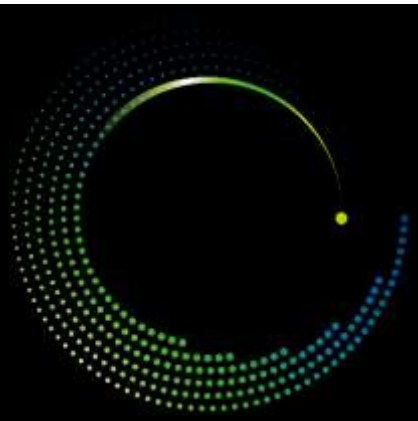
Deloitte.

International Tax
Italy Highlights 2025

Updated January 2025



Recent developments

For the latest tax developments relating to Italy, see Deloitte tax@hand.

Investment basics

Currency: Euro (EUR)

Foreign exchange control: There are no foreign exchange controls or restrictions on repatriating funds. Residents and nonresidents may hold foreign currency within and outside the country, and direct and indirect investments may be made in any currency. However, funds held outside Italy or repatriated to Italy without a bank intermediary must be declared for tax purposes.

Accounting principles/financial statements: Italian GAAP and IFRS/IAS apply. Financial statements must be prepared annually. Consolidated accounts must be prepared if certain thresholds are exceeded.

Principal business entities: These are the joint stock company (SpA), limited liability company (SrL), and branch of a foreign company.

Corporate taxation

Rates	
Corporate income tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)
Branch tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)
Capital gains tax rate	24% (in general), plus regional tax on productive activities (3.9% in general)

Residence: A company is considered to be an Italian resident for tax purposes if its registered office (or legal seat), place of effective management, or place of ordinary management is in Italy for the greater part of the fiscal year (FY) (i.e., at least 183 days in a standard year, or 184 days in a "leap year"). For these purposes, the term "place of effective management" is defined as the place where the strategic decisions are made on a regular and coordinated basis, while the term "place of ordinary management" is defined as the place where routine day-to-day management activities for

the entity as a whole are carried out on a regular and coordinated basis. A foreign company that holds a controlling participation in an Italian company is deemed to have its place of effective management in Italy and, therefore, to be resident in Italy for corporate income tax purposes if the foreign company is controlled by an Italian resident or managed by Italian residents representing the majority of its board of directors.

Basis: Resident companies are taxed on worldwide income; nonresident companies are taxed only on Italian-source income. Italian branches of a foreign company are taxed in the same way as Italian subsidiaries.

Taxable income: Taxable income for a resident company or an Italian branch of a foreign company is business income, which consists of net income earned in a financial period. Business income encompasses all income derived by the company or branch, e.g., income from a trade, passive income (e.g., dividends, interest, royalties), capital gains. Taxable income is based on the results shown in the profit and loss account, with certain adjustments.

The regime allowing a tax deduction for the "allowance for corporate equity" (ACE) was abolished with effect as from FY 2024. ACE deductions that were calculated and not used in 2023 (or a previous FY) due to an absence of income (or insufficient income) may be deferred and used in subsequent FYs, without a time limitation. However, the use of ACE deductions may be limited under specific circumstances.

For direct tax (including corporate income tax and regional tax on productive activities) purposes, a deduction for costs incurred by Italian companies in relation to transactions with entities resident or located in jurisdictions considered "noncooperative" (i.e., jurisdictions listed in annex I of the conclusions on the EU list of noncooperative jurisdictions for tax purposes) is allowed up to the "normal value" of the relevant goods and services provided. The deduction of any costs exceeding the normal value may be allowed if the Italian company is able to prove the effective execution of the transaction and its actual economic interest in the transaction. The Italian company must separately report the relevant costs in its annual income tax return, regardless of whether the costs are lower or higher than the normal value. The deduction limitation does not apply to transactions with companies that are subject to the application of the Italian controlled foreign company (CFC) regime.

Certain companies whose turnover is less than a defined percentage of the value of various classes of assets are referred to as "non-operating companies" and are taxed on a deemed minimum income at a higher corporate income tax rate. The non-operating company regime usually applies to small companies; however, a company may take the position that the regime does not apply, and it may request a ruling from the tax authorities to support its position.

Italian companies may opt for a branch exemption regime that provides for the taxation of a branch's income in only the foreign jurisdiction in which the permanent establishment (PE) is established. The option, which allows an exemption for the income derived from the foreign PE, is irrevocable and must be applied to all PEs of the Italian company ("all in-all out" principle).

Rate

General

The corporate income tax (IRES) rate is 24%, plus the regional tax on productive activities ((IRAP), which has a 3.9% rate in general; see "Other," below). For banks and most other financial institutions (excluding asset management companies (SGRs) and brokerage companies (SIMs)), the corporate income tax rate is 27.5%. Non-operating companies are subject to a 34.5% corporate income tax rate.

