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Finance for Growth

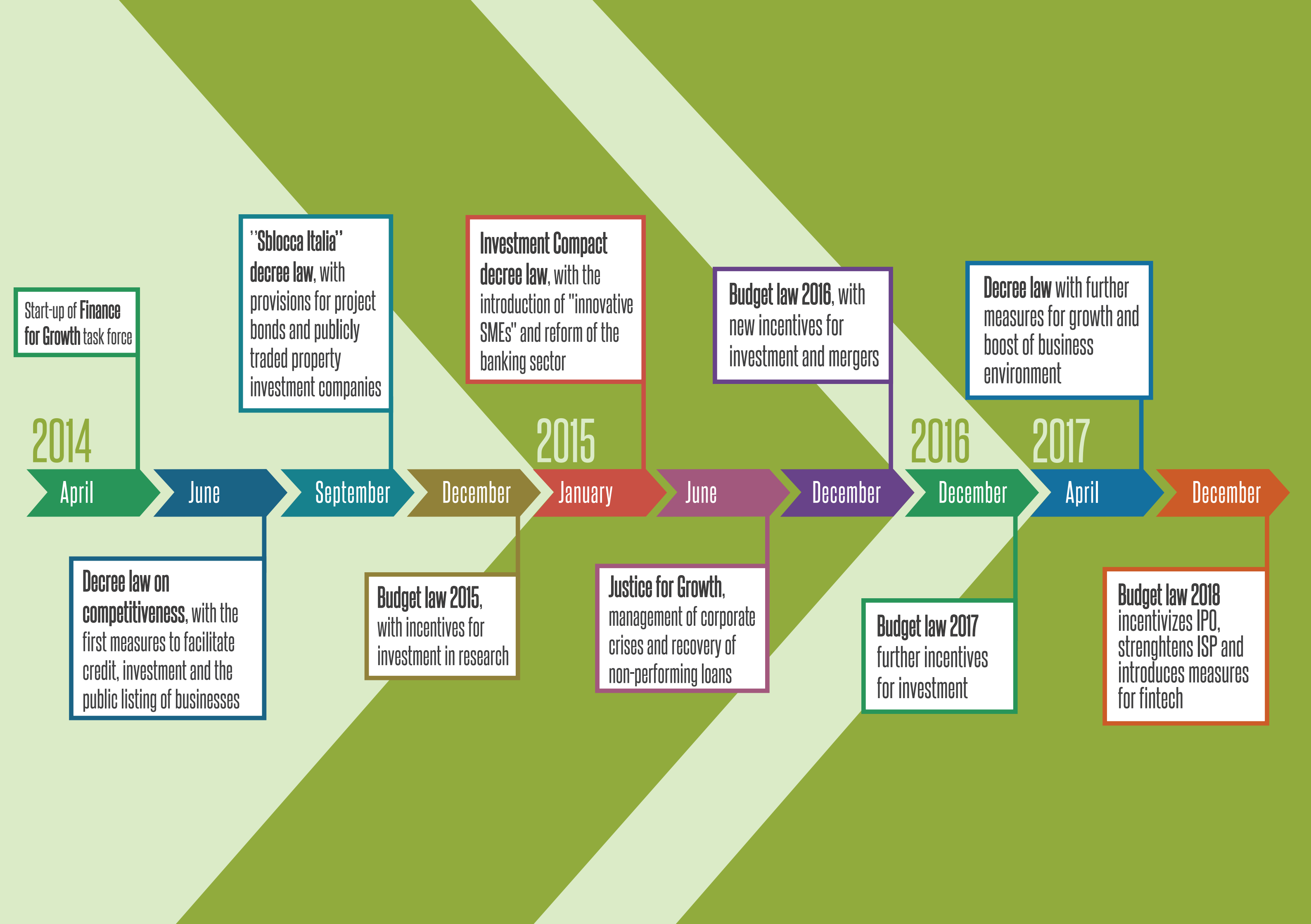
A plan to increase credit and facilitate business growth

Ministero dell'Economia e delle Finanze

Rationale

Carefully planned, uniform measures with a view toward the long term

- → Facilitate access to financing for businesses
- → Promote an environment more favourable to productive investment, with targeted tax credits and more effective rules
- → Provide incentives for companies capitalization and market listing


2014
April
Start-up of Finance for Growth task force
June
Decree law on competitiveness, with the first measures to facilitate credit, investment and the public listing of businesses
September
''Sblocca Italia'' decree law, with provisions for project bonds and publicly traded property investment companies
December
Budget law 2015, with incentives for investment in research
2015
January
Investment Compact decree law, with the introduction of "innovative SMEs" and reform of the banking sector
June
Justice for Growth, management of corporate crises and recovery of non-performing loans
December
Budget law 2016, with new incentives for investment and mergers
2016
December
Budget law 2017 further incentives for investment
2017
April
Decree law with further measures for growth and boost of business environment
December
Budget law 2018 incentivizes IPO, strenghtens ISP and introduces measures for fintech

More sources of credit

- **More market participants**: securitization companies, credit funds and insurance companies can now directly lend to businesses

- **New regulations**: insurance regulator (IVASS) and Bank of Italy have issued the rules for implementation of the laws, so to allow for the entry of new market participants

- **More credit from abroad**: EU-based investors will no longer pay withholding tax on medium-/long-term financing

Fiscal incentives for market players

→ **No longer withholding tax**:

- for EU-based investors, with respect to interest and other income coming from unlisted bonds in private placement
- on interest and other income coming from bonds and similar securities underwritten by securitization companies

→ **Substitute tax extended to guaranteed investments**: investors may acquire credits without paying huge taxes for the transfer of ancillary guarantees, and in particular, for mortgages

→ **Lower tax on carried interest:** tax on carried interest is reduced from 45% to 26%, as this is no longer considered as labour income

New financial instruments

- Unlisted companies are now enabled to issue debt obligations, the so-called “**minibonds**”. This entails a deep change for Italian SMEs as they can rely on capital markets and not only on bank lending.

