable to the entire supplementary pension sector
- A new taxation regime applicable to pension funds
- A monitoring of the management of the financial resources arising from the workers contributions
- A new financing system through the contribution by the employee of its severance pay (*Trattamento di Fine Rapporto - TFR*). In this respect the new regulation provides that, starting from January 1st, 2008, the employee shall be entitled to elect within a six months term, at his discretion, (i) to leave the accrued severance pay within the employing company or (ii) to contribute it to a pension fund. If such six months period elapses without any election by the employee, the accrued severance pay shall be contributed by the employing company to the pension fund mentioned in the relevant labor agreement based on an implicit consent mechanism (*silenzio assenso*).

COMPULSORY HIRING OF PERSON WITH DISABILITIES

Undertakings with 15 or more employees are required to recruit personnel from "protected categories" like widows, orphans, refugees and disabled persons.

Employer's Duty of Care at Work

6.3.9. Safety in the Workplace

Employers must adopt all necessary measures, considering the specific features of the job and workplace, to preserve the physical integrity and personality of the employees.

By law employers must carry out dedicated risk assessments and organize prevention and protection systems. Employees and their representatives have the right to check the implementation of health and safety standards.

Mandatory Insurance Policy

Insurance against accidents at work is compulsory and is managed by the National Institute for Insurance against Accidents at Work (*Istituto Nazionale Assicurazioni Infortuni sul Lavoro - INAIL*). Compulsory insurance includes cover in the event of damages incurred between the employee's home and workplace, or between different work places.

6.3.10. Labor Proceeding

Special provisions of the Italian Code of Civil Procedure apply to labor proceedings. Labor proceedings are faster than ordinary proceedings since allegations and evidence are submitted with the first statement of defense.

For further information: www.inail.it

7. Living and Working in Italy

7.1. Business Stay up to 90 days

Business trips generally require a visa. However, citizens of certain countries like the United States, Canada, Argentina, Brazil and Japan, do not require a visa for business stay of up to 90 days. EU citizens do not require visas.

7.2. Work Permits and Residence

Entry for Employment

Non-EU nationals

A written job offer or an employment contract is not sufficient for working in Italy. A work permit (*autorizzazione di lavoro*) is compulsory for non-EU nationals either having a job offer in Italy, or willing to work in the country, temporarily or permanently.

The prospective employer is responsible for obtaining such permit by applying to the Provincial Labor Office (*Ufficio Provinciale del Lavoro*) for preliminary clearance. If granted, the prospective employer must then obtain the approval of the regional and central authorities.

When receiving the work permit, the prospective employee must apply for an entry visa at the Central Police Station. With this (generally granted within 20 days) and the work permit, he can then apply for an Italian visa (at the Italian Embassy/Consulate in his home country) usually issued within 30 days.

Within 8 days of entering Italy, the applicant and his/her family must visit the local police station to obtain an Italian stay permit (*Permesso di soggiorno*).

For further information: www.poliziadistato.it

Documents required for the work permit:

- Copy of the Italian employer's certificate of registration from the Chamber of Commerce
- Copy of the employment contract or letter detailing the terms of assignment
- Copy of the company tax return
- Valid passport.

Release timing/delivery timing: about 3 months.

EU nationals

Only a stay permit is necessary.

Documents required:

- Valid passport
- Health insurance certificate
- Employment contract
- Proof of abode (e.g. rent agreement).

Residence in Italy

After obtaining a stay permit, one should register at the local Population Registration Office (*Anagrafe*).

Documents required:

- Stay permit
- Valid passport.

Release timing/delivery timing: about 2 months.

Tax-code Number

All citizens, whether Italians or foreigners, have to get a tax-code number, (*codice fiscale*) even if not subject to Italian taxes. One needs such code (*codice fiscale*, obtainable from the Provincial Tax Office) to open a bank account, to register a vehicle, or to sign any official contract.

Documents required:

- Valid ID or passport
- Stay permit.

Release timing/delivery timing: immediate.