For the FY following the FY in progress on 31 December 2024 only (i.e., for 2025 for calendar-year taxpayers), a reduction of the IRES rate to 20% is available for companies that meet the following requirements:

- At least 80% of the profits earned in FY 2024 is allocated to a dedicated equity reserve;
- As from 1 January 2025, at least 30% of the amount allocated is invested in assets covered under the "Industry 4.0" or "Transition 5.0" plans (in any case, the amount invested must be equal to at least 24% of the profits in FY 2023 and at least EUR 20,000);
- The number of employees does not decrease compared to the average number for the period from FY 2022 through FY 2024;
- New hires of permanent employees increase by at least 1% compared to FY 2024; and
- In FY 2024 and FY 2025, the company does not use the redundancy fund (i.e., the system according to which the government provides financial support to employees who are temporarily laid off or have their working hours reduced due to economic difficulties faced by their employer).

Surtax

There is no surtax.

Alternative minimum tax

There is no alternative minimum tax, but a presumptive taxable income applies to non-operating companies under certain conditions (see "Taxable income," above).

Global minimum tax (Pillar Two)

Italy has transposed into its domestic legislation the EU "Pillar Two" directive that is designed to ensure a global minimum level of taxation of 15% for multinational enterprise groups and large-scale domestic groups within the EU with annual consolidated revenue of at least EUR 750 million. The IIR (income inclusion rule) applies for FYs beginning on or after 31 December 2023 and the UTPR (sometimes referred to as the undertaxed profit(s) rule or the undertaxed payments rule) applies for FYs beginning on or after 31 December 2024. Italy also has opted to adopt a tax that is intended to be a qualified domestic top-up tax (sometimes referred to as a QDMTT), applicable for FYs beginning on or after 31 December 2023.

Taxation of dividends: See "Participation exemption," below.

Capital gains: Capital gains derived from the sale of assets normally are treated as ordinary income and taxed at the 24% corporate income tax rate, plus IRAP at the 3.9% rate. Capital gains derived from the sale of participations, however, generally are not subject to IRAP (except for banks and financial institutions or financial companies) and are 95% exempt from corporate income tax if the following requirements are met: (i) the participation has been held for a minimum continuous period that may range between 12 and 13 months; (ii) the participation is classified as a financial fixed asset in the first financial statement closed after the participation was acquired; (iii) the company in which the participation is held is not considered a "low-tax jurisdiction" entity ("LTJ entity") (see "Participation exemption," below); and (iv) the company in which the participation is held carries on a business activity (this requirement will not be met if assets are represented primarily by real property not used in the business activity). The last two conditions must have been satisfied continuously over the last three years or the life of the company, if shorter.

Capital gains realized by a nonresident company from the sale of a participation in an Italian company ordinarily are taxed at a 26% flat rate. In some cases, capital gains from the sale of a participation may be exempt, according to specific rules or a relevant tax treaty. For capital gains that are realized from the sale of a participation in an Italian company by a company that is resident in an EU/European Economic Area (EEA) member state that allows an adequate exchange of information with Italy, and that are not exempt under another rule or treaty, the 95% exemption from corporate income tax is available. The exemption applies only if certain conditions are fulfilled.

Capital gains realized by a nonresident from the sale of a participation in a nonresident company are subject to taxation in Italy at a 26% flat rate if, at any time during the 365 days preceding the transfer, more than 50% of the value of the nonresident company is derived (directly or indirectly) from certain immovable property located in Italy.

For FY 2025, it has been confirmed that capital gains derived by a nonresident from crypto-assets that are taxable in Italy are subject to tax at a 26% flat rate; in addition, the EUR 2,000 tax exemption threshold that formerly applied to capital gains derived from crypto-assets has been eliminated. Following the amendments introduced by the 2025 budget law, capital gains derived from crypto-assets as from 1 January 2026 will be subject to tax at a 33% flat rate.

Losses: Losses may be carried forward and offset against corporate taxable income. However, 20% of taxable income in any year cannot be offset by carried-forward losses and will be subject to corporate income tax in accordance with the "minimum tax" rule. Losses incurred by a company during its first three taxable periods may be carried forward and used to fully offset corporate taxable income, but only if the losses relate to a new business activity (e.g., the losses may not have been incurred during a merger or business contribution). The carryback of losses is not permitted.

Foreign tax relief: A tax credit is allowed against Italian net tax for final foreign taxes paid on foreign-source earnings in the year in which the taxes were paid. The amount of the foreign tax credit may not exceed the amount of Italian tax due.

Participation exemption: Domestic and foreign-source dividends paid by subsidiaries to Italian resident corporate taxpayers generally are 95% exempt from corporate income tax. There is no holding period or minimum ownership percentage to qualify for the exemption. (Different rules apply for the participation exemption for capital gains; see "Capital gains," above.) The same exemption applies to income from some hybrid financial instruments.

