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Opening a Business in Italy: the basics

Can I do business in Italy from abroad? Can I sell my products in Italy? Should I set up a company in Italy? What type of company best suits my needs? What tax fees will I have to pay? These are some of questions asked by foreign investors seeking professional support before entering the Italian market.

Despite an unflattering picture of red tape, high taxation, and a rigid labor market, Italy remains a market that offers excellent opportunities in sectors such as life sciences, ICT, renewable energy, fashion, food, tourism, luxury real estate, perfumeries, hotels, B&Bs, and catering. Understanding how business works in Italy is challenging for foreigners, though they view our market with genuine interest. Italy is the fourth largest market in Europe. There are some basics to take into consideration when planning to start a business in Italy.

It is not necessary to set up a company to carry out work in Italy. Work can also be carried out individually as an individual entrepreneur (*imprenditore individuale*) or freelancer (*lavoratore autonomo*). In these cases setting up and starting up the business is simpler than for a company. For example, the intervention of a notary is not required.

If the activity is carried out individually, no IRAP (regional tax on productive activities) is due but one must pay taxes individually with rates from 23% to 43% (for incomes above € 75,000). For activities with a turnover of less than € 65,000 per year one can access a favorable tax regime providing for a tax on income of 5% for the first 5 years and subsequently 15% (as long as the turnover remains under € 65,000 annually). For activities carried out individually, social security contributions in Italy are mandatory: 24.72% for individual entrepreneurs or 25.72% for freelancers.

Most small businesses will choose to incorporate as a limited liability company, known in Italy as an *S.r.L.* This requires a minimum share capital of € 10,000, to be deposited, even in part, in an Italian bank account. It is also possible to set up simplified limited liability companies without a minimum capital requirement.

A notary public is required to set up this type of company. If one of the shareholders cannot be physically present to sign the contract, the incorporation process can be carried out by a legal proxy: normally an Italian accountant or lawyer. The notary is responsible for registering the company on the Companies Register, held by the Chamber of Commerce of the Province where the business is incorporated. The company will also have to acquire an Italian VAT number and register an official email address, made publicly available alongside your business information. Finally, the start date of the company has to be notified to the Economic and Administrative Index (REA). Furthermore, in order to start up some

types of activity, prior administrative authorization must be issued based on professional qualifications, adequacy of the facilities where the activity will be carried out, and moral and patrimonial requirements. In general, this process of setting up and starting up a company, if special administrative authorizations are not required, should be done within 2 to 5 days. Then you are ready to begin your business in Italy, regardless of the business structure.

Once the company is established, it will be obliged to keep accounting and corporate books (shareholders' and directors' decisions), draw up annual financial statements, and present tax returns. The Italian *S.r.L.* must pay two types of tax: IRES (State income tax on companies) with a rate of 24% and IRAP with a rate of 3.9%. The profit produced by the *S.r.L.* can be distributed to the shareholders. If they are resident in Italy, they will have to pay an additional tax of 26%; if not, the various agreements stipulated between Italy and the shareholder's country of residence will apply.

Other types of business structures can be chosen, based on your products and services, personal liability, and taxation. For example, companies without limited liability can be set up, known in Italy as *Società semplici* or *SS* (for agricultural activities), *Società in nome collettivo* or *SNC* or *Società in accomandita semplice* or *SAS* (in which some shareholders may have limited liability). In these cases the process of setting up and starting the company is similar to the one described above. Corporate, accounting, and fiscal obligations are also similar, though for these types of company it is not necessary to prepare and publish the annual financial statements. These types of companies autonomously pay only IRAP, while income is attributed directly to the shareholders. The members will have to pay taxes in Italy on their income, even if not resident there, with rates varying from 23% to 43% for incomes above € 75,000.

If the member (regardless the type of company), resides in Italy and works for his own company, he will also be required to pay Italian social security contributions at a rate of 24.72% of the company's earned income.

Finally, note that although drawing up a business plan as part of the business start-up process in Italy is not mandatory, it is advisable.

As you can see, the framework of possibilities and obligations for starting a business in Italy is quite complex. It is therefore advisable to turn to experienced professionals in order to seize all the opportunities, choose the best form of business, and avoid errors and possible penalties.

– by Emanuela Rossaro & Matteo Benigni
(see information on the bottom page)



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