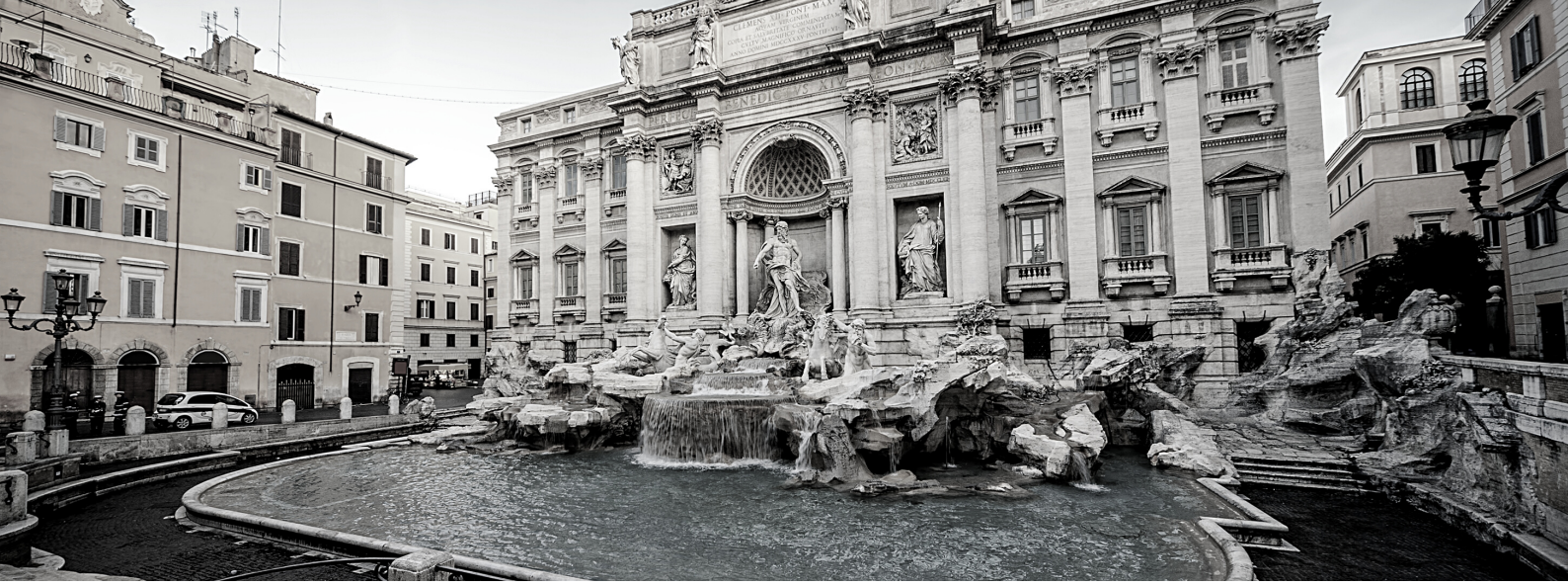
GLOBAL EXPANSION

An Equus Software Company

GLOBAL EMPLOYER GUIDE

ITALY



Basic Country Facts

Full Name

- Repubblica Italiana

Capital

- Rome

Main Languages

- Italian (93%)
- Slovene
- German
- French
- Albanian
- Croatian
- Greek

Population

- 60.48 million

Monetary Unit

- Euro

Internet Domain

- .it

International Dialing Code

- +39

Currency

- Euro

STATUTORY LABOR REQUIREMENTS

Probation Period

- The maximum term of probationary periods is six months.

Annual Leave

- Employees are granted 26 days of vacation.

Public Holidays

- New Year's Day (1st January)
- Epiphany (6th January)
- Easter Monday (13th April)
- Liberation Day (25th April)
- Labor Day/May Day (1st May)
- Republic Day (2nd June)
- Assumption of the Blessed Virgin Mary (15th August)
- All Saints' Day (1st November)
- Christmas Day (25th December)
- St. Stephen's Day (26th December)

Maternity Leave

- Female employees are entitled to maternity leave for two months prior to and three months following the expected date of childbirth.
- Throughout the maternity leave, a daily allowance is granted equal to 80% of the last salary paid through the social security system (INPS).

Paternity Leave

- Fathers are entitled to one day of paid paternity leave, although the mother may transfer two of her days to the father, for a total of three days leave.

