

Tax Considerations in Joint Ventures (Italy)

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Practice notes | [Law stated as at 21-Jun-2023](#) | Italy

A Practice Note describing the main tax issues to consider when establishing, operating, and terminating Italian-based joint ventures and international joint ventures with one or more Italian joint venture parties.

Tax Objectives When Establishing a Joint Venture

Key Tax Issues to Address for Corporate Joint Ventures

- Capitalising the Joint Venture
- Contributions to the Joint Venture
- Taxation of the Joint Venture
- Taxation of Payments In and Out
- Controlled Foreign Companies
- Transfer Pricing and Diverting Profit Taxes

This Note provides an overview of the tax issues that arise on establishing, operating, and terminating an Italian-based corporate joint venture or an international joint venture with one or more Italian joint venture parties.

A joint venture may be operated in various forms, including through a corporate entity. The two forms of corporate entity commonly used to set up a corporate joint venture in Italy are the public limited company (*società per azioni* (SPA)) and the private limited company (*società a responsabilità limitata* (SRL)). A new entity can be incorporated for the venture. Alternatively, a corporate joint venture can be structured as an acquisition of an interest in an existing company.

Italian law also provides alternative structures for specific purposes, including the following:

- Temporary association of businesses (*raggruppamento temporaneo di imprese*).
- Network of businesses contract (*contratto di rete di imprese*).
- Public Private Partnership (*partenariato pubblico privato*).

Partnerships (*società di persone*) are rarely used for a commercial joint venture.

For more information on joint venture structures, see [Practice Note, Joint Ventures: Choice of Structure \(Italy\)](#). In addition, there are European vehicles that may be appropriate in particular situations, including European Economic Interest Groupings and the European Company.

This Note focuses on tax issues arising in relation to corporate joint ventures in Italy, or involving one or more Italian joint venture parties. For an overview of the main tax issues to consider when forming and operating a cross-border international joint venture, see Practice Note, [Tax \(Joint Ventures\): Cross-Border](#).

For an overview of Italian tax law issues to consider when acquiring a private company or a business in Italy, see [Practice Note, Tax: Private Acquisitions \(Italy\)](#).

Tax factors and issues will always need to be evaluated in the light of commercial considerations. While tax is an important factor in deciding the legal form of a joint venture, it is unlikely to be the determining factor and the tax issues will need to be viewed with the commercial objectives in mind.

Tax Objectives When Establishing a Joint Venture

The tax objectives of the parties when setting up a joint venture are commonly to:

- Ensure that the tax position of the joint venture is no worse than if the joint venture parties were to carry on the business directly.
- Avoid or minimise taxes on the disposal of assets to the joint venture. These might include, for example, tax on capital gains arising on the disposal, transfer duties, value added or similar turnover tax, and balancing charges on the disposal of assets that have qualified for depreciation allowances.
- Obtain relief for losses that the joint venture may sustain. Ideally, the parties will want the joint venture vehicle to be able to surrender losses to one or more of the joint venture parties or at least carry them forward to offset against future profits of the venture.
- Minimise tax in the joint venture vehicle.
- Avoid tax leakage on the distribution of profits or gains in the joint venture vehicle to the joint venture parties. So, for example, if the parties are not exempt from tax in respect of distributions from the joint venture vehicle, they will, if possible, wish to obtain credit for any taxes paid by the joint venture vehicle and avoid double taxation on any such distributions.
- Minimise taxes on the termination of the venture or on changes in participants. If the joint venture vehicle has unused tax assets on termination of the venture or on changes in participants (such as tax losses available to carry forward) any continuing parties (or incoming participants) will wish that those tax assets survive the change in ownership of the joint venture entity.

Key Tax Issues to Address for Corporate Joint Ventures

When establishing a corporate joint venture in any jurisdiction, key issues to address are:

- Capitalising the joint venture vehicle (debt to equity ratio) (see [Capitalising the Joint Venture](#)).
- Contributing assets to the joint venture (see [Contributions to the Joint Venture](#)).
- Taxation of the joint venture company (profits, ability to surrender losses to foreign corporate shareholders and other group arrangements) (see [Taxation of the Joint Venture](#)).
- Double tax treaties (see [Taxation of Payments In and Out](#)).

