

## ITALIAN VAT GUIDE

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### DISCLAIMER

The information provided for by the present document shall only be used as general information since Italian tax law is subject to continuous changes some or any of that may not have been reported yet therein.

Readers are therefore strongly encouraged to ask for professional advice before taking any business decision concerning any investment or enterprise activity in Italy.

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### A. At a glance

Name of the tax	Value added tax (VAT)
Local name	Imposta sul valore aggiunto (IVA)
Date introduced	1 January 1973
European Union (EU) member state	Yes
Administered by	The Ministry of Finance <a href="http://www.finanze.it">http://www.finanze.it</a>
VAT rates	
Standard	20%
Reduced	10% and 4%
Other	Exempt and exempt with credit
VAT number format	IT 0 4 1 9 6 7 6 0 0 1 3
VAT returns	Annual (all businesses)
VAT payment periods	Monthly Quarterly (if turnover in the previous year did not exceed €309,874 for supplies of goods or €516,457 for supplies of services)
Thresholds	
Registration	None
Deregistration	None
Distance selling	€27,889
Intra-Community acquisitions	None
Recovery of VAT by non-established businesses	Yes

## **B. Scope of the tax**

VAT applies to the following transactions:

- The supply of goods or services made in Italy by a taxable person (see the chapter on the European Union);
- The intra-Community acquisition of goods from another EU Member State by a taxable person;
- Reverse charge services received by a taxable person in Italy (that is, services for which the recipient is liable for the VAT due); and
- The importation of goods from outside the European Union, irrespective of the status of the importer.

For VAT purposes, Italy consists of the territory of the Republic of Italy excluding the communities of Livigno and Campione d'Italia and the Italian waters of Lake Lugano.

Special arrangements apply to goods imported into Italy from the Vatican City and the Republic of San Marino, which do not form part of the territory of the Republic of Italy.

## **C. Who is liable**

The term “taxable person” refers to any legal entity or individual that makes supplies of goods or services in the course of a business, performs an artistic or professional activity in Italy or sets up a permanent establishment there.

The occasional supply of goods or services is not generally within the scope of Italian VAT. However, any supply of goods or services made by a corporate entity is regarded as a “business” activity, unless it is specifically treated as “nonbusiness” by the Italian VAT authorities.

VAT registration is also required for any business that makes intra-Community acquisitions in Italy or distance sales to Italian customers in excess of the thresholds (see the chapter on the European Union). The distance selling threshold is €27,889.

### ***Group registration***

A corporate body that controls one or more other companies may apply to form a VAT group. The controlling company must form part of the group, but it is not necessary for all the companies that it controls to be included.

An Italian VAT group is not treated as a single taxable person. The group members retain separate VAT numbers and VAT is chargeable on supplies made between group members. The use of a VAT group is effectively an administrative convenience aimed at offsetting VAT payments and repayments from group members. EU entities that are registered for VAT in Italy may be part of an Italian VAT group.

### ***Non-established businesses***

A “non-established business” is a business that has no fixed establishment in the territory of Italy. A non-established business must register for Italian VAT if it makes any of the following supplies:

- Goods located in Italy at the time of supply, if supplied to non-taxable persons;
- Intra-Community acquisitions in Italy or Intra-Community sales;
- Distance sales in excess of the annual threshold (see the chapter on the European Union); and
- Services taxable in Italy if supplied to nontaxable persons.

If a non-established business supplies goods or services to an Italian taxable person, but does not register for VAT, the Italian taxable person is liable to account for the VAT due, under reverse charge

accounting, that is, the taxable customer must self assess for the tax due. However, a non-established taxable person that does not register may not recover any Italian VAT charged to it unless the VAT is refundable under the terms of the EU 8th or 13th VAT Directive (see the chapter on the European Union).

A non-established business that makes or receives taxable supplies of goods or services in Italy may choose to register for Italian VAT, even if registration is not compulsory.

### ***Tax representatives***

With effect from 31 August 2002, it is no longer necessary for all non-established businesses to appoint a tax representative in order to register for VAT. A foreign business that is established in another EU Member State or in any non-EU country that has suitable mutual assistance provisions with the European Union may register for VAT directly.

A foreign business established in another country must still appoint a VAT representative in order to register for VAT. The representative must be given a power of attorney to act on behalf of the non-established business.

