#perfarsiunidea

ITALY's REFORMS

Long expected, consistently designed, fully implemented.

Ministero
dell'Economia
e delle Finanze

PUBLIC FINANCE

long term sustainability, short term boost, growth-friendly approach

- Tax cut over productive factors (IRAP, ...)
- Budget Law 2016: a Budget Law for growth
- Budget Law 2017: new levers for competitiveness
- Budget Law 2018: on track with growth
- Spending review
- Deficit/primary surplus
- Debt/sustainability (EU Com)

AN IMPROVED BUSINESS ENVIRONMENT

improving access to credit, diversifying financial (re)sources, streamlining the business environment

- Easier access to finance, more capitalization and listing
- Reform of the Banking Sector I (Operators)
- Guarantee on NPLs ABS
- Reform of the Banking Sector II (New provisions on NPLs)
- Labour Market
- Inclusion policy programmes
- Civil Justice
- Public Administration

CONCLUSIONS

PUBLIC FINANCE

The government's policy is focused on reducing the fiscal burden through a growth-friendly approach. Reducing both the deficit and the debt will ensure gradual achievement of EU targets and fiscal sustainability.

TAX CUT OVER PRODUCTIVE FACTORS

The government's labour policy has initially focused on granting fiscal incentives to workers and businesses.
The 2015 Budget Law introduced a €5 billion cut in the regional tax on productive activities (IRAP) with respect to the cost of labour. The total cut is € 13.9 billion from 2015 to 2017.
Corporate taxpayers that have no employees and no labour costs can take advantage of a 10% tax credit with respect to IRAP.
The tax wedge has been significantly reduced for low- /medium-income employees; the reduction amounts to €80 per months or €960 per year per employee, and has been effective since April 2014.
Small sole proprietorships can also benefit from favourable new tax provisions.

2015

-5
BN €

REGIONAL TAX ON BUSINESS

+960
€/YEAR

INCOME EMPLOYEES

BUDGET LAW 2016: A BUDGET LAW FOR GROWTH

2016 Budget Law sets a further milestone in government's determination to cut taxes.

TASI

PROPERTY TAX ON MAIN DWELLINGS (TASI) HAS BEEN ABOLISHED, PROVIDING AN IMPORTANT TAX RELIEF TO 80% OF ITALIAN POPULATION

IMU

CUTS HAVE BEEN INTRODUCED ON PROPERTY TAX FOR AGRICULTURAL AND INDUSTRIAL ACTIVITIES (IMU)

IRES

CUTS HAVE BEEN INTRODUCED ON PROPERTY TAX FOR AGRICULTURAL AND INDUSTRIAL ACTIVITIES (IMU)

NEW MEASURES TO BOOST INVESTMENT AND PRODUCTIVITY

BUSINESS INVESTING IN CAPITAL GOODS ARE ENTITLED TO DEDUCT AN AMOUNT EQUAL TO 140% OF THE ORIGINAL COST OF THE EQUIPMENT (DEPRECIATION TAX BENEFIT). THE MEASURE IS OPEN TO ANY TYPE OF BUSINESS AND EFFECTIVE FROM 15TH OCTOBER 2015

TO FAVOUR MERGERS, ESPECIALLY AMONG SMES, THE TIME FRAME FOR THE AMORTIZATION OF GOODWILL HAS BEEN CUT BY HALF

FISCAL INCENTIVES TO ENHANCE LABOUR PRODUCTIVITY HAVE BEEN INTRODUCED

BUDGET LAW 2017: NEW LEVERS FOR COMPETITIVENESS

The Budget law 2017 activates further levers to boost companies' competitiveness.