- Payments in and out (see *Taxation of Payments In and Out*).
- Controlled foreign companies (see *Controlled Foreign Companies*).
- Transfer pricing (see *Transfer Pricing and Diverting Profit Taxes*).

Capitalising the Joint Venture

Since 2008, Italy no longer has thin capitalisation rules. Other tax measures were introduced to limit the tax deductibility of interest expenses for corporate income tax purposes (see *Deductibility of Interest Payments*).

An incentive to capitalise Italian companies by means of a tax reduction of a "deemed interest" has been introduced (ACE regime). The rate is determined annually by a Ministerial Decree calculated on the company's equity increases. As from 2020 the rate reduction is fixed at 1.3%.

As clarified by the Italian tax authority (*Agenzia delle Entrate*), the anti-avoidance provisions of the ACE regime do not apply to 50:50 joint ventures, unless there is a situation of *de facto* or contractual control.

Contributions to the Joint Venture

In many joint ventures, the parties will contribute assets (or other non-cash considerations such as shares in subsidiaries) to the joint venture. In the planning phase should be assessed the tax costs of the non-cash contributions, as these can sometimes make the formation of the joint venture extremely expensive. A variety of taxes may be relevant, including:

- Capital gains tax.
- Registration taxes, such as stamp duty.
- Financial transaction tax.
- Value-added tax (VAT).

Relief from some of these taxes may be available. For example, under the *European Mergers Tax Directive (2009/133/EC)*, relief from capital taxes may be available on the transfer of a business located in one EU member state to a company located in another. However, that Directive is silent on transfer duties and VAT (although the *Principal VAT Directive (2006/112/EC)* permits the transfer of a business as a going concern to be left outside the scope of VAT).

If the tax costs on non-cash contributions are likely to be very high, it may be worth considering alternative options: for example rather than contributed, the assets could be leased to the joint venture or (subject to transfer pricing considerations) otherwise made available to it at a low/no cost.

Capital Gains Tax

An Italian company is liable to corporation tax (IRES) on any gains made on the sale of assets located anywhere in the world. If the assets have been owned for at least three years, the company can include the realised capital gain as taxable income in the financial year of the sale or elect to spread it in equal instalments over this fiscal year and in the following four years.

A participation exemption regime applies with regard to capital gains arising from the disposal of a participation, provided that the following conditions are met:

- The participation has been held by the seller for at least 12 months.
- The participation has been accounted for in the accounts as a financial asset (*immobilizzazioni finanziarie*).
- The participation relates to a company resident in a country in which the effective rate of taxation is not more than 50% lower than the tax rate that would have been applied in Italy, or a ruling has been requested on a voluntary basis in which the Italian tax authority confirms that the holding of the participation in the company resident in the relevant country does not represent an artificial localisation of income in this country.
- The participation relates to a company which effectively carries out an entrepreneurial activity (the relevant evidence is not necessary if the company's shares are listed in a regulated market).

Under the participation exemption regime, 95% of the amount of the capital gain arising from the disposal of a participation is exempt (see further *Practice Note, Tax: Private Acquisitions (Italy): Capital Gains Tax*).

Capital losses realised in relation to participations which qualify for the participation exemption are not deductible for corporate income tax purposes.

Rollover relief is potentially available to an Italian company on the sale of qualifying shareholdings or in the case of a transfer of a business as a going concern in exchange for shares in an EU company (provided that the conditions of the *European Mergers Tax Directive (2009/133/EC)* are fulfilled).

Registration Taxes, Including Stamp Duty

Generally, a proportional registration tax is payable on the transfer of assets (located in Italy) if a transfer agreement is executed in Italy and the transfer is not subject to value added tax (VAT) (Article 2, a), *Presidential Decree no 131/1986* (Registration Tax Act).

Both the seller and the buyer are responsible for the payment of registration tax.

Registration tax is also levied on the transfer of real estate located in Italy if the transfer is not subject to VAT, regardless of whether the transfer agreement is executed in Italy or abroad (*Article 2, b*), *Registration Tax Act*).

