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# TRANSFERS OF ECONOMIC ACTIVITIES TO ITALY FOR COMPANIES – 50% TAX REDUCTION

## PREAMBLE

In recent years, the EU has re-evaluated its policies in support of reshoring, aiming—starting from the Europe 2020 Strategy—to increase the GDP generated by the industrial sector, following (or chasing) a global trend. Through a series of recommendations, the European Commission has advised Member States of the necessity to support reshoring processes, reindustrialization, and the development of new industrial clusters, as well as revitalizing existing ones. This is with the objective of fostering competitiveness through geographical proximity between companies, which creates technological linkages and stronger coordination.

## REGULATION

A key pillar of Legislative Decree 209/2023 is the introduction, under Article 6, of significant tax incentives to facilitate reshoring.

The first paragraph establishes that economic activities subject to "relocation back" **shall not contribute to taxable income for income tax purposes and to net production value for regional business tax (IRAP) purposes for 50% of the relevant amount in the tax period in which the transfer occurs and for the following 5 tax periods.**

## ECONOMIC ACTIVITIES ELIGIBLE FOR INCENTIVES

1. **Business activities** and the exercise of arts and professions in an associated (not individual) form;
2. Applicable from the fiscal year of "relocation" and for the subsequent 5 fiscal years;
3. Related to activities carried out in a non-EU or non-EEA country (Norway, Iceland, and

Liechtenstein);

4. **Activities not previously conducted in Italy within the 24 months preceding their transfer;**
5. **Activities recorded with separate accounting evidence** to allow verification of the correct determination of taxable income and net production value;
6. **Activities maintained in Italy for at least five periods** following the end of the incentive period, under penalty of retroactive revocation (*ex tunc*), leading to the recovery of unpaid taxes, along with interest, accrued during the incentive period from which the taxpayer was disqualified.

## REQUIREMENTS

### 1) Business activities and the exercise of arts and professions in an associated (not individual) form

To promote the conduct of economic activities in Italy, the incentive regulation provides that the following entities:

- Italian companies or Italian associations of arts and professions
- Non-resident entities

must objectively:

- Repatriate businesses or business units located abroad
- Establish in Italy activities previously carried out abroad

The following cases are therefore excluded from the tax-favored repatriation:

- Individual assets
- Activities not classified as a business (which requires active and organized management)
- Holding companies whose activity is limited to exercising shareholder rights, collecting dividends, and earning passive income from asset ownership
- Mere transfer of tax residence to Italy while maintaining assets abroad (given that the purpose of the regulation is social and occupational, not merely fiscal revenue recovery)
- Activities not pre-existing abroad but simply initiated in Italy

### 2) Eligible Activities:

- **Performed in a non-EU or non-EEA country (Norway, Iceland, Liechtenstein)**
- **Not conducted in Italy in the 24 months preceding their transfer**

The activity qualifies for incentives if:

- It has been carried out abroad (outside the EU or EEA) from inception, without time limitations
- It was previously conducted in Italy
- It started within the EU, was subsequently moved abroad (outside the EU or EEA), without time limitations (according to the literal interpretation of the regulation)

## **TRANSFER TO ITALY: MODALITIES**

Considering the legislator's intent (i.e., establishing or reintroducing economic activities in Italy with subsequent economic and occupational growth, not merely fiscal revenue), the regulation grants incentives regardless of the transfer method. Thus, the activity can be relocated through any system, including:

- **Extraordinary operations (mergers, demergers, transfers, contributions)**
- **To a new company (new-co) or an existing company**

## **TAX INCENTIVE**

**A 50% reduction in income taxes** and IRAP on business income and income derived from the exercise of arts and professions conducted in an associated form.

It is worth noting that, in Italy, the ordinary corporate income tax (IRES) rate is 27.5%, and the IRAP rate is 3.9%.

Therefore, 50% of the income generated by the repatriated activity (or activities) is added (if positive) to the income from other activities that are not subject to the incentive. It is presumed, though not yet confirmed, that 50% of the losses generated should also be included (algebraically) in the overall income calculation (assuming that the regulation allows aggregation of all types of income).

## **DURATION AND COMMENCEMENT**

The incentive applies **for the current tax period and is valid for the subsequent 5 tax periods.**

## **REVOCATION**

If the incentivized activity subject to repatriation is relocated abroad again:

- Either during the incentive period (5 tax periods + 1)
- Or within the 5 tax periods following the end of the incentive period (10 fiscal years for larger enterprises)

The incentive is revoked retroactively (ex tunc), leading to the recovery, with interest, of the unpaid taxes accrued during the incentive period from which the taxpayer was disqualified.

## **INBOUND TAX VALUES**

Symmetrically, the inbound tax values—both for assets and liabilities—will be determined according to Article 166 of the Italian Income Tax Code (TUIR):

- Based on market value, determined following transfer pricing principles, if the departure state is "cooperative"
- Based on a preliminary ruling under Article 31-ter of DPR 600/73, or the lesser (for assets) or greater (for liabilities) of acquisition cost, book value, and market value, if the departure state is "non-cooperative"
- Based on the contractual consideration if the transfer act is for consideration

## **HOW TO REPORT SUCH ACTIVITIES**

Pursuant to paragraph 3, for determining eligible income, the taxpayer must maintain separate accounting records that allow verification of the correct determination of taxable income and net production value. Further implementation guidelines are expected on this matter.

## **EXIT TAX**

It is necessary to assess the fiscal convenience of repatriating activities based on the potential application of the so-called Exit Tax in the country of origin.

The exit tax is a taxation mechanism that typically applies when a company transfers its tax residence from one state to another or, in some jurisdictions, when assets or functions are moved abroad, generating potential latent capital gains that would no longer be taxable in the departure state.

The exit tax aims to prevent capital gains accrued in one state from escaping taxation when a company (or other taxable entity) relocates its activities elsewhere.

Therefore, it is essential to verify whether an exit tax applies in the country of origin, as the repatriation of such activities could be subject to significant immediate taxation, offsetting uncertain future tax savings. It is also crucial to assess whether any exit tax exists to leverage a form of "revaluation" of the repatriated assets.