Chandrawat & Partners

DOING BUSINESS IN ITALY

A COMPREHENSIVE GUIDE

Chandrawat & Partners

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INTRODUCTION

Italy's economy, which is well-known for its cuisine, art, and rich history, continues to draw investment as it emerges from the global financial crisis and expands slowly each year. Italy, which once hosted the Roman Empire, is home to more than 60 million people today. It has a wide variety of diverse cultures and traditions because of its location in Europe and the Mediterranean. The nation is heavily involved in economic, military, and diplomatic activities worldwide.

Doing business in Italy has several benefits, including government incentives for international companies. Almost all industrial sectors may be found there attributable to its diverse economy. The primary industries in Southern Italy are agriculture, manufacturing, and tourism, as opposed to the Northern regions, which are mostly focused on food, textiles, machinery, iron and steel, clothes, footwear, and ceramics. However, because the Northern districts are far wealthier, there is a noticeable wealth disparity between the North and South. Despite this, Italy has a strong financial foundation and is regarded as a business-friendly nation because of its access to the Mediterranean, Middle East, and European markets, as well as its high levels of internationalization and entrepreneurship.

ECONOMIC OVERVIEW

The Italian economy grew by 3.7% in 2022, easing considerably from the upwardly revised 7% jump in the previous year but extending its recovery from the slump in 2020 brought by the pandemic. The economy grew despite seeing soaring energy prices due to the war in Ukraine and aggressive GDP hikes by the European Central Bank to tame inflation. In 2023, the European Commission expects the Italian economy to expand by 0.8%, while the Italian Government and the International monetary fund ("IMF") forecast a slower 0.6% growth.

Harmonized inflation decreased to 6.7% in June from 8.0% in May, primarily as a result of slower price rises for processed foods, non-regulated energy items, and transportation. By the end of 2023, inflation should still be below current levels due to slowing domestic demand and rising interest rates. The development of the euro and commodity prices is important things to keep an eye on.

In terms of manufacturing, Italy has the second-largest economy in Europe and the third-largest in the Eurozone. Household consumption makes up 61% of gross domestic product ("GDP") expenditures, followed by government spending at 19% and gross fixed capital formation at 17%. Gross domestic product ("GDP") is composed of 30% of exports of goods and services and 27% of imports, with an increase of 3% in overall GDP.

FOREIGN DIRECT INVESTMENT POLICY

With one of the largest European Union (“EU”) markets, a diversified economy, and a competent population, Italy is and will continue to be a desirable location for international investment. Small and medium-sized businesses (“SMEs”), which are companies with less than 250 employees, dominate the Italian economy. The majority of Italian businesses—99.9%—are SMEs. Investors continue to be drawn to Italy because of its relatively wealthy domestic market, access to the European Common Market, proximity to developing nations in North Africa and the Middle East, and centres of excellence in science and information technology research. Other major factors that influence foreign investors' decisions to establish or grow a firm in Italy are the infrastructure, the quality of life, and the concentration of industry.

Due to its open economy, Italy welcomes foreign direct exchange (“FDI”) from abroad. However, the Italian government has the authority to place restrictions on or block investments in vital industries involving Italian firms and assets if doing so could endanger other public interests or the country's security. The Law Decree No. 21 of March 15, 2012, as amended, and other implementing measures outline the Italian foreign investment framework

The Covid-19 pandemic-related special FDI regulations will no longer be in effect as of January 1, 2023, and will be replaced by the regular FDI regulations. The Italian government passed Law-Decree No. 21/2022 on March 21, 2022, which made significant changes to the FDI screening procedure and broadened its application.

The following are the main transactions and corporate actions subject to government scrutiny under the FDI regime:

- Defence and National Security
- Energy and Natural Resources
- Transport and Communications
- Financial Services
- Critical Infrastructure
- Media and Publishing

Foreign Direct Investment (FDI) in Italy climbed by 8.6 USD bn in February 2023 as opposed to 4.6 USD bn the month before. With the exception of the aforementioned modifications, little information is yet known regarding Italy's specific foreign direct investment strategy for 2023.

KEY SECTORS

Aerospace: The aerospace sector is playing a bigger and bigger part in Italy's economic growth. The Italian aviation industry is the fourth-largest in Europe and the seventh-largest in the world, and it leads the globe in propulsion, regional aircraft, and civil helicopters. Italian aerospace and space firms' technological expertise and know-how, along with the production processes' ever-improving technological know-how, have turned into the sector's key growth drivers for Italy. Italy has a long history in the aerospace sector. It was the third nation in the world to launch a satellite into orbit, the first to build a certified convertiplane for civilian use, and it produced more than half of the pressurized volume of the international module at the International Space Station.