Finally, the transfer of a business located in Italy as a going concern always triggers registration tax at a rate of 3% on the goodwill and on the value of the assets transferred (9% on the value of real estate and buildings, 15% on land and 0.5% on receivables).

In relation to the transfer of shares and quotas, EUR200 fixed registration tax is payable on a transfer of business or assets from the joint venture partners to the joint venture entity if the transfer implies a participation increase in the joint venture entity. VAT will not apply to such a transfer.

The transferor may be subject to tax on any capital gain made on the sale of assets located anywhere in the world.

If consideration is paid for the transfer of a business or assets, the transaction is regarded as a sale for fiscal purposes. A 3% registration tax on goodwill value, as well as capital gain tax, may be due on the value of the assets. Generally, recapture or claw-back of any tax relief does not apply in these circumstances.

Financial Transaction Tax

A financial transaction tax (FTT) was introduced on 1 March 2013. FTT is charged at 0.2% on the transfer of ownership rights in:

- Shares and other participating securities issued by Italian resident companies.
- Financial instruments representing these shares and/or participating securities, whether or not issued by Italian resident companies.

The tax rate is reduced to 0.1% if the transaction involves listed shares and is executed on a regulated market or a multilateral trading system of an EU or EEA member state which exchanges information with the Italian tax authorities.

VAT

VAT potentially applies to the transfer of assets (excluding shares). The current standard rate is 22%. However, the transfer of a business as a going concern is outside the scope of VAT and registration tax will therefore apply at the proportional tax rate.

VAT does not apply to a distribution of profit to a foreign company made by an Italian partnership or transparent entity.

With regard to management charges or payment for the use of a brand or other intellectual property, application of VAT and withholding tax depends on the transaction and the qualification of the service provided. If the payment is in specie, VAT may be payable depending on the nature of the asset transferred.

Taxation of the Joint Venture

As a general rule, companies incorporated in Italy are considered to be tax resident in Italy, unless the place of business of the company is located abroad. If this is the case, the company will not be resident in Italy for tax purposes or it may have a dual residency regime. Any situation can be cleared through the relevant tax treaty provision or through a tax ruling with the Italian tax authority (see *Practice Note, Tax Residency of Companies in Italy*).

The standard rate of corporation tax (IRES) is 24%. Italian resident companies are liable to corporation tax on their worldwide income profits and capital gains (subject to the provisions of relevant double tax treaties).

Italian source income is also subject to a 3.9% local tax (IRAP), which is reduced to 3.3% only for the fiscal year 2023, and can be increased or decreased by about 0.92% depending on the region where the company is located in Italy and on the activity carried out), on a tax basis calculated according to specific rules. IRAP is payable on certain items of the profit or loss as determined by the relevant accounting rules (ITA, GAAP, or IFRS), with specific tax adjustments.

With regard to the participation exemption, see *Capital Gains Tax*.

In the case of a foreign branch of an Italian resident company, there are two options:

- The ordinary regime which provides for the credit method, whereby foreign branch profit and losses are included in the Italian parent company's taxable basis.
- An optional branch exemption regime, whereby all the branches of the Italian parent company are treated as foreign independent fiscal entities.

Both IRES and IRAP taxable basis is calculated on the basis of the profit and loss account of the company applying certain tax adjustments.

Where election for the "tax consolidation regime" is made, trading losses can be surrendered to the Italian parent company if accrued after joining the tax consolidation regime.

Tax losses incurred in or after the fiscal year 2011 can be carried forward indefinitely to the following tax years, and in the subsequent tax years any unused carry forward losses can be set off against an amount not higher than 80% of the taxable income for the year.

Tax losses realised in the first three years of activity and connected to a new productive activity can be deducted from an unlimited amount of taxable income in the following fiscal years.

Taxation of Payments In and Out

This section addresses issues related to the tax treatment of payments made to the joint venture company from foreign group companies and branches and payments made by the joint venture company to the joint venture parties.

Payments may take a variety of forms such as dividends, interest, intellectual property royalties and service fees. For the tax implications of payments to and from UK companies as an effect of Brexit, see [Video, Brexit: Income Tax Implications for Businesses](#).