Sick Leave

- Under Italy's labor law, employees are entitled to paid leave of three working days per year in the event of a serious illness (subject to a doctor's notice) or death of their spouse or second degree relative.
- Arrangements may be agreed to with the employer in the event of a severe illness.
- Continuous or discontinuous leave of up to two years may be allowed for serious, documented family reasons.

Work Hours

- The normal work week for an employee consists of 40 hours.

Overtime

- Work performed in excess of 40 hours a week is overtime.
- Different overtime limits can be fixed by collective agreements. In principle, overtime should be occasional or due to exceptional reasons which cannot be met by the hiring of new workers. Act 196/1997 requires a specific authorization by the Department of Labor (Inspectorate) for work exceeding 48 hours a week (in practice: more than 8 hours' overtime).
- Under Act 623, of 1923, still in force, overtime must be paid with an increase of not less than 10 per cent over the regular rate.

Notice Period

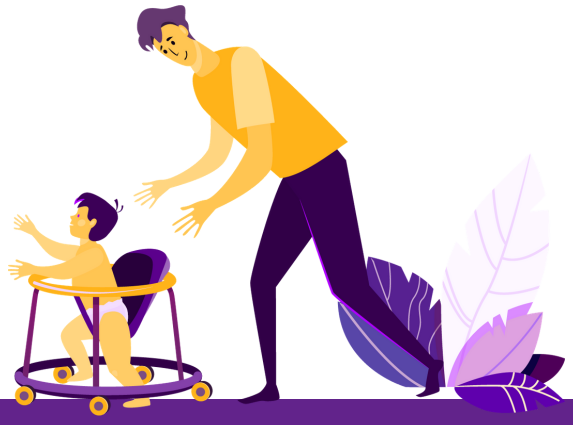
- Generally, the party exercising the right to withdraw from the employment contract must comply with a notice period.
- The obligation to give a notice period concerns almost all cases of termination of the employment relationship (dismissal and resignation),
- The civil code demands the regulation of the duration of the notice period in case of individual dismissals to collective agreements, which normally set it on the basis of seniority and staff level, and on the size of the company.
- Variation, therefore, exists in different sectors of economic activity.

Severance

- In Italy, there is no severance pay or redundancy compensation as such.
- However, during employment, employers must set aside an annual amount equivalent to around 7% of the employee's pay, to be paid to the employee on termination as an "end of service allowance" or TFR (trattamento di fine rapport).
- TFR is mandatory and is due in any case of termination of employment (including resignation, and dismissal for just cause or death).
- TFR is calculated on the basis of the employee's wages, taking into account not only his/her basic wage, but also any other compensation periodically paid to him/her.

13th Month

- A 13th month or annual bonus is common in Italy and is paid just before Christmas.
- Some of the bigger companies also provide their employees with a 14th month of pay which is paid in the summer.



Income Tax

- The main income tax levied on individuals is the personal income tax (PIT), also known as the Imposta sui redditi delle personne fisiche (IRPEF).
- In Italy, the individual is subject to the following income taxes:
  - National income tax.
  - Regional income tax.
  - Municipal income tax.
- Tax resident individuals are liable to the Italian personal (or national) income taxes on their income wherever produced (under the so called 'worldwide principle').
- Therefore, tax residents are also subject to taxation on foreign incomes (e.g. deriving from real estate owned outside of Italy, foreign dividends and interest, foreign compensation and director's fees, and other foreign income).
- Tax resident individuals are also subject to 'wealth tax' on real estate and on financial investments owned outside of Italy
- Tax non-resident individuals are subject to PIT (IRPEF) only on 'income produced' in Italy (i.e. employment income related to the work activity performed in Italy). Therefore, the foreign incomes are not relevant to the purposes of taxation in Italy.
- Regional income tax depends on the region of residence. The regional income tax rate ranges from 1.23% to 3.33%.
- Municipal income tax depends on the municipality of residence. The municipal income tax rate ranges from 0% to 0.8%. Municipalities can establish progressive tax rates applicable to the national income bracket.