WORK

TAX EXEMPTION ON PRODUCTIVITY-LINKED WAGE AND "WELFARE SERVICES" AGREED AT FIRM LEVEL

HUMAN CAPITAL 1

3 YEAR 90% TAX EXEMPTION FOR PROFESSORS AND RESEARCHERS;
5 YEAR TAX EXEMPTION ON 50% OF REMUNERATION FOR MANAGERS AND PROFESSIONALS

HUMAN CAPITAL 2

100 K € SUBSTITUTE TAX ON ALL FOREIGN SOURCE INCOME (+25K € FOR EACH FAMILY MEMBER)

RISK CAPITAL

INDIVIDUAL SAVING PLANS

FULL TAX EXEMPTION FOR QUALIFIED LONG TERM INVESTMENT

DEBT CAPITAL

EXTENDED FISCAL BENEFIT FOR INVESTMENT IN CAPITAL GOODS, NEW FUNDS ALLOCATED TO THE GUARANTEE FUND FOR SMEs

INVESTMENTS

EXTENSION OF THE 140% TAX BENEFIT FOR BUSINESSES INVESTING IN CAPITAL GOODS;
NEW 250% TAX BENEFIT FOR BUSINESSES INVESTING IN HIGH-TECH CAPITAL GOODS

BUDGET LAW 2018: ON TRACK WITH GROWTH

Budget law 2018 supports investment on R&D, human capital, while easing the development of innovation in the Fintech sector.

WORK

ONE YEAR 50% TAX BONUS FOR HIRING WORKERS UNDER 35 WITH OPEN-END CONTRACTS, EXTENDED TO 3 YEARS FOR UNDER 29; TAX BONUS IS 100% IN SOUTH ITALY

