

FOREIGN INVESTORS REWARD ITALY'S REFORM EFFORT

The AT Kearney Foreign Direct Investment (FDI) Confidence index 2018 **ranks our country among its top ten investment destinations**. Italy has moved up three positions since last year's ranking, **a few years ago it was not even included in the Index**.

Foreign investment, in its broadest definition, has indeed picked up in Italy: multinational corporations have invested in green/brownfield projects (Audi in Modena, GE in Turin, Hitachi in Tuscany/Southern Italy, Novartis near Naples); institutional funds have flowed back into Italian equity and fixed income markets; alternative funds are scaling up business in Italy.

This did not happen by chance.

Starting from "Destinazione Italia", a comprehensive plan adopted in 2013 to attract foreign investment, **Italian Governments have worked hard to improve the country's business environment**. A better business environment attracts foreign investors and is a boost for Italian companies: what is good for international investors is good for Italian entrepreneurs.

The effort has been part of a structural reform programme which led to a labour market overhaul, a reform of the banking sector, modernisation of the tax administration system and other key initiatives. **All these measures have been implemented as part of a fiscal policy framework that is in line with European rules and Italy's EU commitments and has enabled the Government to reduce taxation**, especially corporate taxes, such as the labour tax wedge and the corporate tax rate that passed from 27.5 to 24 per cent. **Today the effective tax rate for Italian businesses is well below the European average.**

The key to attract investment is provid-

ing certainty and clarity on rules, procedures and timeframes.

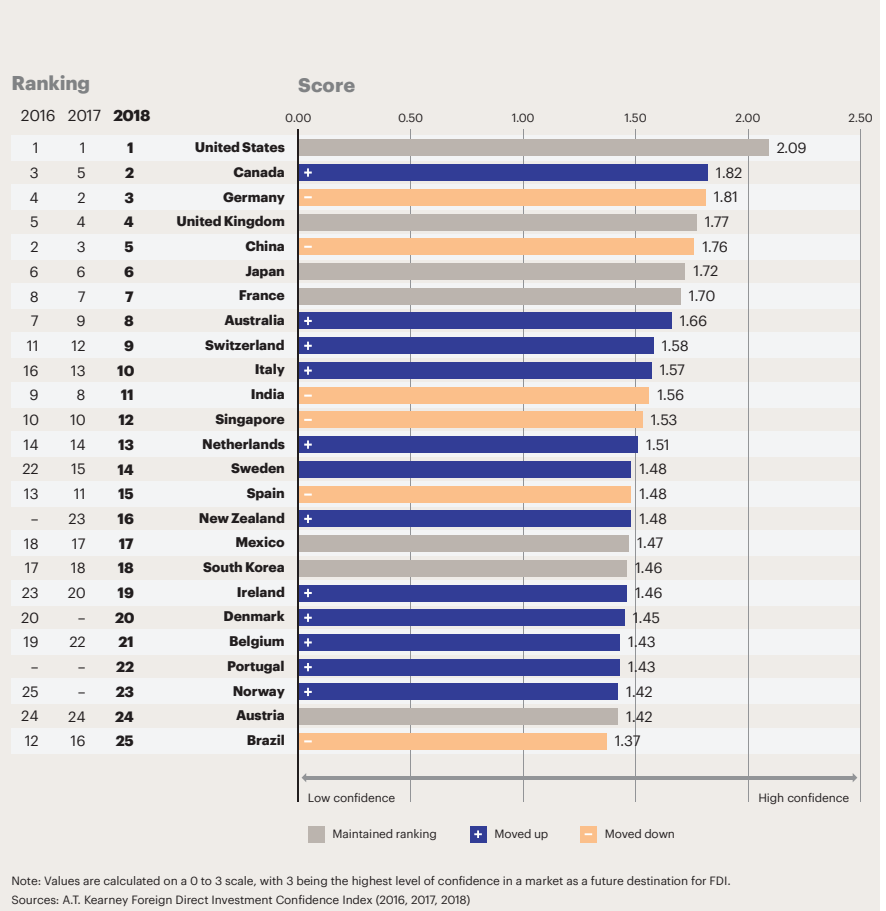
Thanks to the 2015 Jobs Act, **Italy experienced a dramatic reduction in employment contract litigation as well as dismissals**. A new framework is now in place for employment contracts and for severance pay with statutory caps, which has made life easier for employees and employers alike. This reform package, including tax incentives for companies hiring employees with permanent employment contracts, has produced tangible results through the creation of more than a mil-

lion jobs and has become an international benchmark.