- In February 2013, Borsa Italiana has launched “**ExtraMOT Pro**”, a new segment dedicated to SMEs’ debt instruments.

Incentives for investment and mergers

- **Depreciation tax benefit**: business investing in capital goods are entitled to deduct an amount equal to **140% of the original cost** of the equipment, which raises to **250% for high tech equipment**. The measure is open to any type of business and will be effective until 31st December 2019

- **Merger**: Budget law 2016 halved the time frame for amortization of **goodwill** in order to favour consolidation, especially among SMEs

Bringing savings towards investment

→ The **2017 Buget law** introduces new investment scheme to bring private investment into SMEs, called Individual Saving Plans (Italian: Piani individuali di Risparmio). The measures allows retailers to invest in SMEs through funds, without paying taxation on capital gains maturated on long-term investment. Budget law 2018 extends Individual Saving Plans to the Real Estate sector.

With €10bn collected in the first year fundraising has vastly exceeded initial target of €1.8 bn. Individual saving plans induced an increase of IPOs, which have been as high as 34 in 2017 (of which 18 SMEs) while over 100 are expected for 2018.

Incentives to capitalization

→ **Modified tax credit for capital increases "Allowance for Corporate Equity":**

- Increased number of beneficiaries, including individuals
- Loss-making companies benefit from tax credit on regional corporate taxes (IRAP)
- No longer progressive criteria to calculate the notional return on equity for ACE

Easier and cheaper market listing

- **Shares with multiple votes and shares with increasing votes**: new instruments that provide incentives for the public listing of business, especially SMEs
- **Reduction of minimum share capital for joint-stock companies**: from €120,000 to €50,000
- **Compulsory takeover**: bylaws of listed SMEs may provide a threshold between 25% and 40%, while the current one is 30%
- **Equity investment**: for listed SMEs, the level of relevant share-holdings to be disclosed and for admissible cross shareholdings rises from 2% to 5%
- **Listing**: 50% tax credit over the costs of listing for SMEs going public on the stock market until 2020

Easier investment in infrastructure

→ **Opening to the private sector**: private-sector investment in infrastructure will be easier

→ **Simplification**: less bureaucracy and simpler rules

→ **More efficient project bonds**:
- definition of "investor" aligned with that used for fiscal regulations
- possibility of using bearer securities, more accessible on the capital markets
- greater flexibility in guarantees
- fixed registration, mortgage and cadastral taxes

→ **New rules to ease project financing in public sport facilities**

Reform of REITs

Reform of "Real Estate Investment Trust"

- Single shareholder maximum participation level raised from 51% to 60%
- Shareholder base level downed from 35% to 25%
- Dividend distribution level reduced from 85% to 70%
- Fiscal legislation for REITs aligned with the one for Real Estate funds

Investing is easier

→ **Capital goods**: - one time measure valid until June 2015 - tax credit of 15% for investments in capital goods with a cost in excess of € 10,000

→ **Capital goods**: 2018 Budget law provides additional funds to support the existing incentive for investment in capital goods

→ **Strenghtened Central Guarantee Fund**:

- the guarantee is applicable to minibonds
- the fund is available to a broader base of applicants, including the “innovative SMEs”
- the fund can cover more operations thanks to new resources

Innovating has become more advantageous

- **Innovative SMEs**: creation of the "innovative SME" category, which enjoys special tax incentives for innovation, now prolonged
- **Equity crowdfunding**: all companies can access equity crowdfunding platforms
- **Incentives for research and development**: 50% tax credit for incremental investments in research and development, effective until 2020
- **Patent Box**: 50% tax relief on income originating from the exploitation of patents and trademarks. The tax regime has been aligned to OECD guidelines

Easing the development of Fintech

- **Easier transactions**: financial intermediaries no longer need to ask for social security numbers to operate with clients without fiscal residency in Italy
- **Fiscal alignment**: 26% withholding tax on interest will also apply to income originating from peer-to-peer lending

More effective corporate governance

- **Pre-bankruptcy agreements**: more competition in the presentation of plans and offers regarding asset sales
- **Debt restructuring agreements**: only 75% of the financial creditors are needed for an agreement, as long as they hold 50% of the corporate debt contracted with banks or other financial intermediaries
- **Sale transactions**: more rapid procedures in order to improve the value realized

A more competitive and solid banking sector

→ **Cooperative banks**: the cooperative banks with capital exceeding €8 billion must be transformed into joint-stock companies by December 2016

→ **Foundations**: diversification in the employment of capital; limit of 33.3% of total assets for exposure to an individual entity

→ **Internal, self-reform of the cooperative banks**, in order to increase efficiency and consolidate the institutions

→ **Deductibility of losses on credits**: full deductibility reduced from 5 years to 1 year for the purposes of corporate income tax and regional tax on productive activity; stock losses from the writedown of credits zeroed out in 10 years, providing leeway for new credit on the balance sheet

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