7.3. Banking and Bank Accounts

Opening an Account

Resident foreigners can freely open a normal account. Non-residents (visitors present in Italy for less than six months per year) can generally open a special foreign account. Opening an account requires a valid tax code number (*codice fiscale*). Some banks may ask for a residence certificate, but this is not a legal requirement.

Documents required:

- Tax-code number (*codice fiscale*)
- Valid passport.

Chequing Accounts

Chequing accounts are interest-bearing. For calculating interest the date on the cheque rather than the date of the transaction applies. Services charges include a conventional charge, the so-called *giorni di valuta* charge (meaning that after an agreed number of days the bank is supposed to receive the accrued interests). This conventional charge may vary from bank to bank (e.g. usually one day for cash, 3 days for an in-town cheque, and between 8 and 20 days for an out-of-town cheque).

Money Transfer	Transfers to or from other countries, by residents or non-residents, of cash or securities in domestic or foreign currencies and amounting to more than 12,500 Euro must be declared to the Italian Exchange Controls Office (<i>Ufficio Italiano dei Cambi - UIC</i>).
Payment Cards	Besides credit cards, Bancomat cards are very popular and widely accepted. These Italian cash cards can be used in Automatic Teller Machines (ATM) throughout the country as well as at most shops, restaurants or similar commercial sites.
Transferring Cheques	It is allowed to give uncrossed cheques to someone else to deposit in one's own bank account by endorsing it on the reverse. Writing "non trasferibile", (meaning not transferrable), ensures against the cheque being cashed by anyone else.
Level of Protection	All Italian banks belong to an official deposit guarantee scheme. Branches of banks established in the EU can join an Italian deposit guarantee scheme on top of the protection offered under their home country guarantee scheme. Branches of banks from outside the EU and licensed to operate in Italy must join an Italian deposit guarantee scheme unless they are members of an equivalent foreign scheme. For further information: www.uic.it

7.4. National Health Service

Italy's National Health Service (*Servizio Sanitario Nazionale*) operates through local health authorities and provides low-cost or free health care to all EU citizens. A recent law transferred several important administrative and organizational responsibilities from the central Government to the 20 regions. EU Citizens in Italy can take advantage of mutual health agreements. Before arriving, one should apply for a European Health Insurance Card.

Non-EU Citizens visiting Italy require private insurance cover (either Italian or foreign). Within 8 days of arrival the local police station must approve the health policy, which is valid for the duration of the entry permit (*visto d'ingresso*).

Getting Insured	Foreign workers (EU and non-EU alike) must visit the nearest local health authority (<i>Azienda Sanitaria Locale - ASL</i>) to register with a family doctor affiliated with the health convention. Once registered, one is entitled to a health number and health card (<i>tessera sanitaria</i>).
Drugs and Medicine	If required, the family doctor may issue a prescription (<i>ricetta</i>) for drugs or medicine. Where applicable, one may qualify for a state-subsidy (known as a 'ticket') reducing the overall cost.

7.5. Schools and Universities

Arriving in Italy, foreign families have a broad choice of schools, both Italian and international. The Italian school system is divided into three main stages: elementary school for 6 to 10-year olds; middle school from 11 to 13; and high school from 14 to 19.

The international schools present in Italy are mainly American and British. Other international schools, located in many of Italy's main cities, include French, Spanish, German and Japanese curricula.

International Schools

There are several independent, private schools offering courses and classes taught in English. Some of these provide classes from kindergarten through high school, while others offer curricula at the elementary or high school levels.

There are many international schools in Italy that follow the British education system. About 30 of them are members of the European Council of International Schools.

American College, University and Research Programs

Over 90 American institutions are present in Italy (36 are based in Rome, and 30 in Florence). Most of these institutions are members of the Association of American College and University Programs in Italy (AACUPI).

International Baccalaureate

Most international schools in Italy offer this preparatory college program, or foundation course, during the last two years of high school. It is recognized by over 600 universities around the world.