Energy transition: Italy is implementing climate policies to shift to sustainable energy. Italy's green and ecological transition will be achieved through expanding the percentage of renewable energy sources, developing hydrogen, decarbonizing hard-to-abate industries, and pursuing sustainable mobility with 31.5% of the National Recovery & Resilience Plan ("NRRP") funds ("$59.47 billion").

Agrifood: Italy is a well-known global leader in the agri-food sector, marked by its enduring food-based culture and long-standing commitment to food quality and safety. In fact, the geographical and climatic diversity of Italy has affected the development and spread of an extraordinarily wide range of distinctive products, including meat, fish, wine, grains, and legumes in addition to fruits, vegetables, and grains. The extended value chain in the agri-food sector, which includes many players who are intricately interrelated, defines the sector. Numerous small businesses, many of which are family-run, are dedicated to strengthening the distinctiveness of their offerings. Because they offer a cohesive identity and strengthen businesses' market positioning, specialized industrial clusters and consortiums is a necessity for the Italian food industry. International players are given the chance to set up shop in the centre of a vibrant and competitive environment

Information technology ("ITC"): Due to its growing fundamental contributions to all other economic sectors, the IT sector in Italy is taking on a more strategic role. All economic sectors, including the governmental sector and the manufacturing and service sectors, have seen a surge in IT investments. Most IT market segments in Italy are expanding at significant rates, and estimates for strategic enabling domains, particularly Cloud, Blockchain, Cybersecurity, Big Data, and AI, are impressive.

Automotive: Having a rich history, the automobile sector has a significant impact on Italy's economic growth. This holds true for every step of the value chain, from designing vehicles and components to producing and selling finished goods. Having 732,377 motor vehicles produced, including automobiles, vans, lorries, and buses, Italy is one of the major producers in Europe. Additionally, foreign businesses that choose Italy as their company location can readily reach the European car market because of logistical linkages.

TYPES OF BUSINESS

Italy has a number of different corporate legal entities, although the country's corporate law primarily distinguishes between limited liability companies and partnerships.

Companies:

Two primary forms of limited liability companies exists which are as follows:

Società per azioni ("S.p.A. or SpA"): Usually employed for larger organizations, a joint-stock company is roughly similar to a public limited company by shares. It is not always a limited liability structure. A minimum of 120,000 EUR must be invested, and there must be at least one director for a SpA. The local Register of Companies must receive audited financial statements. A classic board with a single director, a board of directors, or a management board appointed by a shareholder-elected supervisory committee are the three management choices

Società a responsabilità limitata ("S.r.L."): The most popular structure for small and medium-sized businesses, an S.r.L. is a limited liability corporation that needs at least one shareholder and a minimum investment of 10,000 EUR. However, there are some differences between an Italian S.r.L. and the UK/US definition of a limited liability enterprise. Shareholders' obligation is only as much as their investment.

Partnership:
The two main types of partnerships are:

Società in nome collettivo ("S.n.c."): general partnership in commerce
An S.n.c. needs at least two general partners (individuals or legal entities), each of whom is fully liable and in charge of management. There is no minimum required for start-up funds.

Società in accomandita semplice ("S.a.s."): limited liability company
Similar requirements apply to a limited partnership as well. To the extent of their investment in the business, at least one partner must have limited responsibility. The other party must be general and bear complete responsibility for the partnership's debts.

MINIMUM ELIGIBILITY CRITERIA

The minimum eligibility criteria for incorporating a company in Italy depend on the type of company being formed. Here are the requirements for some common types of companies:

Limited Liability Company (LLC): A great business idea, a minimum capital of 1 euro, and one or more shareholders and directors are required.

S.r.l.: The minimum capital required is €10,000, and there are no restrictions on the number of shareholders.

Public Limited Company (PLC): A minimum paid-up capital of €50,000 and the appointment of one director and one auditor are required

Società Unipersonale (S.U.): This is a single-member LLC. It requires deeds of incorporation instead of full articles and a minimum share capital of €1 and up to €9,999, and only individual shareholders are allowed.

There is no citizenship or residency requirement to incorporate an Italian company, and there are no restrictions on foreign investors. However, all directors and shareholders must obtain an Italian tax identification number (codice fiscale) . The shareholders of the proposed company must come to Milan to execute the incorporation documents with an Italian public notary, or they can provide an apostilled or legalized power of attorney translated into Italian or English if they cannot travel to Milan. The incorporation process takes around 15 working days from the day the incorporation procedure starts.

HOW TO SET UP A BUSINESS ?