A banking reform was long overdue. Over the past three years, the Government has abolished old-fashioned governance in the banking system, addressed the problem of ailing banks and facilitated NPL (non-performing loans) resolution. Also thanks to a Government guarantee scheme, nowadays banks and investors have developed a buoyant NPL market with transactions of up to €100 billion in 2107.

Italy has reformed its tax administra-

2018 A.T. Kearney FDI Confidence Index®



tion to improve tax compliance and provide certainty to investors. Today tax ruling schemes enable investors to interact with the Revenue Agency to discuss the treatment of significant investment, so as to plan accordingly over several years.

Although improvements in civil justice performance have been significant, investors want more progress in this area. Indeed, the average length of civil and commercial proceedings is still considerable. However, disposition time decreased by 13% in 2 years (2017 data) and the total backlog has been reduced by 34% since 2009.

Through the **Industry 4.0** programme, automatic tax credits are granted for investment schemes, such as super-depreciation and hyper-depreciation for high tech investment.

More specifically, **with regard to capital market tools, existing instruments have been revamped and new ones have been introduced:** the lending market has been deregulated, taxation for private debt and private equity funds clarified, minibond and securitisation legislation improved, corporate governance

reformed and tools such as project bonds, REITS (Real Estate Investment Trusts) and PIR (*Piani Individuali di Risparmio* - Individual Savings Plans) introduced.

Today the country has a lively capital market with a strong domestic as-

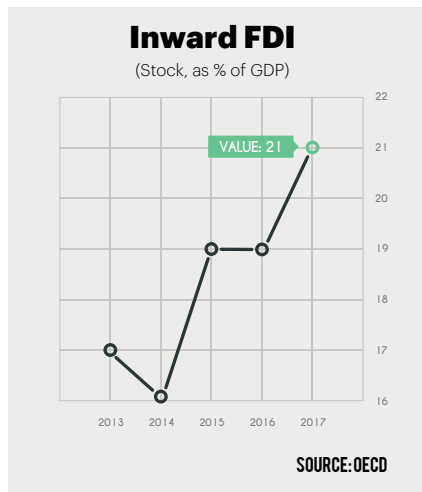
enhancing external scrutiny. The vitality of Italian entrepreneurship is being further leveraged by equity infusions and permanent dialogue with professional investors.

Targeted efforts have also been made to attract human capital. Professionals moving to Italy can benefit from an interesting set of tax breaks; in addition, fast-track visa application procedures for investors, philanthropists and start-uppers have been envisaged.

In some cases, foreign investment can set alarm bells ringing: Italy now has a complete toolbox to deal with anti-market practices, challenges to national security and lack of reciprocity, which the Government has been willing to use, as recent cases have shown.

Italy's FDI stock still remains below that of European peers. It will be up to future Governments to keep up this reform effort by further reducing the business tax burden, simplifying public administration, shorten the duration of legal proceedings and administrative procedures as well as removing bottlenecks in the labour market.

Fabrizio Pagani
Head of the Office of the Minister



set management industry and foreign funds enjoy a level playing field. Access to capital markets is very beneficial for Italian SMEs which traditionally lack capital and are not subject to competition-

FURTHER INFORMATION

[The Italian Banking System at a Turning Point](#)