INVESTMENTS

140% AND 250% TAX BENEFIT FOR BUSINESS INVESTING IN CAPITAL GOODS AND HIGH-TECH CAPITAL GOODS NOW EXTENDED TO 2019

DEBT CAPITAL

EXTENDED (NEW FUNDS) FISCAL BENEFIT FOR INVESTMENT IN CAPITAL GOODS

FINTECH

EASING TRANSACTIONS FOR ITALIAN COMPANIES WITH FOREIGN CLIENTS AND FISCAL ALIGNMENT

RISK CAPITAL

INDIVIDUAL SAVING PLANS

FULL TAX EXEMPTION FOR QUALIFIED LONG TERM INVESTMENT EXTENDED TO REAL-ESTATE SECTOR

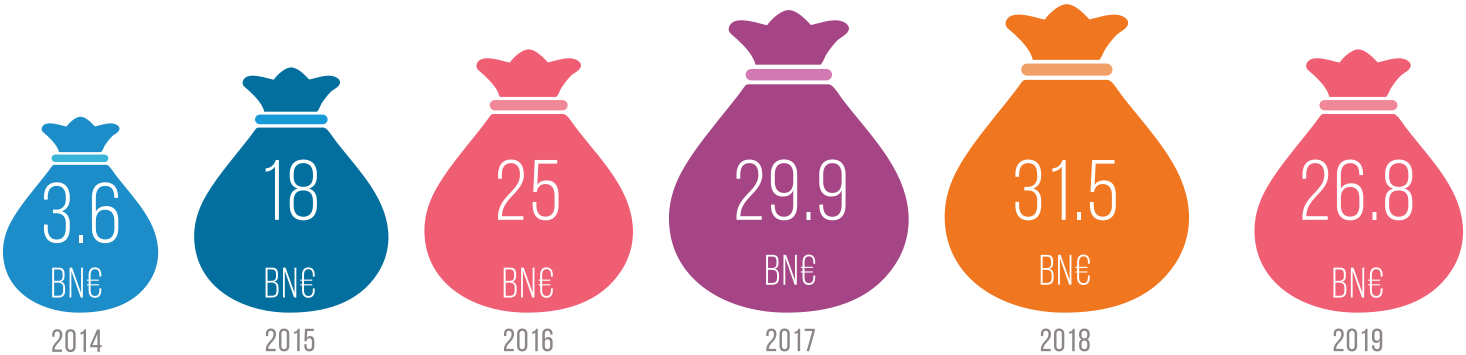
IPO

50% TAX CREDIT OVER LISTING EXPENSES FOR SMES LISTING ON THE STOCK MARKET

SPENDING REVIEW

The spending review launched in 2014 is a comprehensive programme to streamline public spending. As provided by the 2015 Budget Law, the programme is aimed at making the expenditure of the central government and local authorities more efficient. It has also focused on streamlining local utilities and the full implementation of an enabling law for tax administration reform.
On a cumulative basis, the SR measures approved in 2014 and 2015 (including Budget Law 2016) have targeted savings of up €3.6 billion in 2014, €18 billion in 2015, €25.1 billion in 2016, €27.9 billion in 2017 and €29 billion in 2018.

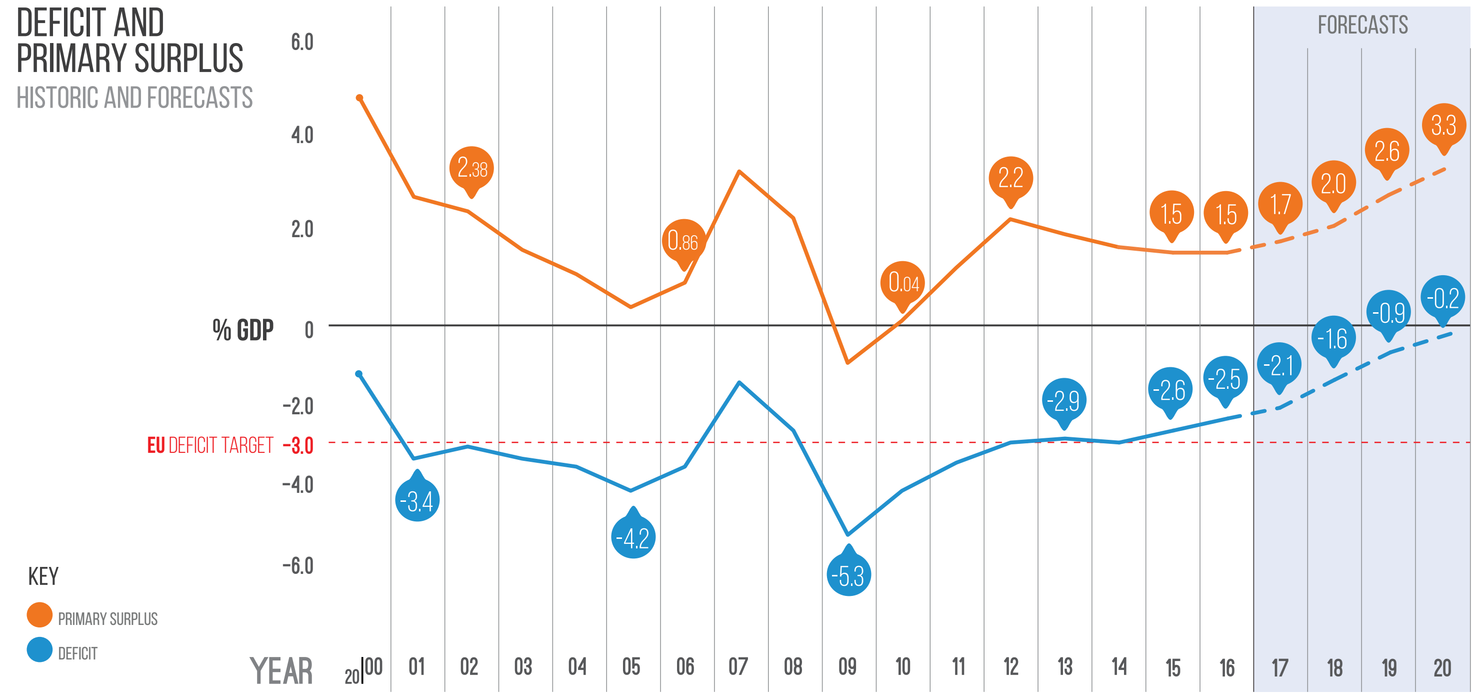
SAVINGS FROM MEASURES ADOPTED IN **2014** AND **2015**



DEFICIT/ PRIMARY SURPLUS

(% GDP)

A declining deficit, together with a growing primary surplus, will help to keep the trend of the budget positive, while also allowing for a gradual achievement of the EU deficit target.