National Income Tax Rate

Taxable income (EUR)		
Over	Not Over	Tax on Excess (%)
0	15000	23
15,001	28,000	27
28,001	55,000	38
55,001	75,000	41
75,001		43

Social Security

- Italian law provides for a comprehensive system of social insurance covering the following:
  - Disability, old age and survivorship
  - Illness and maternity
  - Unemployment and "mobility"
  - Family allowances
  - Health care
  - Labor injuries
  - Professional diseases
- The system is controlled by the government, with various sections administered by separate public institutions, most notably, the National Institute for Social Security (Istituto Nazionale Previdenza Sociale, or INPS).
- Collective labor agreements provide for compulsory additional coverage through pension and health funds. Both employers and employees usually make contributions to these funds.

Contributions

- In general, social security contributions are payable at varying percentages of gross remuneration, depending on the employee's qualification level and the employer's activity sector.
- In general, employees' social security contributions range from approximately 9% to 10% of their gross remuneration.
- Employees must make an additional 1% contribution on the part of gross remuneration exceeding the threshold of EUR47,143 for 2019.
- The employers' part of the contributions ranges from approximately 27% to 32%.
- Employees with no record of social security contributions before 1 January 1996, are subject to pension contributions on gross income up to a maximum of EUR102,543 for 2019.
- Self-employed individuals, directors and consultants must enroll with the so-called Gestione Separata (INPS), unless other specific rules apply (for example, certain professionals, such as lawyers, engineers and accountants, are required by law to enroll in specified pension plans).
- The contributions to the INPS are calculated at a flat rate of 25.72%.
- If the individual already contributes to another mandatory social security system or if he or she is retired, the applicable flat rate is 25%. In both cases, the flat rates apply on annual income up to a maximum of EUR102,543 for 2019.
- In addition, foreign citizens, such as nonresident directors, must enroll with the INPS.

Social Security Contributions	
Employees	• 9% to 10% of their gross remuneration • Employees with no record of social security contributions before 1996 are subject to pension contribution on gross income up to a maximum of EUR 102,543 for 2019
Employers	• 27% to 32% of employees gross remuneration
Self-employed Individuals	• A flat rate of 25.72% • Flat rate of 25% if self-employed individuals contribute to another mandatory social security system or if he/ she is retired

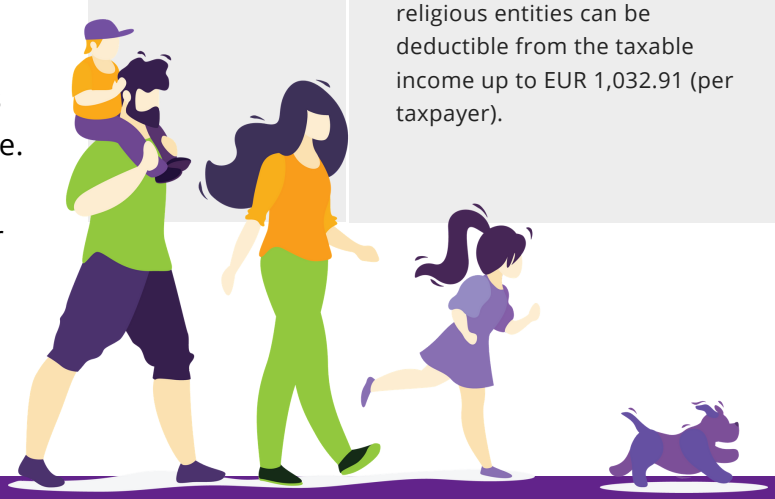
Deductible Expenses

- The Italian tax law allows for certain expenses to be deducted from a taxpayer's gross income, while tax credits can be used as an offset against a taxpayer's tax liability.
- Provided that the conditions requested by law are met, the main deductions from employment taxable income are the following:
  - Employee's mandatory social security contributions are fully deductible.
  - Contributions paid to the specific complementary pension funds are deductible, up to EUR 5,164.57.

Personal Deductions

- Provided that the conditions requested by law are met, the main deductions from gross taxable income, if they have not been deducted from each kind of income, are the following, if properly documented:
  - Employee's mandatory social security contributions are fully deductible (see Employment expenses above).
  - Social security contributions paid for domestic employees: up to EUR 1,549.37.
  - Medical expenses for disabled individuals are fully deductible.
  - Contributions paid to the specific complementary pension funds are deductible, up to EUR 5,164.57.
  - Voluntary social security contributions paid to the mandatory pension scheme.
- Individuals can fully deduct from taxable income the alimony paid to a separate or divorced spouse resulting from a court judgment.
- Note that only the portion that is related to the separate spouse is deductible, while the portion attributable to maintenance of children is not deductible.
- Contributions to certain religious entities can be deductible from the taxable income up to EUR 1,032.91 (per taxpayer).