However, the 95% exemption does not apply (i.e., the income may be 100% taxable) if the foreign subsidiary is an LTJ entity and, in some cases, where the dividends are distributed by an LTJ entity through an interposed foreign non-LTJ entity, unless evidence that an adequate level of taxation was borne by the foreign entity can be provided. If this evidence cannot be provided, under certain conditions, the dividends may benefit from a 50% exemption. Provided specific requirements are met, a foreign tax credit is granted for taxes paid abroad on the same profits by the LTJ entity.

The criteria to determine whether a foreign entity is deemed to be an LTJ entity are:

- For controlled entities, an effective level of taxation that would permit the application of the CFC rules (see "Controlled foreign companies" under "Anti-avoidance rules," below); and
- For non-controlled entities, a nominal level of taxation lower than 50% of that applicable in Italy.

The tax period in which the dividends accrued is relevant in determining the nature of the dividends received (from an LTJ entity or not) and the applicability of the related exemption.

Holding company regime: There is no specific holding company regime, although, as described above (see "Capital gains" and "Participation exemption"), dividends and capital gains on the sale of a participation may benefit from a 95% exemption.

Incentives: Incentives are available in the form of capital grants, subsidized loans, or tax credits. Some incentives are granted automatically if specified requirements are met; others require the completion of evaluation procedures. Certain incentives must be negotiated.

Italian companies and Italian branches of foreign companies may apply for an optional patent (intellectual property) box regime, provided certain conditions are satisfied. Under the current version of the patent box regime, a 110% "super tax deduction" (resulting in an overall deduction of 210% of eligible research and development (R&D) expenses) is available for R&D expenses related to eligible intangible assets (i.e., software protected by copyright, industrial patents, designs, and models).

The "Industry 4.0" tax credit is available for new investments in tangible and intangible assets under certain circumstances:

- The tax credit for qualifying investments in tangible assets for the technological transformation of enterprises under the Industry 4.0 plan is available for investments made through 31 December 2025 (and may be available for investments made through 30 June 2026 if, by 31 December 2025, the order is accepted by the seller and a down payment is made in an amount equal to at least 20% of the acquisition cost); and
- The tax credit for qualifying investments in intangible assets related to the Industry 4.0 plan is available for investments made through 30 June 2025 if, by 31 December 2024, the order was accepted by the seller and a down payment was made in an amount equal to at least 20% of the acquisition cost.

The tax credit rates depend on the type of asset, the amount of the investment, and the date of the investment.

The "Transition 5.0" tax credit is intended to incentivize investments by companies in advanced digitalization and technological innovation that contribute to an overall energy savings. The tax credit is available for investments made on or after 1 January 2024 and up to 31 December 2025, and the tax credit rate depends on the percentage of energy savings achieved and the amount of the investment. The investments must be part of an innovation project carried out in production facilities located in Italy and the reduction in terms of energy consumption must be at least of 3% (for the entire production facility) or 5% (for specific processes).

The R&D, innovation, and design tax credit is available through FY 2025 in some cases and through FY 2031 in other cases, depending on the type of investment. The tax credit is computed based on a taxpayer's qualifying costs incurred, with the tax credit rates and the maximum amount of the credit depending on the type of investment and the FY. The tax credit may be used to offset corporate income tax due (or any other type of tax liability) in three equal annual installments, starting from the FY following the year in which the company carried on eligible activities.

As from 1 January 2025, the 2025 budget law introduced a permanent regime allowing non-entrepreneurs (including nonresident entities without a PE in Italy, and excluding Italian commercial companies) the option to elect to step-up the tax basis of certain shareholdings in Italian companies and land located in Italy, through the payment of a substitute tax at an 18% rate. The tax basis of the assets may be stepped-up to their market value if they are held as at 1 January of the year in which the step-up is elected, provided that the substitute tax is paid by 30 November of the same year (either in full or in the first of three annual installments). A sworn appraisal is required to support the market value of unlisted shareholdings or land.

The 2025 budget law also introduced a temporary tax regime to facilitate the assignment and transfer of registered assets (real estate or movable property) to shareholders. Italian commercial companies may benefit from this regime for transactions carried out up to 30 September 2025, provided that:

- The real estate or registered movable property transferred is a "non-instrumental" asset; and
- The shareholders of the company benefiting from the transaction were existing shareholders on 30 September 2024.

Any capital gains resulting from the transaction are subject to an 8% substitute tax (10.5% for non-operating companies).

Other: IRAP, the regional tax on productive activities, is imposed on the net value of the production derived in each Italian region by resident companies. IRAP is calculated on the "net added value" of production, as defined by the relevant tax rules (but basically derived from the statutory accounts).

The ordinary IRAP rate applicable for manufacturing and trading companies is 3.9%. For banks and other financial institutions or financial companies (including holding companies), the ordinary IRAP rate is 4.65%, and for insurance companies, the rate is 5.9%.

If the taxpayer has net interest expense, 10% of the annual IRAP paid is deductible from the IRES taxable base. IRAP paid in connection with nondeductible employment expenses also is deductible from the IRES taxable base.

Compliance for corporations

Tax year: Taxpayers may use the calendar year or a financial year.