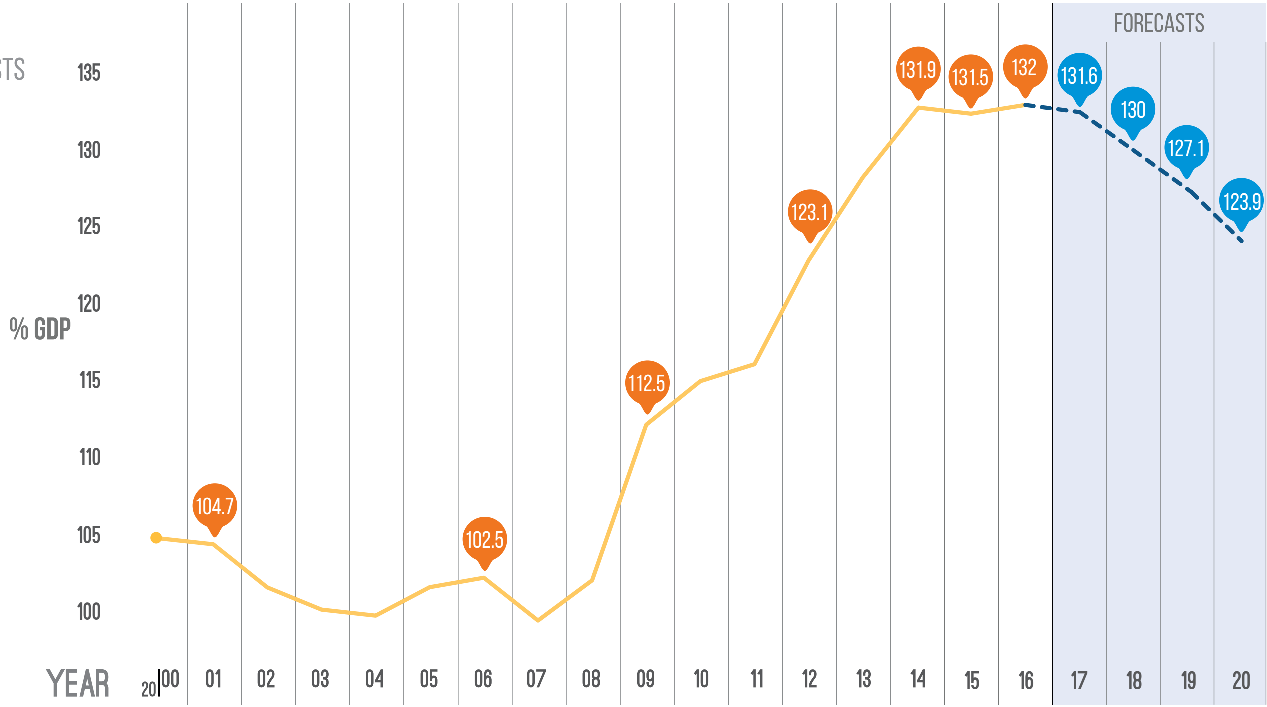
DEBT/GDP SUSTAINABILITY

EU COM

The implementation of highly needed reforms will ensure that growth potential can be fully unleashed. Higher growth and a sizeable primary surplus will put the debt-to-GDP ratio on a sustainable path.
According to an EU Commission analysis, Italy's debt is one of the most sustainable in the Euro Area. The S2 indicator is 0.5 compared with the EU average of 1.8 and the Euro Area average of 1.5.
As the indicator increases, the fiscal adjustment required to maintain sustainability also increases.