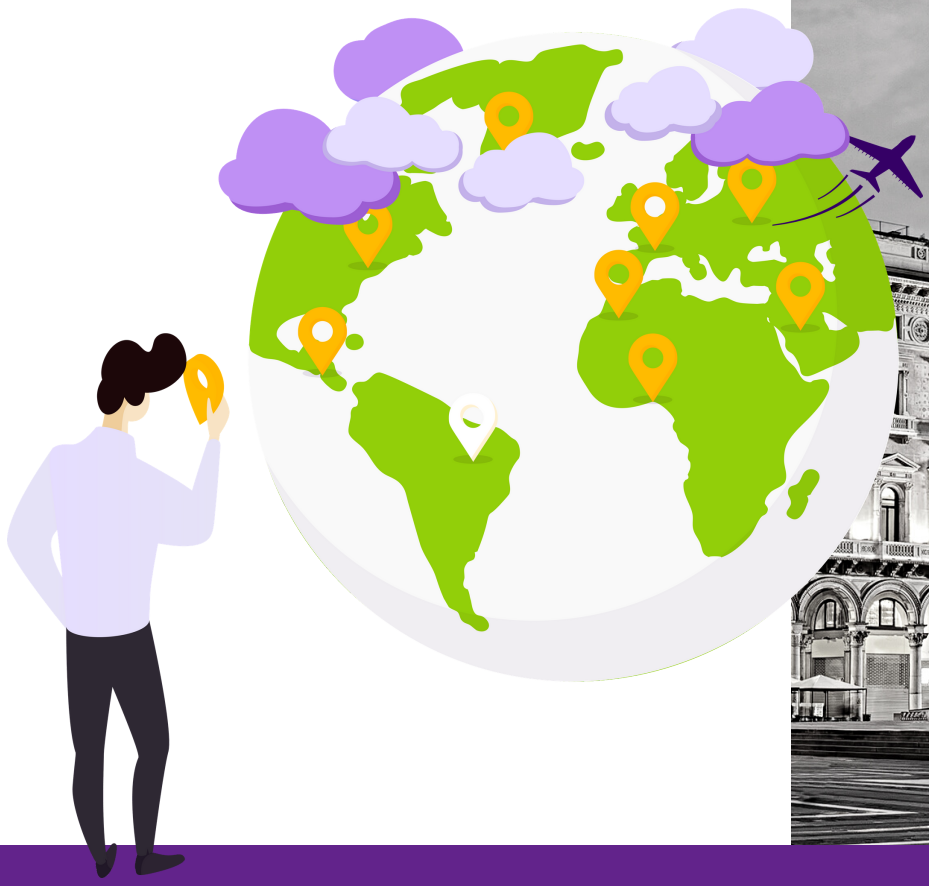
Deductible Expenses	
Employment Expenses	• Employee's mandatory social security contributions are fully deductible. Contributions paid to the specific complementary pension funds are deductible, up to EUR 5,164.57
Personal Deductions	• Employee's mandatory social security contributions are fully deductible (see Employment expenses above). • Social security contributions paid for domestic employees: up to EUR 1,549.37. • Medical expenses for disabled individuals are fully deductible. • Contributions paid to the specific complementary pension funds are deductible, up to EUR 5,164.57. • Voluntary social security contributions paid to the mandatory pension scheme. • Individuals can fully deduct from taxable income the alimony paid to a separate or divorced spouse resulting from a court judgment. • Contributions to certain religious entities can be deductible from the taxable income up to EUR 1,032.91 (per taxpayer).