Consolidated returns: Tax consolidation is available to domestic groups, i.e., an Italian parent company and its resident subsidiaries that are under its direct or indirect control. The control requirement is met where the parent company holds more than 50% of the share capital of another company and is entitled to more than 50% of the profits of that company.

Domestic consolidation also may be adopted if the controlling entity or a subsidiary (with an Italian branch) is a nonresident company, provided certain conditions are satisfied.

Under domestic consolidation, a single taxable income is calculated for all consolidated companies. Once an election for consolidation is made, it may not be revoked for three years unless the subsidiary ceases to be controlled by the parent company. Domestic tax consolidation is not available to companies benefiting from a reduction in the corporate income tax rate.

If certain requirements are met, a worldwide tax consolidation regime is available, under which all foreign controlled companies must be included in the tax group (i.e., the "all in-all out" principle).

Tax consolidation is not available for IRAP purposes.

Filing and payment: A company must file the annual corporate income tax returns (IRES and IRAP) electronically within 10 months following the end of the FY, unless an extraordinary transaction (e.g., merger or demerger) has been carried out during the year (companies that have carried out extraordinary transactions must file by the end of the ninth month following the date of juridical effect of the extraordinary transaction). Companies with a calendar year end have until the end of October 2025 to file the tax return for FY 2024.

For companies with a non-calendar year end, the tax return for a FY that ended before 31 December 2024 and for which the filing deadline falls after 2 May 2025 must be filed by the end of the 10th month following the end of the FY.

Two advance payments of corporate income tax must be made: the first installment generally is 40% of the amount of corporate income tax paid in the previous year, and the second is 60% of the previous year's tax. For companies subject

to the "synthetic indices of tax reliability" (used for assessing certain companies based on factors including their tax compliance history), the two advance payments each are equal to 50% of the previous year's tax. A company must make these advance payments by the end of the sixth month and by the end of the 11th month of the FY.

Penalties: The tax rules include a comprehensive set of penalty and interest provisions for failure to pay and failure to file, with the amounts ordinarily determined based on the particular violation (above specific thresholds, tax violations are criminal offenses).

Rulings: Advance rulings relating to transfer pricing may be obtained from the tax authorities. Such rulings also may apply to dividends and royalties. A ruling also may be requested from the authorities for other reasons, such as to support that the CFC regime, the non-operating company regime, or anti-abuse provisions are not applicable, or to obtain the correct interpretation of an unclear tax provision.

Individual taxation

Rates		
Individual income tax rate	**Taxable income (EUR)**	**Rate**
	Up to 28,000.00	23%
	28,000.01–50,000.00	35%
	Over 50,000.00	43%
Capital gains tax rate		26% (in general)

Residence: For income tax purposes, individuals are considered Italian tax residents if, for the greater part of the FY (i.e., for at least 183 days in a standard calendar year, or 184 days in a leap year), they have a physical presence in Italy, a domicile in Italy, or a residence in Italy pursuant to the Italian Civil Code. For these purposes, a portion of a day is counted as an entire day, "domicile" refers to the place where the individual's personal and family relationships are mainly based, and "residence" refers to the place where the individual has a habitual abode.

Registration of an individual within the records of the population living in Italy (*Anagrafe della popolazione residente italiana*) merely creates a presumption that the individual is tax resident in Italy; the alternative tests described above are determinative of residency.

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Italian-source income.

Taxable income: Individual income tax is imposed on employment income, income from independent activities, income from capital, business income, income from immovable property, and other miscellaneous income.

Under certain circumstances and provided that all relevant conditions are met, a special regime may apply to inbound workers. Under the regime, a percentage of the individual's Italian-source income from employment, certain income similar to employment income, and self-employment income (up to an annual cap) may be exempt from taxation for a specified period following the transfer of the individual's tax residence to Italy.

An optional regime allows Italian resident individual entrepreneurs and companies to pay an advance substitute tax on the retained earnings of an LTJ entity and exclude the dividends paid from these retained earnings from the resident's taxable income upon distribution, under certain conditions. See "Participation exemption" under "Corporate taxation," above.

Rates: The individual income tax is progressive, rising to a top rate of 43% for income exceeding EUR 50,000. The other rates are listed in the individual income tax rate table above.

Additional regional tax applies at rates ranging from 0.7% to 3.33%, depending on the region in which the individual is domiciled. An additional municipal tax ranging from 0% to 0.8% also may apply, depending on the taxpayer's municipality. (It is possible that the local tax rates for FY 2025 could be modified up to 15 April 2025.)

Under certain circumstances, private employees may apply a flat tax of 5% for FY 2025, FY 2026, and FY 2027 (ordinarily, the flat tax is 10%) on bonuses earned up to EUR 3,000. Bonuses in kind are exempt from tax and social charges in certain instances.

Under certain circumstances, self-employed individuals may apply a flat tax of 15% to up to EUR 85,000 of business and professional gross income realized in the previous FY, without being subject to additional regional and municipal tax. A reduced flat tax of 5% applies for new activities if all relevant requirements are met.