DEBT

HISTORIC AND FORECASTS



AN IMPROVED BUSINESS ENVIRONMENT

A more efficient banking system, a more flexible labour market and an improved civil justice system will ease the bureaucratic burden for companies with respect to their day-to-day operations.
A better business environment can attract more investment.

EASIER ACCESS TO FINANCE, MORE CAPITALIZATION AND LISTING

The “Finance for Growth” programme has addressed the constraints on credit to businesses, providing an alternative to a bank-centric financing system.

Insurance companies and credit funds can now lend directly to firms while EU-based investors no longer pay a withholding tax. The Central Guarantee Fund, which supports access to finance for SMEs, has been reformed and empowered. Unlisted companies can also issue mini-bonds to get resources through debt financing.

The “Finance for Growth” programme also provides introduces incentives for SMEs to expand their operations, thus favouring stock-market listings and enhanced capitalization through the ACE (Allowance for Corporate Equity). Individual saving plans, which connects private savings towards companies investment, might raise companies’ capitalization and create investment opportunities for households.

The reform of smaller cooperative banks ("BCC") asks for the creation of a joint stock parent company, with expected control stake detained by BCCs. This conglomerate could potentially become Italy's third largest group.

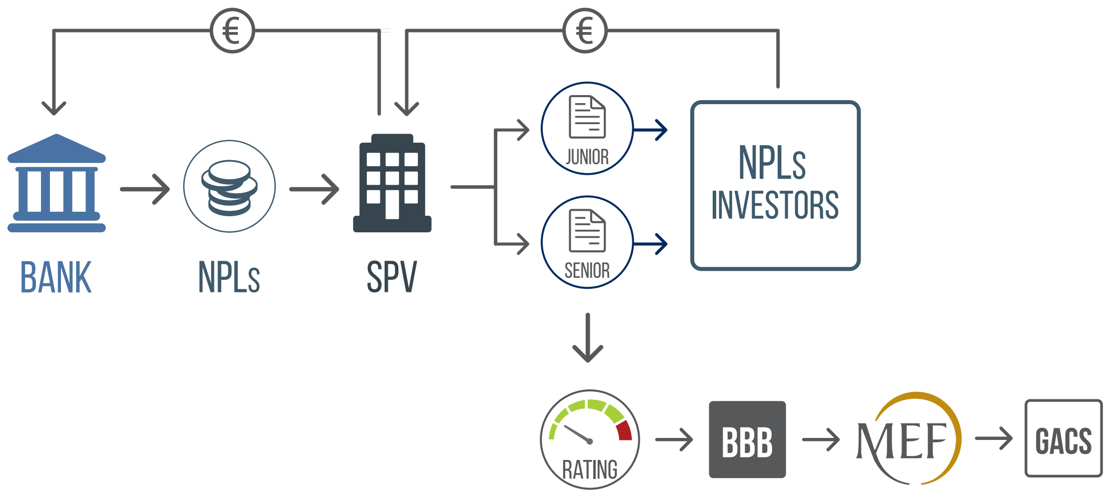
Banking foundations will legally be required to diversify their assets and to respect an investment exposure threshold with respect to a single bank (no more than one-third of the foundations' capital may be held by allocated to an individual institution).

"GACS" GUARANTEE ON NPLs ABS

On February 2016 the Government has introduced a guarantee for senior tranches of securitized non-performing loans (NPLs), in order to facilitate the dismissal of NPLs. The final aim is to restore and increase lending to the real economy.

The guarantee will be issued upon request of banks, which in turn have to pay a regular commission to the Treasury. Price of the guarantee will reflect the market price in order to ensure the state aid-free nature of the scheme.

The State will guarantee only senior tranches of the Asset-backed security (ABS) which have received a rating equal to or higher than Investment Grade by a rating agency qualified to the ECB (i.e. the main credit rating agencies). Guarantee is effective after that half of the junior tranches have been sold. The riskiest tranches (i.e. junior and mezzanine) shall not be repaid until the senior tranches guaranteed by the State have been fully repaid.