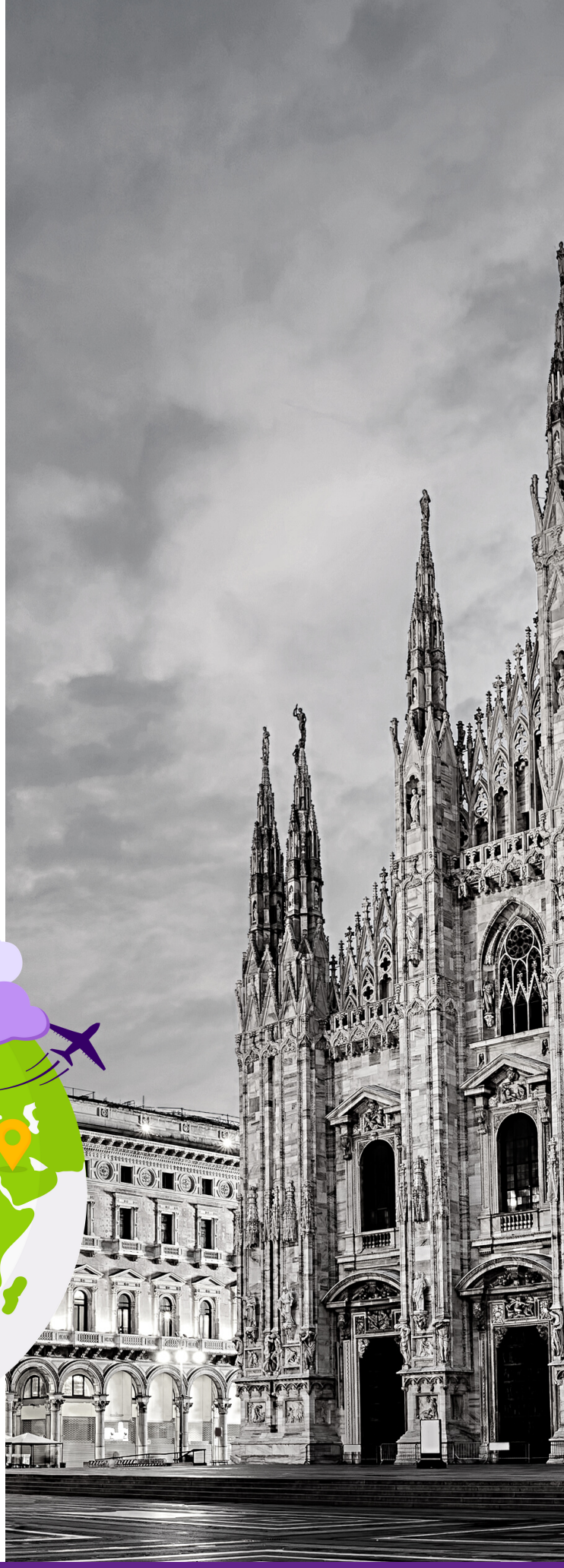


Immigration

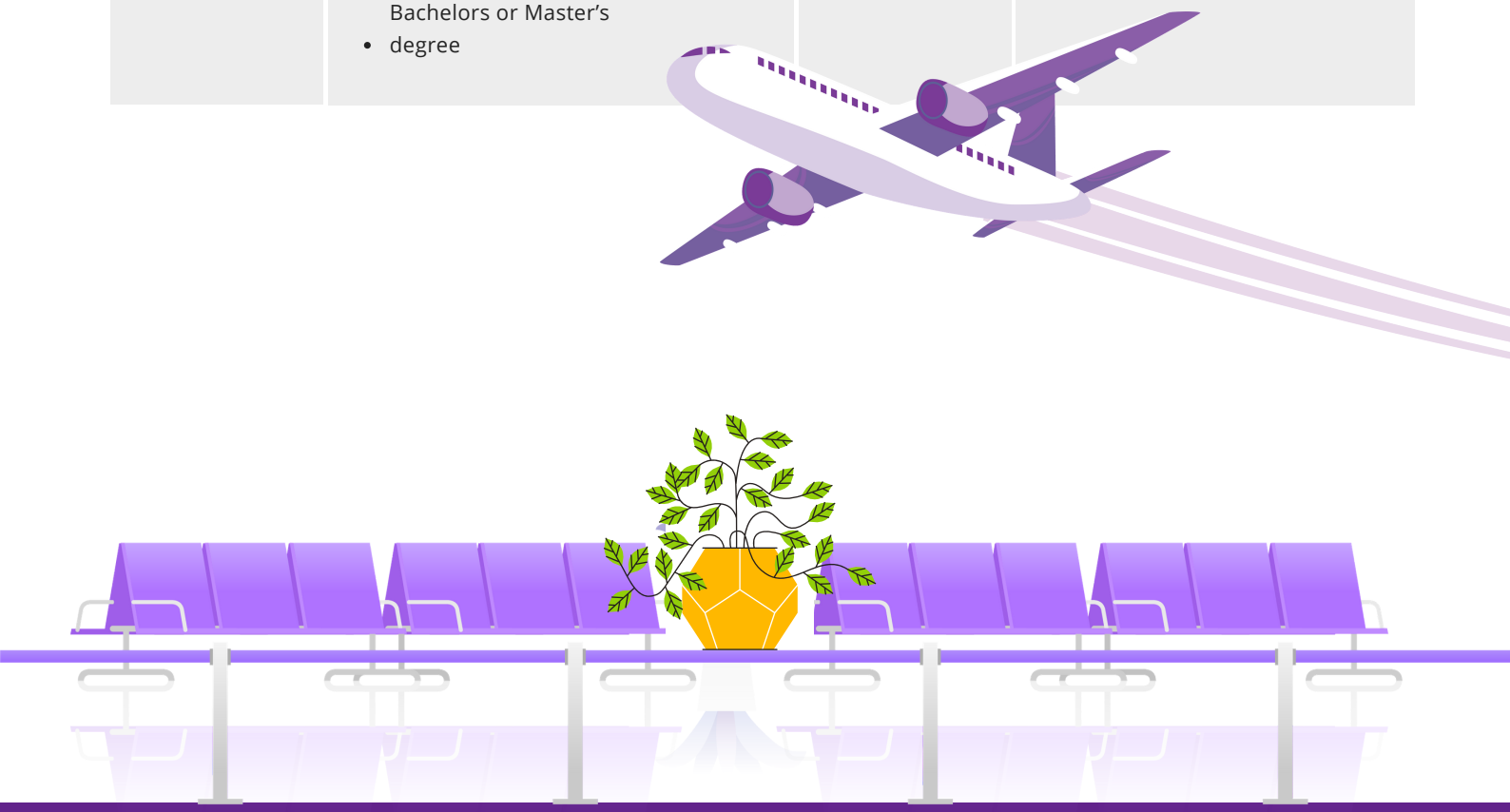
- EU, EEA and Swiss nationals do not need permits to work in Italy.
- An EU, EEA or Swiss national who intends to reside and work in Italy must enroll with the Office of Records of the Resident Population in Italy if his or her stay exceeds 90 days.
- Non-EU nationals must enter Italy with a National Type D Visa if they intend to carry out professional activities.
- In this context, a professional activity is intended as “work” and differs from travel to Italy under a “business” status. In particular, if a foreign worker comes to Italy to perform work activities, he or she needs a National Type D Visa even if the duration of the stay does not exceed 90 days.
- Determining whether an activity falls within the “professional/work” category or “business” category typically requires a case-by-case assessment.
- The procedure for obtaining an employment visa for a foreign national is initiated by the prospective Italian employer (or the Italian entity for which the employee is assigned to work), which must first submit an application to the
- Italian Immigration Office (Sportello Unico per l’Immigrazione) for a Work Permit (Nulla Osta al Lavoro).
- The approval and issuance of such authorization usually takes up to 3 months (90 days).
- As result, expedited procedures exist for intracompany transferees under which the Work Permit is approved within 45 days of the request.