Resident individuals are taxed on interest at a flat 26% rate (12.5% for interest on Italian treasury bonds or similar bonds). The 26% flat rate also ordinarily applies to dividends and to capital gains.

Nonresident individuals ordinarily are taxed at the 26% flat rate on dividends (with a potential refund of the foreign tax paid on the dividend by the recipient, up to 11/26ths of the Italian withholding tax), capital gains related to participations (in some cases, an exemption may apply based on a relevant tax treaty), and interest.

Under certain conditions, nonresident individuals may apply a EUR 100,000 lump-sum tax on their foreign-source income if they transferred their tax residence to Italy on or before 10 August 2024. Following an amendment introduced by Legislative Decree No. 113 of 2024, the lump-sum tax has been increased to EUR 200,000 per year and applies to individuals who transfer their residency (as defined under article 43 of the Italian Civil Code, i.e., their habitual abode) to Italy after the date of entry into force of the amendment (i.e., after 10 August 2024).

A favorable tax regime is also available for retired individuals who transfer their tax residence to a small town in the south of Italy or to one of the main islands, provided that certain conditions are met.

Capital gains: A flat 26% rate ordinarily applies to capital gains. Capital gains derived by an individual on the disposal of Italian immovable property normally are taxed as miscellaneous income (which ordinarily is subject to tax at the progressive rates, although there is an option to apply the 26% flat rate if a request is made to the notary at the time of the transfer); however, such gains are exempt from tax if the individual held the property for more than five years. Gains derived from the sale of a principal residence are not subject to tax.

For FY 2025, it has been confirmed that capital gains derived by an individual from crypto-assets are subject to tax at a 26% flat rate; in addition, the EUR 2,000 tax exemption threshold that formerly applied to capital gains derived from crypto-assets has been eliminated. Following the amendments introduced by the 2025 budget law, capital gains derived from crypto-assets as from 1 January 2026 will be subject to tax at a 33% flat rate.

Deductions and allowances: Deductions for dependents, certain expenses relating to employment income, social security contributions, and other specific expenses (e.g., family charges, medical expenses) are available in calculating taxable income. As from 1 January 2025, the deductions system has been modified for individuals with total taxable income exceeding EUR 75,000. In addition, the individual income tax deductions formerly available for dependent children over the age of 30 who are not disabled have been abolished.

Foreign tax relief: A tax credit is allowed against Italian net tax for final foreign taxes paid on foreign-source earnings in the year in which the taxes were paid. The amount of the foreign tax credit may not exceed the amount of Italian tax due.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Joint filing is possible under specific circumstances.

Filing and payment: All resident and nonresident taxpayers who derive income subject to individual income tax must file an annual tax return, except for individuals deriving only exempt income or income subject to a final withholding tax and other specific categories of income.

The *Modello 730* tax return (a simplified tax return for qualifying individuals receiving only certain types of income) and the *Modello Redditi Persone Fisiche* tax return (the standard tax return for individuals who do not meet the conditions to file the *Modello 730* return, e.g., nonresident individuals) must be electronically submitted by 30 September and 31 October, respectively, of the calendar year following the relevant FY (deadlines not falling on business days are postponed to the next business day).

Salaries and professional fees generally are subject to deduction of tax at source.

Penalties: Penalties and interest apply for late filing, failure to file, and tax avoidance and evasion.

Rulings: A ruling may be requested from the tax authorities for certain reasons, such as to obtain the correct interpretation of an unclear tax provision that has not been officially clarified by the tax authorities. The request must be submitted before the relevant tax provision is applied (e.g., before submitting the tax return, before applying a withholding tax, before issuing an invoice). The opinion expressed by the tax authorities in the advance ruling is not binding on the taxpayer; however, it is binding on the tax authorities, which cannot issue assessments or impose fines or penalties that would be inconsistent with the opinion expressed in the advance ruling.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	**Individual**	**Company***	**Individual**
Dividends	0%	26%	1.2%/26%	26%
Interest	0%	12.5%/26%	0%/12.5%/26%	12.5%/26%
Royalties	0%	0%	30% (generally applied to 75% of gross royalty, resulting in effective rate of 22.5%)	30% (generally applied to 75% of gross royalty, resulting in effective rate of 22.5%)

*Payments to an Italian branch of a nonresident company are not subject to withholding tax.

Dividends: Dividends paid to a resident company are not subject to withholding tax but are subject to corporate income tax; a 95% exemption is available under certain conditions (see “Participation exemption” under “Corporate taxation,” above). Dividends paid to a resident individual generally are subject to a 26% withholding tax.

Dividends paid to a nonresident company or nonresident individual generally are subject to a 26% final withholding tax (with a potential refund of the foreign tax paid on the dividend by the recipient, up to 11/26ths of the Italian withholding tax) unless the rate is reduced under an applicable tax treaty or the dividends qualify for an exemption under the EU

parent-subsidiary directive. A domestic final withholding tax of 1.2% applies to dividends distributed to shareholders that are companies resident in an EU/EEA member state.