Deductibility of Interest Payments

Interest expenses (net of interest income, if any) are deductible within the limits of 30% of the gross operating profit (GOP). The GOP amount is determined making reference to the tax values used to calculate the corporate income taxable basis. Any net passive interest deemed not tax-deductible can be carried forward in the following fiscal years and deducted up to 30% of the relevant GOP.

Active interest exceeding interest expenses in a given fiscal year can be carried forward in subsequent fiscal years without limitation of time.

The excess of 30% EBITDA not used in a given fiscal year to offset interest expenses can be carried forward for the subsequent five fiscal years.

GOP is determined according to specific rules and broadly corresponds to the EBITDA with some adjustments provided by tax rules. For this purpose, interest also includes expenses arising from loans, financial lease agreements, bonds and similar financial instruments and any other transaction having financial purpose but excluding interest for deferred payment related to commercial debt if already included in the original amount of debt (so-called implicit interest).

The excess of interest expenses generated by a company whose group opted for the consolidated tax regime may be offset by the excess of EBITDA or active interest generated by the other group's companies.

With regard to the OECD BEPS Action 2, as an EU member, Italy is subject to the two EU anti-tax avoidance Directives: ATAD ([Council Directive \(EU\) 2016/1164](#) dated 12 July 2016) and ATAD II ([Council Directive 2017/952/EU](#) dated 29 May 2017, which amends ATAD). The Directives have been implemented in Italy and include anti-hybrid rules that cover hybrid mismatches between EU member states, and between EU member states and non-EU countries.

Italy already had domestic legislation applicable to some hybrid mismatch transactions and products. For example, under Articles 89 and 44 of the Income Tax Code (TUIR), which was approved by [Presidential Decree no 917/1986](#), profit distributed

by a non-resident entity is excluded from the taxable base of the receiving Italian entity under the participation tax regime only to the extent that this income is not tax deductible by the distributing entity.

With regard to BEPS Action 4 on interest deduction, ATAD provides for an interest limitation rule to avoid virtual arrangements aimed at minimising tax payments. Italian legislation already had a provision for computing the maximum amount of deductible interest (30% of EBITDA), which has been slightly amended.

Treatment of Below Market Rate Loans to the Joint Venture

If members or shareholders of an Italian joint venture lend money to the joint venture at below market rate, and the members or shareholders are non-Italian tax resident, the foreign tax authorities may challenge the interest rate under the transfer pricing rules (see *Transfer Pricing and Diverting Profit Taxes*). Under a procedure introduced by *Ministerial Decree of 14 May 2018*, the higher taxable interest rate which would be assessed to the lender could then be recovered as an additional interest expense at the level of the Italian joint venture.

If the joint venture and its members or shareholders are both tax resident in Italy, no transfer pricing rules apply. However, the general tax principle whereby a cost must relate to the business to be tax deductible (*principio di inerenza*) should be taken into account, in particular if the cost of funding for the member or shareholder is higher than the interest rate charged to the joint venture, the balance between the interest cost of funding and the loan agreed rate (under market value) could be disregarded to the lender.

For the principles to apply to establish if a company is tax resident in Italy, see *Practice Note, Tax Residency of Companies in Italy: When is a Company Tax Resident in Italy?*

Withholding Taxes Applied to Dividends

A final withholding tax at the rate of 26% applies to dividends paid to foreign shareholders. Non-resident shareholders (other than holders of privileged shares) are entitled to apply for a tax refund if the profits are also subject to tax abroad.

The withholding tax is equal to 1.20% for dividends paid to European companies out of profits accrued in the fiscal year as of 1 January 2017.

However, there is no withholding obligation on dividends paid to European companies that hold at least 10% of the share capital of an Italian company for at least one year (under the *EU Parent-Subsidiary Directive (2011/96/EU)*) provided that the election under Article 27-bis of *Presidential Decree no 600/1973* is applied.

Double tax treaties provide reduced rates of withholding, usually between 5% and 15%.

The same regime applies to the payment of dividends in kind.

Withholding Tax Applied to Interest Payments Made to Foreign Companies

A withholding obligation of 26% applies to interest payments made to foreign companies.