- Italian Work Permits are typically issued subject to the availability of the quotas, which are released on a yearly basis by the Ministry of Internal Affairs. However, some immigration permits are exempted from this numerical limitation.
- The Italian work permit scheme is administered regionally, so implementation differs significantly depending on the exact destination within Italy.
- Italian work permits must be sponsored by an Italian company. They cannot be applied for directly by a potential employee or by an agency.
- Workers who can be exempted from the entry-quota limit and for whom a Work Permit can be requested any time during the year are primarily the following:
    - Executives, highly skilled workers or trainees in the framework of an Intra-Company Transfer
    - Highly skilled workers assigned to an Italian company in accordance with a Service Level Agreement in place between the foreign employer and the Italian Host
    - Other categories of workers, such as translators and interpreters, university lecturers, trainees and health care assistants, can apply for a Work Permit out of the quota limit.
- In addition, Italy is one of the countries that has implemented the EU Blue Card directive, which enables companies to locally hire executives and high-skilled workers, avoiding the quota system.
- To obtain the EU Blue Card, an individual must prove at least three years of university education through a Declaration of Value (Dichiarazione di Valore), which is issued by the Italian consulate in the country where the university was attended.
- This contract must have a minimum validity of one year and grant a minimum annual gross compensation of approximately EUR25,000.