7.6. Driver's Licenses

Non-residents in Italy with a stay permit can drive on their foreign license or on an international license until they become an Italian resident. After one year of residency, non-EU citizens must acquire an Italian license, while those with an EU license can continue to use it.

Conversion

Non-EU residents with a driver's license issued by a country with a mutual recognition agreement with the Italian Motor Vehicles Authority, may convert their license into an Italian one without having to take a new driving test. One may request an Italian license after one year of residency in Italy.



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InvestInItaly Head Office

Via Calabria, 46 - 00187 Rome • info@investinitaly.com • www.investinitaly.com

France

BUSINESS DEVELOPMENT SERVICES

Tel: (0033 1) 70385191
france@investinitaly.com

INSTITUT ITALIEN

POUR LE COMMERCE EXTERIEUR

26, AV. CHAMPS ELYSEES
75008 PARIS
Tel: (0033 1) 53757000
Fax: (0033 1) 45634034
paris@investinitaly.com

Germany

BUSINESS DEVELOPMENT SERVICES

Tel: (0800) 055009 (freecall)
Fax: (0049 69) 66807799
germany@investinitaly.com

ITALIENISCHES INSTITUT FÜR AUßENHANDEL

SCHLÜTERSTR., 39
10629 BERLIN
Tel: (0049 30) 8844030
Fax: (0049 30) 88440310 / 1
berlin@investinitaly.com

The Netherlands

ITALIAANS INSTITUUT VOOR BUITENLANDSE HANDEL

WESTERMARKT 2, IV
POSTBUS 10852
1001 EW AMSTERDAM
Tel: (0031 20) 5408800
Fax: (0031 20) 6448066
amsterdam@investinitaly.com

United Kingdom

BUSINESS DEVELOPMENT SERVICES

Tel: (0044 289) 0330515
Fax: (0044 289) 0242597
uk@investinitaly.com

ITALIAN TRADE COMMISSION

14, WATERLOO PLACE
LONDON SW1Y 4AR
Tel: (0044 207) 3890300
Fax: (0044 207) 3890301
london@investinitaly.com

USA (East)

BUSINESS DEVELOPMENT SERVICES

Tel: (001 703) 9039465
Fax: (001 703) 9038850
us@investinitaly.com

ITALIAN TRADE COMMISSION

33, EAST 67TH STREET
NEW YORK - NY 10021-5949
Tel: (001 212) 9801500
Fax: (001 212) 7581050
newyork@investinitaly.com

USA (West)

BUSINESS DEVELOPMENT SERVICES

Tel: (001 415) 3508775
us@investinitaly.com

ITALIAN TRADE COMMISSION

1801, AV. OF THE STARS
SUITE 700
LOS ANGELES, CA 90067
Tel: (001 323) 8790950
Fax: (001 310) 2038335
losangeles@investinitaly.com

China

BUSINESS DEVELOPMENT SERVICES

Tel: (0086 10) 84861310
Fax: (0086 10) 84865509
china@investinitaly.com

ITALIAN TRADE COMMISSION

ROOM 1901-1906, 1911B
THE CENTER
989, CHANGLE RD.
SHANGHAI 200031
Tel: (0086 21) 62488600 / 54075050
Fax: (0086 21) 62482169
shanghai@investinitaly.com

Japan

ITALIAN TRADE COMMISSION

SHIN AOYAMA WEST BLDG.
16TH FLOOR
I.I.I. MINAMI AOYAMA
MINATO-KU
107-0062 TOKYO
Tel: (0081 3) 34751401/04/07
Fax: (0081 3) 34751440
tokyo@investinitaly.com

UAE

ITALIAN TRADE COMMISSION

HOLIDAY INN CROWNE PLAZA
COMMERCIAL TOWER, 6TH FLOOR
SHEIKH ZAYED STREET
P.O. BOX 24113 DUBAI
Tel: (00971 4) 3314951
Fax: (00971 4) 3314279
dubai@investinitaly.com

www.investinitaly.com