There is no withholding obligation on certain kinds of bond and on interest paid by banks in their ordinary course of business. The withholding tax also does not apply to qualified loans granted by EU banks, insurance companies, mutual funds (both licensed to carry out banking activity) and institutional investors on medium or long term loans granted to Italian operating companies.

Double tax treaties provide for reduced rates of withholding, usually between 10% and 15%.

Under the Interest and Royalty Directive (*Council Directive 2003/49/EC* of 3 June 2003), under certain conditions, interest paid to EU related entities is not subject to Italian withholding tax.

Withholding Tax Applied to Royalties

A withholding obligation of 30% applies on 75% of the amount of royalties on intellectual property, licences and know-how.

Double tax treaties provide for reduced rates of withholding, usually between 5% and 15%.

Under the Interest and Royalty Directive (Council Directive 2003/49/EC of 3 June 2003), under certain conditions, royalties paid to EU related entities are not subject to Italian withholding taxes.

Interest arising from Italian government bonds and other public bonds is subject to a 12.5% withholding tax.

Super Deduction of R&D Expenses

The *Law Decree no. 146/2021* has introduced a new tax regime aimed at boosting the development of qualified intangibles and research and development (R&D) activities in Italy.

Taxpayers who carry on R&D activities related to qualified intangible assets can opt for the "super deduction" regime. Foreign entities are eligible for this regime (in connection with their Italian permanent establishments) if they:

- Are resident in a country which has entered into a double tax treaty with Italy.
- Have arranged an exchange of information arrangement with Italy.

Once obtained, the option cannot be revoked for five fiscal periods and is renewable.

For a definition of permanent establishment relevant for Italian tax law purposes, see *Practice Note, Tax Residency of Companies in Italy: Permanent Establishment*.

Under this regime, certain R&D costs sustained in relation to these qualified intangibles investments are tax deductible for an additional 110% of their amount, both for corporate income tax (CIT) and the regional tax on productive activities (IRAP) purposes.

Anti-Abuse Rules

In relation to the Multilateral Convention to implement tax treaty related measures to prevent base erosion and profit shifting (MLI), Italy has opted to apply the principal purpose test (PPT) alone, except for those tax treaties that already contain provisions that deny all of the benefits that would otherwise be provided under the tax treaties where the principal purpose or one of the principal purposes of any arrangements or transactions, or of any person concerned with the latter was to obtain those benefits.

Furthermore, Italy has not agreed to the application of the simplified limitation on benefits rule (LOB) therefore entirely excluding its application with respect to its tax treaties. In addition, Italy has neither expressed an opinion regarding the symmetrical or asymmetrical application of the simplified LOB. Therefore, when the other contracting jurisdictions do not accept the application of the PPT alone, then the contracting jurisdictions shall try to reach a mutually satisfactory solution.

Treatment of Dividends Paid to a Corporate Shareholder (Domestic or Foreign)

Italian corporate shareholders may benefit from the participation exemption regime (see *Capital Gains Tax*), under which 95% of the dividend amount is exempt from taxation.

Dividends paid to foreign non-European or SEE resident corporate shareholders are subject to a 26% withholding tax (see *Withholding Taxes Applied to Dividends*), otherwise under the participation exemption rules a final 1.2% final withholding tax is due. If the conditions provided by the *EU Parent-Subsidiary Directive* are met, no withholding tax applies. Double tax treaties provide for reduced rates of withholding (between 5% and 15%).

Treatment of Foreign Source Dividends

Italy operates a credit system for taxes paid abroad. An Italian company is potentially liable to tax on dividends received from a foreign company but credit is given for tax that has been withheld abroad. In general terms, if these taxes are equal to or greater than 24% of the gross dividend no further tax is payable in Italy.

Foreign dividends may be exempt from tax in Italy if paid by European controlled entities, which satisfy the *EU Parent-Subsidiary Directive*. As a general rule, the participation exemption regime applies to dividends received from qualified non-Italian resident companies, whereby dividends are 95% exempt from Italian corporate tax. The company that pays dividends should be tax resident in a country that exchanges tax information with the Italian tax authorities (included in a "white list" regularly updated by Ministerial Decree).