- After the employment visa is obtained, the individual must sign the Residence Contract within eight days after his or her arrival in Italy; the signature of the Residence Contract allows the individual to start the work activity.
- Subsequently, a Permit of Stay (Resident Permit; Permesso di Soggiorno) for employment reasons must be requested.
- Under certain conditions, a holder of a residence permit for employment reasons may engage in self-employment activities and vice versa, if the activity for which the Permit of Stay (Resident Permit) was requested remains the predominant activity.
- Foreign nationals may engage in the following self-employment activities in Italy:
  - They may be directors of companies (that is, members of boards).
  - They may pursue freelance or other professional activities. In both cases, foreign nationals must obtain a Self-employment Visa (Visto di Lavoro Autonomo).





Type of Visa	Documentation	Validity	Eligibility
Work Permit	• Copy of your signed work contract. • The original and a copy of your Nulla Osta. • Completed Italian Long-Stay Visa Application form. • Passport pictures. • Proof of accommodation in Italy. • Proof of sufficient financial means. • Proof of paid visa fee. • Diplomas/other • certificates.	• Duration of contract • Maximum 2 years	• Executives, highly skilled workers or trainees in the framework of an Intra-Company Transfer • Highly skilled workers assigned to an Italian company in accordance with a Service • Level Agreement in place between the foreign employer and the Italian Host • Other categories of workers, such as translators and interpreters, university lecturers, trainees and health care assistants, can apply for a Work Permit out of the quota limit
EU Blue Card	• A valid work contract or binding job offer • A valid travel document • An application for a visa or a visa • A valid residence permit or a national long-term visa • A proof of sickness insurance Bachelors or Master's • degree	1 year	• High skilled employee • Minimum annual gross compensation of EUR 25,000



Value Added Tax (VAT)

- Vat – Value added tax – or Iva – Imposta sul Valore Aggiunto, in Italian language, is a consumption tax that applies to the supply of goods and services carried out in Italy by entrepreneurs, professionals, or artists and on importations carried out by anyone.
- In some cases, also Intra-Community acquisitions are subject to Vat.
- In Italy the standard Vat rate is 22% and reduced rates are provided for several supplies of goods and services, such as 4% for listed food, drinks and agricultural products or 10% for electric power supplies for listed uses and listed drugs.
- Specific supplies of goods and services expressly listed in Presidential Decree n. 633/72 are exempt from Vat, for example education, insurance services, specific financial services, supply, leasing of particular immovable property.

VAT Rates	
Standard Rate	22%
Reduced Rate	10%
Reduced Rate	5%
Reduced Rate	4%
Zero	0%

Withholding Tax

Dividends

- Dividends paid to a nonresident corporation generally are subject to a 26% final withholding tax unless the rate is reduced under a 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' resident in an EU/European Economic Area (EEA) country

Interest

- Italian source interest payable to a nonresident generally is subject to a 26% final withholding tax
- Interest derived from a direct/indirect investment in government bonds and similar securities is subject to a 12.5% substitute tax
- The withholding tax may be reduced under a tax treaty or eliminated under the EU interest and royalties' directive