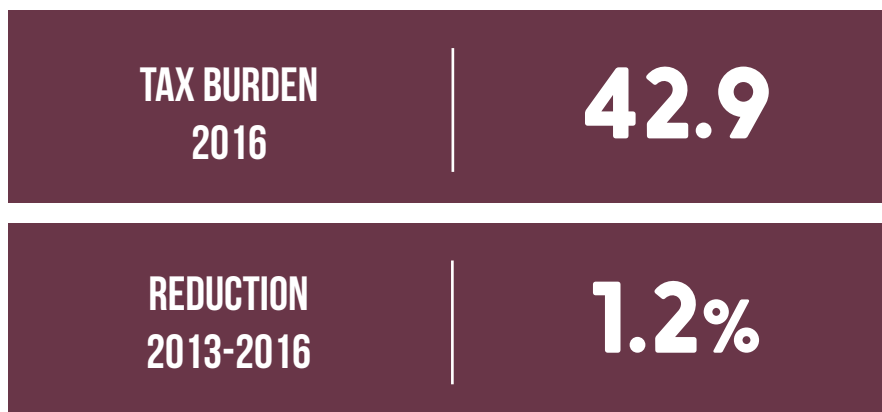
[Italy's Justice System Has Quite Long Road Ahead But Already Scores Better](#)



TAX BURDEN ON A DOWNWARD TREND

In 2016 Italy's tax burden reached 42.9% of GDP, recording a 0.4% decrease compared with the previous year. This result follows a cumulated reduction of 1.2 percentage points between 2013 and 2016 **and is consistent with a downward trend in the tax burden on households and companies, which started in 2013.**

Italy ranked 6th out of 35 OECD countries in terms of the tax-to-GDP ratio both in 2016 and 2015. OECD analyses show that - over the same time span (2013-2016) - in Spain (+0.7%), Portugal (+0.3%) and the United Kingdom (+0.7%) the tax burden increased.



SOURCE: OECD

A SINGLE MUNICIPALITY FOR 60 MILLION INHABITANTS - THE NATIONAL RESIDENT POPULATION REGISTRY

Italy has about eight thousand municipalities, each one with its own municipal register meaning that the additional burden of providing the same personal data over and over in each transaction with the Public Administration falls on citizens and businesses.

The benefits for citizens and the public administration

The National Resident Population Registry (*Anagrafe Nazionale della Popolazione Residente - ANPR*) is an essential step in the digital agenda. Creating a national database will allow for the advancement of self-certification procedures by shortening and automating all processes around data management.

ANPR will enable the digital communication among administrations creating a single and reliable source for citizens' data. The ANPR network is in the process of being set up, but the system already allows citizens to request for official certificates in all municipalities, making the change of one's residence simpler and immediate. In the future it will be possible to obtain certificates from a single portal regardless of one's residence.

The role of the Digital Transformation Team

The Digital Transformation Team took over the ANPR project in 2016, and set up a roadmap for modernising the operative method thus implementing the new system; it introduced a new process of project management, officially assuming the role of Program Office. This is nothing particularly striking for those who are used to handling complex process but it remains still an uncommon practice in the world of public administration. A clear road map was established to manage and accompany the migration process in cooperation with the municipalities and their software house.