Interest: Italian-source interest paid to a resident company generally is not subject to withholding tax but is subject to corporate income tax. Italian-source interest payable to a resident individual or a nonresident generally is subject to a 26% withholding tax (which is a final tax for nonresidents). Interest derived from a direct or indirect investment in government bonds and similar securities is subject to a 12.5% substitute tax (domestic exemptions apply). Interest paid on third-party medium-term or long-term loans granted to Italian companies by certain types of lenders (e.g., banks established in an EU member state, certain foreign financial institutional investors) is exempt from withholding tax if certain conditions are fulfilled.

Where withholding tax applies, the tax for nonresidents may be reduced under an applicable tax treaty or eliminated under the EU interest and royalties directive.

Royalties: Royalties paid to a resident company or resident individual generally are not subject to withholding tax but are subject to income tax.

Royalties paid to a nonresident are subject to a 30% withholding tax calculated (generally) on 75% of the gross royalty, resulting in an effective rate of 22.5%. The withholding tax may be reduced under an applicable tax treaty or eliminated under the EU interest and royalties directive.

Fees for technical services: Fees for technical services paid to a resident company or resident individual generally are not subject to withholding tax but are subject to income tax.

Fees paid to a nonresident for the use of industrial, commercial, or scientific equipment located in Italy are subject to a final 30% withholding tax, unless the tax is reduced under an applicable tax treaty or eliminated under the EU interest and royalties directive. Management fees are exempt from withholding tax.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: The business income of a resident enterprise arising from transactions with nonresidents that directly or indirectly control the resident enterprise, are under the control of the resident enterprise, or are controlled by the same entity that controls the resident enterprise is assessed on the basis of the arm's length value of the goods transferred, services rendered, or services received.

OECD guidelines generally are followed to determine the arm's length price, and both traditional methods (the comparable uncontrolled price, cost-plus, and resale price methods) and profit-based methods (e.g., the transactional net margin method) are used and may be acceptable based on the specific circumstances.

A withholding tax exemption or a reduced rate under an applicable tax treaty may be denied to the extent the price paid is higher than the arm's length price.

Transfer pricing documentation is not mandatory (but see "Disclosure requirements," below), but a taxpayer may obtain protection against penalties in the event of a transfer pricing adjustment by maintaining appropriate documentation (whose date should be certified by a time stamp) and disclosing the existence of that documentation in the annual income tax return.

Interest deduction limitations: Net interest expense is deductible only up to an amount equal to 30% of earnings before interest, taxes, depreciation, and amortization (EBITDA), plus financial leasing installments. EBITDA is calculated by taking into consideration the values that are relevant from a corporate income tax perspective (i.e., not merely on an accounting basis). Excess net interest expense may be carried forward indefinitely to increase the deduction of interest expense in a subsequent year, while an excess of 30% EBITDA may be carried forward for five FYs. A specific rule is provided for the use of an excess of 30% EBITDA accrued before 2019 (as calculated under the previous rules).

Controlled foreign companies: Under the CFC regime, profits of a nonresident entity that is considered a CFC are attributed to an Italian resident that directly or indirectly controls the CFC.

To determine if a nonresident entity is considered a CFC, the following tests are relevant:

- **Simplified effective tax rate (ETR) test:** The simplified ETR test is available only for nonresident entities with audited and certified financial statements. If the simplified ETR is at least 15%, the entity is not considered a CFC. The simplified ETR is calculated based solely on the amounts shown in the audited financial statements, and is equal to the ratio between (i) the sum of the current taxes due and the deferred tax assets and liabilities recorded in the nonresident entity's financial statements, and (ii) the profit before tax recorded in the same financial statements.
- **Ordinary ETR test:** If the nonresident entity's financial statements are not audited and certified, or if the simplified ETR calculated is lower than 15%, the ordinary ETR test may be performed. This test considers whether the entity is subject to an ETR lower than 50% of the ETR that would have been applied if it were resident in Italy (which must be computed according to a much more complicated calculation). If the ordinary ETR calculated is not below this threshold, the entity is not considered a CFC.

For an entity to be considered a CFC, it is also necessary for more than one-third of its income to be passive or derived from intercompany transactions.

Income of a CFC is attributed to the Italian resident in proportion to its participation in the CFC, and the profits of the CFC are taxed in the hands of the Italian resident at its average tax rate. However, for companies, the average rate cannot be lower than the ordinary corporate income tax rate of 24%.

Taxes definitively paid abroad (i.e., underlying taxes) may be credited against the Italian tax imposed on the CFC income.

Under certain conditions, it is possible to elect to apply an alternative to CFC taxation in relation to nonresident entities with audited financial statements, under which the Italian resident pays a 15% substitute tax on the nonresident entity's net income before taxes for the FY (without considering asset write-offs and provisions for risks). The election lasts for three FYs, cannot be revoked, and will apply to all audited nonresident entities subject to the CFC regime (based on the "all in-all out" principle).