Royalties

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

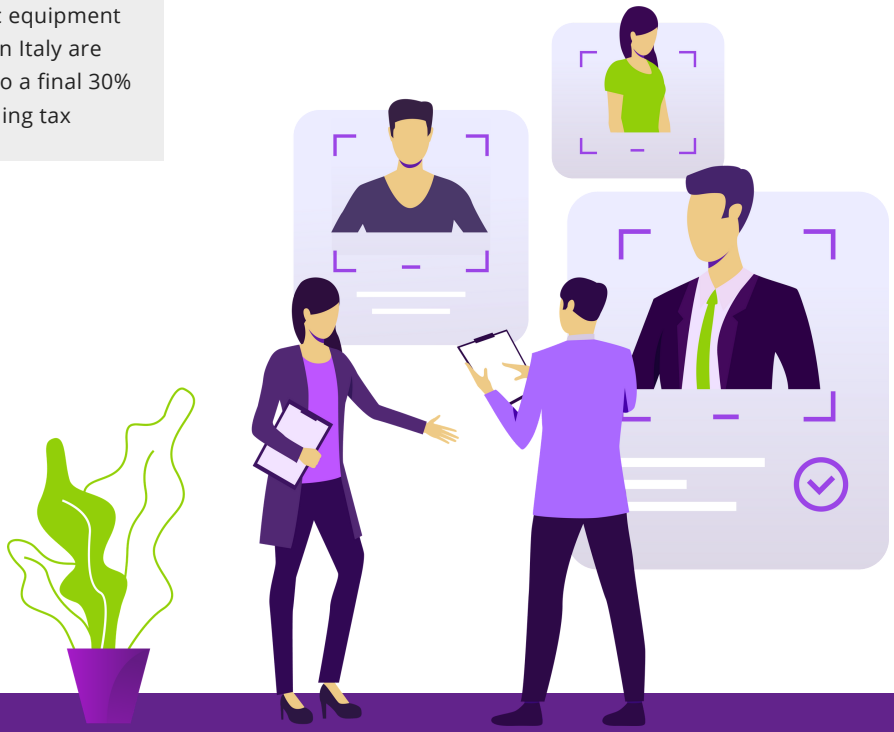
Technical Service Fee

- 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 reduced under a tax treaty.
- Management fees are exempt from withholding tax

Withholding Tax	
Dividends	• Dividends paid to a nonresident corporation generally are subject to a 26% final withholding tax
Interest	• Italian source interest payable to a nonresident generally is subject to a 26% final withholding tax • Interest derived from a direct/indirect investment in government bonds and similar securities is subject to a 12.5% substitute tax
Royalties	• Royalties paid to a nonresident company are subject to a 30% withholding tax calculated on 75% of the gross royalty, resulting in an effective tax of 22.5%
Technical Service Fee	• 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

Termination

- Under Italian labor law, employment contracts cannot be terminated without a justified reason. Justified reasons include breach of contract, or for economic or reorganization reasons.
- If an employee is dismissed for breach of contract, the employer must follow a disciplinary procedure which will involve writing a letter to the employee that sets out the facts behind their alleged breach of contract and allowing the employee time to justify their actions.
- If the employer still wishes to proceed to dismissal, it must then confirm the dismissal in writing, setting out why the employee's justifications have not been accepted.
- If the dismissal is for economic reasons, the employer must follow a special procedure which involves serving notice of dismissal on the employee and the local Labor Office and calling a meeting to try and reach an agreement.
- If no agreement can be reached, then the employer can opt to dismiss.



Statutory Benefits

- These are benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, paternity leave, notice period, 13th month pay.
- Statutory benefits also include social security benefits

Statutory Benefits
Probationary Period
Annual Leave
Sick Leave
Maternity Leave
Paternity Leave
Notice Period
13th month pay
Social Security Benefits

Payments and Invoicing

- In Italy, the tax year is the calendar year. Income tax returns for the preceding year must be filed by 30 November. Married persons may not file joint returns.
- A failure to make a filing is subject to a penalty ranging from EUR250 to EUR1,000 (if no income tax is due) or ranging from 120% to 240% of the tax due, plus interest (if a tax liability arises).
- Income tax must be paid by 30 June for income earned in the preceding calendar year. Advance tax payments must be made, equal to 100% of the preceding year's tax liability.
- Advance tax payments may be reduced if the individual has a lower estimated tax liability in the current year.
- Forty percent of the advance tax payments must be paid by 30 June, and the remaining 60% must be paid by 30 November.
- Individuals who make tax payments during the period of 1 July to 31 July must pay 0.4% additional interest calculated on the tax amount due.
- If a late payment is made on or after the 31 July deadline, ordinary penalties and interest apply.
- However, under the special procedure to reduce penalties called ravvedimento operoso, it is possible to avoid the application of the ordinary penalty (30%) by paying a reduced penalty, which ranges from 0.1% to 5%, depending on the length of the delay

Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Italy ranked 58th in the World in 2019 in terms of ease of doing business.

GLOBAL EMPLOYER GUIDE
ITALY

GLOBAL EXPANSION
An Equus Software Company