Registration of directors and shareholders with Italian tax authorities: It is not necessary to be an Italian citizen or to reside there in order to register a business there. According to Italian law, anyone from outside Italy may establish a business as long as their home country abides by the reciprocity principle. However, all directors and owners need to get a tax ID in Italy ("codice fiscal"). The Inland Revenue Agency ("Agenzia delle Entrate") is responsible for publishing the code fiscale. It is quite simple to obtain. Either a person or a simple signed power of attorney can carry it out. The shareholder and/or director should only complete a form issued by the Agenzia delle Entrate and sign a declaration outlining the request's goal, which is, of course, to establish and/or serve as a director of an Italian company.

Execution of article of association: According to Italian law, the shareholders must publicly execute the articles of incorporation. The requirement that the articles of association be signed in front of a Notary Public is implied by this. Therefore, there are three ways to execute the articles of association when forming an Italian limited liability company: in person, through a power of attorney, or via a virtual meeting.

Issuance of company's value added tax("VAT") number: It will be necessary to secure the Company VAT number (Partita Iva), which is provided by the Agenzia delle Entrate, once the Articles of Association have been performed. Online requests typically result in the same-day issuance of the VAT number.

Issuance of certificate of incorporation: Getting the certificate of incorporation ("Visura") completes the incorporation process. All of the incorporating company's paperwork, including the articles of association, bylaws, VAT number, and codice fiscale, must be submitted to the Chamber of Commerce. Within two to three days after reviewing the formal components of the documentation, the latter will issue the Visura.

Open a bank account for the company: Following the issuance of the Visura, the firm will formally be formed, at which point it will be able to open a bank account.

TAXATION

In Italy, the correct application of taxation is based on a person's tax status. Both Italian residents and non-residents are liable to taxation in Italy but on distinct bases, per Italian tax legislation.

There are primarily four types of taxes levied in Italy which are as follows:

Corporate Income Tax (IRES): Italian corporate entities are subject to a corporate income tax known as IRES. The standard rate for IRES is 24%. Non-resident companies are taxed only on Italian-source income

Regional Production Tax (IRAP): Italian corporate entities are also subject to a regional production tax known as IRAP. The standard rate for IRAP is 3.9%.

Tax Obligations: Both limited liability companies and branches of foreign companies exercising commercial activities in Italy are subject to the same taxes and fiscal commitments This includes keeping official registers and lodging tax returns

Withholding Tax: Dividends, interest, and royalties paid by resident companies to non-resident companies without a permanent establishment in Italy are normally subject to a final outbound withholding tax. The amount of withholding tax can be reduced or eliminated under relevant treaty provisions or EU directives

Taxable Period: The ordinary taxable period for companies in Italy is equal to 12 months, but there can be exceptions for newly established companies or those involved in the extraordinary transaction

ACCOUNTING STANDARDS

Italy follows the International Financial Reporting Standards (IFRS) for financial reporting and accounting standards. The IFRS is developed and maintained by the International Accounting Standards Board (IASB) and is used by companies in many countries around the world for preparing their financial statements.

IFRS Adoption: Italy, being a part of the European Union (EU), typically follows the adoption of IFRS as endorsed by the EU. These standards are known as "IFRS as adopted by the EU" or simply "EU-IFRS."

Financial Statements: Companies in Italy are required to prepare and present financial statements that comply with IFRS. These financial statements include a balance sheet, income statement, statement of changes in equity, and cash flow statement.

Consolidation: IFRS requires companies to prepare consolidated financial statements if they have subsidiaries, associates, or joint ventures. These consolidated financial statements provide a comprehensive view of the group's financial performance and position

Fair Value Measurement: IFRS places a significant emphasis on fair value measurement of assets and liabilities. Companies are required to measure certain assets and liabilities at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

EMPLOYMENT AND LABOUR LAWS

Italian labour laws are wide-ranging, with laws, regulations, and statutes that bear on labour relations

Working hours: According to labour laws in both Italy and the EU, workers cannot be contracted to work more than 48 hours per week or eight hours per day. Since 1987, the Italian Department of Labor has limited the maximum working hours to 48 hours a week. Workers must take one day off for every six days of work (weekly).

Collective agreements: Most categories of workers (roughly 95%) in Italy are covered by a collective agreement. However, these agreements only apply to members of the organizations that have signed the agreement

Monitoring of employees: Italian law allows employers to use tools or devices for the direct or indirect monitoring of employees' activities at work as long as the monitoring is for legitimate purposes, which include organizational, productive, or job security needs, or protection of company assets. Any use of monitoring tools or devices by an employer must be approved by prior agreement with the relevant trade union or by authorization of the relevant local office of the Ministry of Labor.

