

NOTE AHEAD ON:

1. Italian Corporate Tax System

Italian corporate entities are subject to a corporate income tax, known as IRES, and to a regional production tax, known as IRAP.

IRES

The standard rate is 24% for IRES (Up to FY 2016, the IRES rate was 27.5%). The IRES taxable base is determined according to the worldwide taxation principle, which states that, regardless of the location/jurisdiction where the income is produced, to the extent that the income is legally attributable to an Italian resident entity, the income is taxed in Italy. IRES is charged on the total net income reported in the financial statements of the company as adjusted for specific tax rules.

Non-resident companies are taxed only on Italian-source income and specific rules are applied for bank and financial entities.

IRAP

The standard rate is 3.9% for IRAP (regions have the power to slightly increase or decrease IRAP rate). There are different methods of computation for the IRAP taxable base, depending on the nature of the business carried out by the taxpayer. Provisions for liabilities and risks, as well as extraordinary items, cannot be taken into account when determining the IRAP taxable base.

For sales and manufacturing companies, the IRAP taxable base is broadly represented by the company's gross margin in its financial statements. In addition to the non-deductible items mentioned above, interest income, temporary workers costs and expense and provisions for bad debts are excluded for the purposes of the IRAP taxable base.

Special rules apply to financial institutions, other than banks.

Companies with facilities in different regions must allocate their overall taxable base to the different regions on the basis of the employment costs of personnel located at the various sites. Facilities become relevant to the calculation of IRAP if they have been established for more than three months.

The deduction of labour costs for IRAP purposes depends on the type of hiring contract. In particular:

- Full deduction for costs related to employees hired with an open-ended
- Deduction limited to contributions for compulsory insurance against accidents (called as INAIL) for temporary employees.

Moreover, for the companies that have no employees, a tax credit equal to 10% of IRAP is recognised to be used to offset other tax liabilities.



2. Substitutive tax on mergers, demergers, contributions in kind

Corporate restructurings, such as contributions in kind, (assets *versus* shares transactions) mergers, and demergers, are, in principle, tax neutral even if, for financial accounting purposes, the transaction results in the recognition of higher values of the assets or of goodwill. Companies may elect to obtain partial or full recognition for tax purposes of the step-up in the financial accounting values of assets or of the goodwill arising from the corporate restructurings, provided they pay a substitutive tax.

The substitutive tax is calculated on the step-up in tax basis and is based on progressive rates of 12% to 16%. The first EUR 5 million is taxed at 12%, the tranche above EUR 5 million but less than EUR 10 million is taxed at 14%, and the amount in excess of EUR 10 million is taxed at 16%. The substitutive tax may also be paid in three annual instalments of 30% in the year of election, 40% in year two, and 30% in year three plus interest at the rate of 2.5% per year on the deferred amounts. The substitutive tax is not deductible for the purposes of IRES or IRAP.

In addition, stepped-up values of goodwill and trademarks, acquired from the reorganisation transactions carried out since 1 January 2016, may be depreciated for tax purposes over five tax years (previous to 2016, up to ten years) instead of the normally allowed 18 years by paying a substitutive tax of 16%. The higher tax depreciation arising from this election is effective from the tax period subsequent to the one in which the substitutive tax is paid. For example, if a merger transaction occurred in year one and the substitutive tax was paid in year two, the increased tax depreciation would begin in year three.

3. Specific benefits and incentives

Super and Hyper Depreciation and amortisation (Industry 4.0)

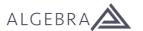
All fixed assets that are used in the business of the company, except land, are depreciable for tax purposes (for both IRES and IRAP).

An additional IRES depreciation is granted for new investments on fixed tangible assets purchased from 15 October 2015 to 31 December 2017. In particular, the relating cost is increased by 40%, bringing the taxable basis of the asset to 140%. The eligible assets are those whose tax amortisation rate is higher than 6.5%.

The benefit is also applicable to investments made by 30 June 2018, provided that, by 31 December 2017, the following conditions are met:

- · the purchase order has been accepted by the seller, and
- at least 20% of the purchase cost has been paid.

For new investments carried out in FY 2017/2018 in hi-tech, cloud, ultra broad band, industrial robotics, digital manufacturing, IT security, etc. a notional increase of the purchase cost of 150% has been introduced for tax depreciation, bringing the IRES basis of the assets to 250%.



The benefit applies to eligible investments made from 1 January 2017 until 31 December 2017 or by 30 June 2018, provided that, by 31 December 2017, the following conditions are met:

- the purchase order has been accepted by the seller, and
- at least 20% of the purchase cost has been paid.

A notional increase of 40% of purchase cost of intangible assets (e.g. software, systems, platforms and applications connected to hi-tech investments, etc.) is also possible. The benefit applies to software, IT systems and integration systems, platforms and applications, etc.

As for leasing contracts, the benefit is addressed only to the lessee and not to the lessor. Capital goods acquired with operational lease contracts or rental contracts are excluded from the benefit.

Land is not a depreciable asset. Amortisation of goodwill derived from an asset deal and amortisation of trademarks are deductible for an amount not exceeding 1/18 of the cost in any year.

Patents, know-how, and other intellectual property (IP) may be amortised over a twoyear period.

R&D investment incentives

A number of incentives have been established to attract new industry to southern Italy and certain depressed mountain areas in central and northern Italy.

The possibility of taking advantage of these rules, however, depends on the taxpayer fulfilling specific conditions and on the actual availability of financial resources by the Italian state. These financial resources generally are set in the annual state budget.

In particular, from FY 2015 through FY 2019, Italian companies that carry out qualifying R&D activities can benefit from a tax credit computed as a percentage of the R&D expenditures in excess of the company's average R&D expenditures in FY 2012, FY 2013, and FY 2014.

The credit percentage is 25% for depreciation of laboratory equipment and for technical expertise related to industrial or biotech IP. The percentage increases to 50% for costs related to 'highly qualified' personnel and R&D activities outsourced to universities or other similar research institutions.

The tax credit cannot exceed EUR 5 million per year per taxpayer, and requires qualifying R&D costs of at least EUR 30,000 per year.

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