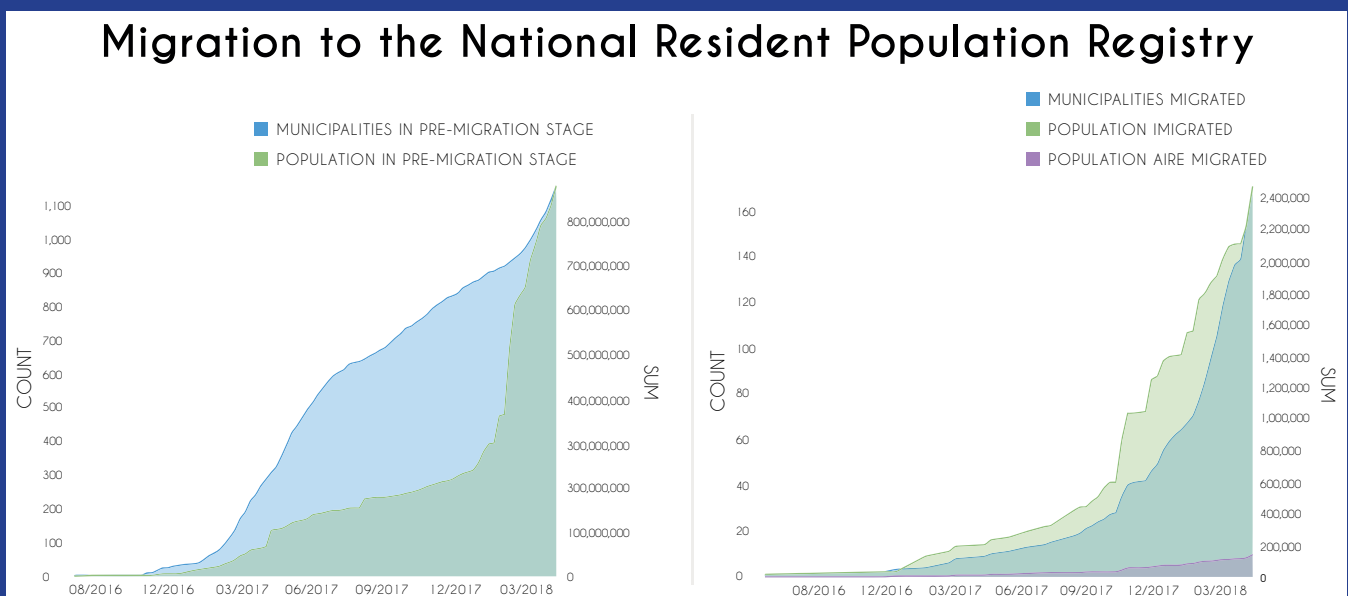
ANPR: a single Municipality of 60 million inhabitants

The new system is a large project on a national scale. It creates a single database containing all personal data of the resident population in Italy and of the Italian citizens living abroad (who have registered with the AIRE – Registry of Italian Residents Abroad). As a platform, ANPR represents an advantage for municipalities, in terms of effectiveness, efficiency and savings, and for citizens making their lives significantly easier when dealing with local administrative matters. Up until now to make a change in residence to a new municipality citizens had to provide the APR4 form, their ID and various

certificates. On the other hand the municipality had to notify all other offices involved, i.e. the Civil Motorisation Office or the INPS (National Social Security Institute). This complexity derives from the lack of a common registry among municipalities and from the lack of digital connection to the concerned public entities. In addition most proceedings are processed manually making the process slow, more costly and potentially inaccurate.

At full capacity, the ANPR platform will process changes of residence in real time with no need of notification neither to other municipalities not to concerned administrations such as the Civil Motorisation Office, INPS and ISTAT (Office of National Statistics).

Up to now six million inhabitants are already concerned by the new system. These numbers correspond to roughly 10% of the population. The implementation phase is accelerating significantly. In the next months ANPR must become the platform adopted by all Municipalities (about 8,000 in total). This process will continue in parallel with the improvement of the user experience, planning new features and widening the services offered. Therefore, Municipalities can be reimbursed upon completion of the full transition to ANPR and according to their demographic classification.



Note: The PON Operational Program for Governance and Institutional Capacity, financed by the European Union through the Agency for Territorial Cohesion (all information can be found [here](#)), is aimed at strengthening the administrative, institutional and digitalisation capacity of the Public Administration.

SOURCE: ANPR

In Italy, a number of structural tax and organizational changes have recently been implemented and steps have been taken to improve compliance and collection.

Governance

A coordination task force on tax administration has been set up; it provides a permanent forum for tax administrators to discuss the challenges of Italy's tax system and identify strategies for addressing them. Its work forms the basis for drawing up the annual Minister's ("Guidelines"), that shapes the 'special agreements' (*convenzioni*) through which objectives and funds are allocated to the Revenue and Customs Agencies. In the latest 'special agreements' great emphasis has been laid on actions aimed at increasing taxpayers' compliance and reducing the tax gap. **The agencies now enjoy greater autonomy, especially in terms of HR management.** They can now build a targeted selection process for hiring managers and enjoy additional leeway in choosing internal promotion policies. While Human Resources Management rules were being reviewed, the Revenue Agency underwent a major internal reorganisation. **In line with international trends, it has shifted from being an agency based solely on functions, to one focused on taxpayers classified into categories,** which favours an integrated approach to customers. The reorganisation has also led to an overall change in approach, with a focus on **cooperative compliance**, dialogue and *ex ante* interaction rather than *ex post* audits and litigation.