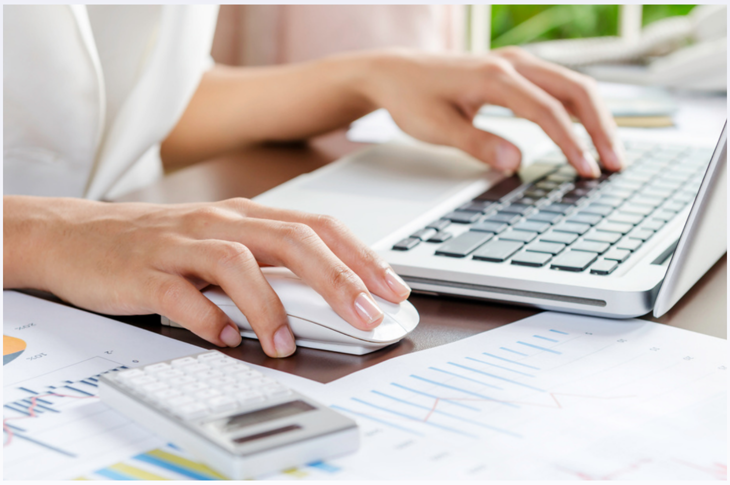
Dispute resolution: The Italian legal system has provided a special procedure for the resolution of disputes relating to labour relationships and matters. There are approximately 165 tribunals and 29 Appeal courts for Employment Law disputes in Italy. Decisions issued by the Appeal courts may be challenged before the Italian Supreme Court.

Industrial action: The general right to strike is granted by Article 40 of the Italian Constitution. Moreover, there is a special regulation for a strike in essential public services.

Basic employment rights: The Italian Constitution (Costituzione Italiana) covers a number of basic employment rights, including the right to work for fair pay, join a union, receive social security, and have access to equal opportunities. Other sources of labour law include the Civil Code (Codice Civile) and a vast number of collective agreements negotiated between the Italian authorities and trade unions that cover issues like wages and holiday entitlements

Trade unions: Trade unions are assigned with the delicate role of negotiation of the National Collective Bargaining Agreement ("NCBA"), which provides the detailed discipline to be applied to employment relationships. Specific rights are granted to works councils.

Minimum Wage: Italy did not have a single national minimum wage. Instead, minimum wages were determined through collective bargaining agreements between trade unions and employers' associations in various sectors.



EMPLOYMENT POLICIES

Labour Contracts: Italy had different types of employment contracts, such as permanent contracts (contratto a tempo indeterminato) and fixed-term contracts (contratto a tempo determinato). There were also various forms of apprenticeship contracts aimed at providing training and work experience to young individuals.

Work Hours and Leave: The standard workweek in Italy was typically 40 hours, distributed over five days. Employees were entitled to paid annual leave, sick leave, and maternity/paternity leave.

Minimum Wage: Italy did not have a single national minimum wage. Instead, minimum wages were determined through collective bargaining agreements between trade unions and employers' associations in various sectors.

Dismissal Regulations: Italian labour law provided certain protections for employees in case of dismissal, including severance pay and the requirement for valid reasons (such as economic reasons or misconduct) for termination. The specifics varied based on the type of contract and the circumstances of the dismissal.

Trade Unions: Trade unions played a significant role in Italy's labour market. They negotiated collective bargaining agreements that covered various aspects of employment, including wages, working conditions, and benefits.

Employee Benefits: In addition to paid leave, employees in Italy often received benefits such as healthcare, retirement plans, and social security contributions.

Equal Opportunity and Non-Discrimination: Italian labour laws emphasized equal treatment and non-discrimination in the workplace based on factors like gender, age, disability, and other protected characteristics.

Temporary and Agency Work: Regulations were in place to govern temporary work and the use of employment agencies, aimed at protecting the rights and interests of temporary and agency workers.

Workplace Safety: Italy had laws and regulations in place to ensure workplace safety and protect the health of employees.

Unemployment Benefits: Italy provided unemployment benefits to eligible individuals who lost their jobs, subject to certain conditions.

HOW WE CAN HELP ?

Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.

Our experts can help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.

Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.

Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC"), or sole proprietorship.

Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.

Our team can investigate and identify any licenses, permissions, or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.

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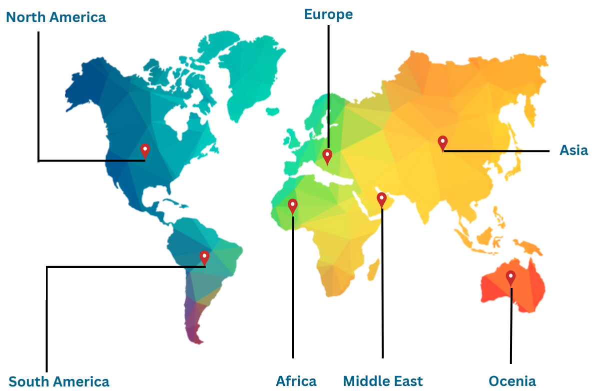
SERVING CLIENTS WORLDWIDE



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