However, dividends deriving from companies incorporated in a country not included in the "white list" (Tax co-operative countries) are 100% taxable unless a positive ruling has been obtained from the Italian tax authority (Article 167(5)(b) of Presidential Decree no 917/1986).

VAT on Royalties, Management Charges, and Other Payments to Shareholders

Royalties and service fees or management charges paid by an Italian company to a non-Italian resident entity are potentially subject to VAT provisions and withholding tax. However, the VAT treatment and the application of any withholding tax must be assessed on a case-by-case basis with reference to the legal nature of the services provided and the fiscal residence of the parties involved.

In general, management fees and royalties paid to non-Italian entities are subject to a 30% withholding tax, calculated on an adjusted taxable base that may be reduced under a relevant double tax treaty, if applicable. VAT is generally not levied on such payments made to non-Italian resident companies because of the general VAT territoriality rules.

Controlled Foreign Companies

Profits of a company that is tax resident in one country can be imputed to a "parent" in another country under so-called controlled foreign company (CFC) rules. In Italy, CFCs are treated as transparent entities and their profits are attributed to the Italian taxpayer (company or individual) who controls the CFC.

Before the new rules came into force, Italian CFC regulations only applied when the foreign entity was a resident of a tax haven included in a "black list." *Legislative Decree no 142/2018* broadened the scope of the CFC rules to include entities located in any jurisdiction (not only in a tax haven), provided the following two conditions are met:

- The CFC is subject, in its own country, to an effective rate of taxation which is more than 50% lower than the tax rate that would have applied if resident in Italy. In this case, the Italian resident controlling person should first determine the taxable profits of the CFC (applying Italian tax rules) and then verify if the tax burden of the CFC is lower than 50% of the tax rate that would have applied, had the company been resident in Italy.
- The CFC derives more than one third of its revenues from the management, holding or investment in securities, shareholding, credits or other financial assets, from the disposal or licensing of intellectual property rights, or from the

performance of intra-group services (including financial services). In this case, the Italian resident controlling person should verify whether the "passive income" and revenues from intra-group services exceed one third of total revenues.

However, in order not to apply CFC rules to companies meeting the conditions outlined above, the Italian resident shareholder may apply for an advance tax ruling under the procedure set out by Article 167, paragraph 5, of Presidential Decree no 917/1986, to demonstrate that "the setup of the CFC in the foreign country is not artificial and is not aimed at obtaining any undue tax advantage."

As clarified by the Italian tax authority, in case of 50:50 joint ventures, if the rights and powers of the shareholders are equal and there is no predominance or factual control of one of the shareholders, the CFC rules do not apply.

Transfer Pricing and Diverting Profit Taxes

Transactions between Italian companies and foreign affiliates must be agreed on an arm's length basis. If not, they can be adjusted, and Italian corporate tax is due on the adjusted basis.

Standard income tax penalties apply, broadly from 90% to 180% of the amount of the assessed tax, plus interest. Criminal penalties could also apply in certain circumstances.

Law Decree no 78/2010 concerning "Urgent measures for financial stabilisation and economic competitiveness" has introduced, for the first time, a specific transfer pricing documents provision into Italian tax law. Under this provision, if the taxpayer provides the tax authorities with transfer pricing documentation during a tax audit, there will be no tax penalties on possible tax adjustments brought by the tax authorities if they determine that the intercompany transaction is not compliant with the arm's length principle. The Tax Revenue Director has specified details of the documents and supporting data required to gain relief from any tax penalties in several guidelines, the last one dated 26 November 2021.

END OF DOCUMENT

RESOURCE HISTORY

Law stated date updated following periodic maintenance .

This document has been reviewed by the author as part of periodic maintenance to ensure it reflects the current law and market practice on 21 June 2023.

Related Content

Practice notes

- [Joint Ventures: Deadlock and Termination \(Italy\)](#) • Maintained
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- [Joint Ventures: Validity of Put Option and Russian Roulette Clauses \(Italy\)](#)
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- [Tax: Private Company Acquisitions \(Italy\)](#) • Law stated as at 29-Jun-2022
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- [Joint Ventures Toolkit \(Italy\)](#) • Maintained

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