It is possible to obtain a ruling from the tax authorities to support that the CFC regime is not applicable. In the absence of a ruling, the taxpayer may support that the CFC regime is not applicable by providing evidence that certain conditions are satisfied (e.g., demonstrating that it carries out an effective economic activity in the foreign jurisdiction, through the use of personnel, equipment, assets, and premises).

Anti-hybrid rules: Hybrid mismatch rules in line with the EU anti-tax avoidance directive (ATAD) are applicable.

Hybrid mismatches arise when the tax laws of two jurisdictions provide for a different classification and tax treatment of (i) the legal instrument or relationship by which a payment is made, an expense is borne, or a tax loss is realized; (ii) the

entity that makes the payment; or (iii) the entity that receives the payment. As a result of the mismatch, the following tax situations may arise:

- The same payment may be deducted in both jurisdictions (double deduction);
- The payment may be deducted in the jurisdiction of the payer and not included in the taxable base in the jurisdiction of the recipient (deduction and non-inclusion); or
- The payment may be tax exempt in one jurisdiction and not included in the taxable base in the other jurisdiction (non-taxation and non-inclusion).

In a case where the Italian entity is the recipient of the payment and the payment is deducted by the paying entity, the payment must be included in the recipient's tax base. In a case where the Italian entity is the payer, a deduction for the payment is not allowed unless the payer can prove that the payment was included in the recipient's tax base in the other relevant jurisdiction.

The rules targeting hybrid mismatches represent a complex set of provisions, as they also target specific situations like imported mismatches and dual residence mismatches.

Under the penalty protection regime for hybrid mismatch assessments, in a case where the taxpayer chooses to prepare specific "anti-hybrid documentation" and certain conditions are fulfilled, the administrative penalties for violations of the hybrid mismatch rules may not apply (the administrative penalties that otherwise may apply following a challenge by the tax authorities are 70% of the additional corporate income tax imposed if the violation is committed after 1 September 2024, and 90% to 180% of the additional corporate income tax imposed if the violation was committed up to that date). The content and form of the required documentation are outlined in a decree from the Ministry of Finance published in the official gazette on 20 December 2024.

Economic substance requirements: See "General anti-avoidance rule," below.

Disclosure requirements: A country-by-country reporting obligation requires certain multinational enterprises to submit an annual report showing the amount of their revenue, EBIT (earnings before interest and taxes), taxes paid and accrued, and other indicators of actual economic activity.

Exit tax: The exit tax regime for companies is in line with the EU ATAD and normally applies to the following:

- Transfers of some assets of an Italian head office or of an Italian PE to the foreign head office or to a foreign PE;
- Migration of an Italian entity's tax residence abroad, unless the assets are allocated to an Italian PE;
- Transfers of a business carried on by an Italian PE to a third country; and
- Outbound cross-border transactions (mergers, demergers, contributions), unless the assets are attributed to an Italian PE.

The exit tax regime also applies to the transfer of a single asset.

The deemed capital gains subject to exit tax are determined as the difference between the arm's-length value and the tax basis of the assets or going concern transferred abroad. Specific rules govern the carryforward of a tax loss for offsetting the deemed capital gains arising at the time of the exit.

The regime does not allow for the deferral of exit taxation.

General anti-avoidance rule: The tax authorities may challenge transactions without economic substance that, despite formal observance of the laws, essentially result in unfair tax benefits that constitute abuse of the law.

Other: Other specific anti-abuse provisions may apply. These primarily target tax havens, losses and interest expense carryforwards in the case of extraordinary transactions (e.g., mergers, demergers), withholding tax exemptions under EU directives, and the assessment of Italian tax residence for foreign entities. See "Taxable income" under "Corporate taxation," above, for rules relating to the deductibility of costs incurred by companies in relation to transactions with entities resident or located in noncooperative jurisdictions.

Value added tax

Rates	
Standard rate	22%
Reduced rate	0%/4%/5%/10%

Taxable transactions: VAT is imposed on the supply of goods and services, and on imports.

Where deductible input VAT is charged on purchases of goods and/or services, the deduction must be taken in the VAT return for the year in which the related right arises or, at the latest, in the VAT return for the year in which the relevant invoice is received.

Rates: The standard VAT rate is 22%, with reduced rates of 4%, 5%, and 10%. Certain supplies are zero rated or exempt from VAT, such as financial services, medical services, gaming and gambling, export sales, and the contribution of assets to a company (e.g., purchases of capital goods).

Registration: A taxpayer carrying out taxable supplies in Italy is required to register for VAT purposes.

Electronic invoicing (e-invoicing) is mandatory in relation to transactions carried out by VAT taxable persons established in Italy that make supplies to VAT taxable persons (B2B) established in Italy and private consumers (B2C) resident in Italy.

Filing and payment: Taxpayers are required to submit an annual VAT return electronically by the end of April of the following calendar year.

Taxpayers also are required to submit quarterly reports on their VAT calculations by the end of the second month following the relevant quarter.