REFORM OF THE BANKING SECTOR II

NEW PROVISIONS ON NPLS

Italy’s significant stock of non-performing loans has impeded growth of credit market.
To facilitate absorption of the NPL stock, the government has introduced measures to accelerate bankruptcy procedures.
Asset foreclosure lead-time has been substantially reduced to allow banks to write off NPLs and increase their credit to businesses. The tax deductibility of loan losses has gone from 5 years to 1 year, in order to allow for the complete write-off of current stock of deferred tax assets (DTAs).

DEDUCTIBILITY OF LOAN LOSSES

LABOUR MARKET

The Jobs Act, entered into force in March 2015, promotes a wider use of open-ended contracts and enhances employment benefits for all categories of workers, included the most vulnerable ones.
The Jobs Act also introduces a new form of contract, with benefits increasing with seniority and provides for clearer and more effective rules for dismissals, by introducing monetary compensation as the standard with an amount fixed by law; it also broadens income support schemes, accompanied by measures to actively involve unemployed workers in their job search, through a brand-new national Agency for active labour market policies.

INCLUSION POLICY PROGRAMMES

The 2016 Stability Law established for the first time in Italy the Poverty and Social Exclusion Fund, aiming at introducing a minimum income scheme at national level by 2018.

The so-called Income inclusion Programme (REI, Reddito di Inclusione), introduced by a legislative decree in August 2017, will start in January 2018 with two main objectives:

- To reduce the intensity of poverty and to close the poverty gap
- To give poor an incentive to actively search for a job thus helping them come out of poverty

It is indeed a selective and conditional measure, since it is based on means-tested criterion related to an indicator that jointly considers household income and wealth that cannot exceed €6,000 and recipients may have to prove their commitment to finding a job or participating in training programmes.
The 2018 Budget Law allocates additional resources (€ 1.9 bn overall for 2018-2020) for the Inclusion Income

CIVIL JUSTICE

The reform of civil justice system aims at improving the working methods of the judicial system and reducing the time required for court proceedings. The reform provides for increased productivity of the courts (revision of territorial distribution), an introduction of online phases of civil proceedings, and incentives for out-of-court settlements.

In addition, attorneys’ fees have been deregulated and there are now more alternatives for resolving disputes.

The government has recently adopted provisions to accelerate bankruptcy proceedings. Liquidation proceedings and debt restructuring can now be accomplished more quickly. The procedures for interim financing of insolvent businesses have been abbreviated, while arrangements with creditors now include competitive bidding.

50% REDUCTION IN TIMING REQUIRED FOR INJUNCTIONS

ITALY IS THE EU'S FIRST COUNTRY TO ACTIVATE ONLINE CIVIL TRIALS

84% OF TRIALS SETTLED BY BUSINESS TRIBUNALS IN **ONE YEAR** OR LESS

PUBLIC ADMINISTRATION

On January 2016 the Government approved 12 legislative decrees reforming public administration and civil service. The aims are to enhance transparency, to fight corruption, to increase efficiency of public procedures and to reduce burocratic barriers to growth and productivity, in order to deliver a clearer State where to live and invest in.

The decrees cut red tape for investors: administrative procedures have been simplified, speeded up and digitalized. At the same time, the reform introduces significant changes in State bodies and structures, through an overhaul of Italy’s port authorities, the fusion of military corps, the reduction of the number of State owned companies and their reorganization, in order to assure quality of service provision.

- 50% TIMING FOR ADMINISTRATIVE PROCEDURES CUT BY HALF FOR RELEVANT PRODUCTIVE INVESTMENT AND ENTREPRENEURIAL ACTIVITIES

CONCLUSIONS

The government has accelerated the reform process, addressing long-needed structural changes in various sectors. The public administration is being restructured so as to reduce the time required for adopting and implementing policy decisions. The financial sector has been opened to competition in order to increase credit flows, and the banking sector has been radically transformed as a result of recent provisions. The ongoing reform effort has already produced visible effects on Italy's growth, but additional effects should be seen in the months ahead.

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