Compliance

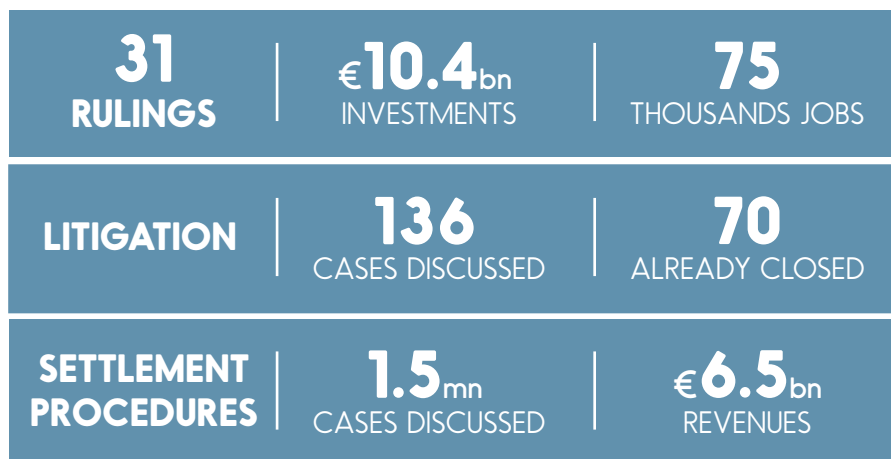
A number of measures have been enacted **to tackle VAT fraud and evasion and to increase voluntary tax compliance**, such as the introduction of mandatory electronic invoicing, in-

centives for electronically traceable payments and the extension of the so-called VAT "split-payment" system. **Several changes have been made to provide additional certainty and predictability to investors.** For example, transfer pricing rules and the definition of permanent establishment have been updated and are now in line with the latest international trends. A number of rulings and other regimes are available for investors who are willing to establish a transparent relationship with the tax authorities. **In addition, the tools for solving the problem of double taxation have been changed so as to use resources more efficiently.** Since the introduction of the new organisational structure in 2017, Italy has discussed more than 130 cases with foreign competent authorities, about 70 of which have already been settled. Finally, **a central office for High Net Wealth individuals has been set up.** The office is responsible for identifying high net worth individuals, carrying out relevant risk-analyses, defining strategies for ensuring compliance with tax laws, and providing relevant services, including rulings, also with regard to eligibility

for incentives to attract employees.

Collection

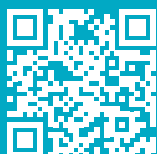
The tax collection system has undergone a major overhaul. The companies belonging to the Equitalia Group (the in-house group of tax collection companies) were first reorganized and then converted into a government agency - *Agenzia delle Entrate-Riscossione* (hereinafter Collection Agency). The new agency ensures top-level coordination, more effective sharing of relevant information and databases, and provides greater operational flexibility. With a view to reducing the outstanding stock of tax debts, taxpayers have been given the possibility to settle their tax and social security debts. The settlement procedure was used by around 1.5 million taxpayers in 2017, generating revenues amounting to €6.5 bn, well above the level expected when the new system was introduced. Furthermore, the newly established Collection Agency has been given new powers that enable it to better assess the actual financial condition of tax debtors, thereby making more efficient use of the Collection Agency's resources.



SOURCE: ITALIAN REVENUE AGENCY, 2017-2018

FURTHER INFORMATION

[Italy's Tax Administration - Overview of the reforms taken](#)
[The Tax Ruling on Large Investments](#)



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In Italy, since the financial crisis, our duty as policy makers has been stabilising a high public debt while bringing the economy out of sluggish or negative growth and The Narrow Path is an image of the difficulties we are facing and the goals we are achieving. Here we update periodically a professional audience about the evolution of structural conditions affecting the economic activity in the country.