Taxpayers are required to transmit data through the interchange system (SDI)—using the same format as for e-invoicing—on transactions carried out with nonresident counterparties.

Retailers must electronically store and transmit, on a monthly basis, data on their daily B2C transactions that are not required to be documented by e-invoices (e.g., sales of products in shops).

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Mandatory social charges are payable by the employer and vary depending on the employee's job and the size of the workforce. Specific exemptions apply, provided certain conditions are satisfied.

Individuals working in Italy normally are subject to social security contributions, with rates depending on the sector and the employee's job title. Social security in respect of the state pension fund borne by the employee generally is equal to 9.19% of employment income, plus 1% of income over EUR 55,448 for FY 2025 (up to a cap of EUR 120,607 for FY 2025)

for employees who started contributing to an obligatory social security scheme on or after 1 January 1996. For those who started contributing before that date, contributions are calculated on the total amount of employment income received.

Payroll tax: There is no payroll tax.

Capital duty: A negligible fixed registration tax is imposed on contributions of cash in exchange for shares. Other assets contributed may be subject to a registration tax at various rates or to VAT, depending on the situation.

Real property tax: The municipal authorities impose tax on the possession of immovable property at various rates, depending on the municipality. Under certain conditions, construction companies are not subject to the real property tax.

Property owners, whether or not resident in Italy, are liable for a property tax on buildings and land owned in Italy for their own use or as investments, which is imposed by the municipal authorities. The tax comprises two different elements: IMU (wealth tax) and TARI (tax on refuse). The basic rate of IMU is 0.86% of the taxable value of the property, but the competent municipality may increase the rate to up to 1.06% or reduce it to as low as 0.76%. IMU normally does not apply to an individual's main residence, with some exceptions. The TARI rates also vary depending on the municipality.

Transfer tax: The transfer or contribution of real property situated in Italy is subject to transfer tax (registration, mortgage, and cadastral tax) and/or VAT, with the rate depending on the property transferred, the status of the transferor, and other factors.

Stamp duty: Stamp duty is imposed on legal and banking transactions, at varying rates.

A "Tobin tax" applies in the form of a stamp duty on transfers of shares and other financial instruments issued by Italian joint stock companies (including derivative instruments, if one of the parties to the transaction is an Italian tax resident). The tax rate is 0.2% of the transaction value, reduced to 0.1% where the sale takes place on a listed market (a flat tax is applied on the value of derivative instruments).

Net wealth/worth tax: Financial assets held abroad by a resident individual (e.g., bank accounts, participations) are taxed at 0.2% (0.4% for financial assets held in a "low-tax jurisdiction") of the market value. Immovable property outside Italy owned by a resident individual is subject to tax at a rate of 1.06% of the original cost or market value of the property (cadastral value of the property owned in an EU or EEA member state). A lower 0.4% rate may apply to principal residences.

Inheritance/estate tax: The taxable amount for individuals generally is represented by the value of the assets and rights inherited. Rates are 4%, 6%, or 8%, depending on the relationship between the deceased and the beneficiaries. Exemptions up to EUR 1 million may apply for bequests to close relatives.

Other

IRAP

See "Other" under "Corporate taxation," above.

Digital services tax (DST)

A 3% tax on gross revenue (net of VAT or indirect taxes) from certain digital services applies to taxpayers that derive revenue from digital services in Italy and that, alone or at a group level, had annual global revenue exceeding EUR 750 million in the previous calendar year, regardless of whether the taxpayer is tax resident in Italy.

The definition of digital services includes the following activities:

- The placement of advertising on a digital interface targeted at the users of the interface;
- Making available a multi-sided digital interface that allows users to be in contact and interact, including interaction to facilitate the direct supply of goods and services between users; and
- The transmission of data collected from users and generated by the use of a digital interface.

Certain other activities are specifically excluded from the definition of digital services, as specified in the implementation rules for the DST.

The tax applies if the user of the digital services is located in Italy; however, intercompany transactions are outside the scope of the tax.

The relevant tax return must be filed by 30 June of the calendar year following the year in which the tax liability arises; in the case of companies belonging to a group, a single company may be appointed to carry out the compliance activities.

The 2025 budget law introduced an advance payment requirement for the DST. An advance payment equal to 30% of the amount of the DST due for the preceding calendar year must be paid by 30 November of each calendar year. The balance of the DST due for the calendar year must be paid by 16 May of the following calendar year.

The assessment process for the DST is similar to the process under the VAT rules, where applicable.

Companies subject to the DST must maintain monthly records of relevant transactions.

Tax on director compensation

For individuals, an additional 10% tax is imposed on bonuses, stock options, and variable payments paid to directors operating in the financial sector. The tax is payable only on the portion of variable compensation exceeding the fixed remuneration.

Tax treaties: Italy has concluded more than 100 tax treaties. Italy signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS MLI) on 7 June 2017.

For information on Italy's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Ministry of Finance, Tax Income Agency (*Agenzia delle entrate*)

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