### ***Late registration penalties***

Late registration for VAT may lead to the assessment of a number of penalties, depending on the errors committed. Penalties include the following:

- Failure to communicate the commencement of activities to the Italian VAT authorities a penalty of between €516 and €2,065;
- Failure to issue and record invoices a penalty of between 100% and 200% of the VAT not invoiced;
- Failure to make payments of VAT a penalty of 30% of the payment not made, plus interest on the late payment;
- Failure to maintain VAT records a penalty of between €1,032 and €7,746; and
- Failure to file the yearly VAT return a penalty of between 120% and 240% of VAT due.

## **D. VAT rates**

“Taxable supplies” are supplies of goods and services that are liable to VAT. The term “exempt supplies” is used for supplies of goods and services that are not liable to tax, and which do not give rise to a right of input tax deduction (see Section F *Recovery of VAT by Taxable Persons*). In addition, some supplies are “exempt with credit,” which means that no VAT is chargeable but the supplier may recover related input tax. Exempt with credit supplies include exports of goods outside the European Union and related services, and supplies of intangible services supplied to another taxable person established in the European Union or to any recipient outside the European Union.

Currently three rates of VAT apply in Italy the standard rate at 20% and two reduced rates at 4% and 10%. The standard rate of VAT applies to all supplies of goods or services, unless a specific provision allows a reduced rate or exemption.

The following table lists examples of exempt supplies of goods and services, and supplies of goods and services that are taxed at a reduced rate of VAT. This list is not exhaustive.

Examples of exempt supplies of goods and services	Examples of goods and services taxable at 4%	Examples of goods and service taxable at 10%
Education	Books, newspapers and periodicals	Medicines
Finance		
Insurance	Certain foodstuffs	Supplies of food and drink in restaurants, bars and hotels
postal services	Medical equipment	Supplies of electricity, methane and liquid petroleum gas, all for domestic use
Medical services	Supplies of food and drink in a staff restaurant	Electricity and gas for use by extraction enterprises and industrial enterprises

## **E. Time of supply**

The time when VAT becomes due is called the “time of supply” or “tax point.” The rules for when Italian VAT are due depend on the nature of the transaction.

### ***Goods***

For immovable property, the time of supply is the date when the agreement to transfer the property is signed. For movable property, the basic time of supply is the date of delivery or dispatch of the goods. The time of supply may be an earlier date if an invoice is issued, or if full or partial payment is received before the goods are supplied.

### ***Services***

The time of supply for services is the date of full or partial payment of the consideration. The time of supply may be earlier if an invoice is issued, before the services are supplied. No time of supply is created at the date of performance or completion of the service, in the absence of any payment or invoice.

### ***Deposits and prepayments***

The receipt of a deposit or prepayment for a particular supply of goods or services creates a time of supply up to the amount paid.

### ***Goods sent on approval or for sale or return***

The time of supply for goods sent on approval or for sale or return is the date when the goods are accepted by the customer or 12 months after their removal, whichever is the earlier.

### ***Intra-Community supplies***

The time of supply rules are the same for intra-Community supplies of goods as for domestic supplies.

### ***Intra-Community acquisitions***

The time of supply for an intra-Community acquisition of goods is the date of delivery of the goods in the territory of Italy, or the date of arrival at the final destination in Italy if the purchaser is responsible for arranging transport. The time of supply may be brought forward to an earlier date if an invoice is issued, or if the acquirer makes full or partial payment, before the goods are supplied.

### ***Imported goods***

The time of the supply for imported goods is the date of importation, or when the goods leave a duty suspension regime.

## **F. Recovery of VAT by taxable persons**

A taxable person may recover input tax, which is VAT charged on goods and services supplied to it for business purposes. Input tax is generally recovered by being deducted from output tax, which is VAT charged on supplies made.

Input tax includes VAT charged on goods and services supplied within Italy, VAT paid on imports of goods and VAT self-assessed on the intra-Community acquisition of goods and reverse charge services (see the chapter on the European Union).

A valid tax invoice or customs document must generally accompany a claim for input tax.

### ***Non-deductible input tax***

Input tax may not be recovered on purchases of goods and services that are not used for business purposes (for example, goods acquired for private use by an entrepreneur). In addition, input tax may not be recovered for some items of business expenditure.

The following table sets out examples of items of expenditure for which input tax is not deductible and examples of items for which input tax is deductible, if the expenditure is related to a taxable business use. This list is not exhaustive.

#### **Examples of items for which input tax is non-deductible**

Accommodation

Meals

Travel

Business gifts costing more than €26

60% of the VAT paid on the lease or purchase of a car used for business purposes, maintenance costs and fuel

Private expenditure

50% of the VAT on mobile phone costs

Business entertainment and hospitality  
50% of the VAT on food, drink and hotel accommodation supplied as part of a conference (2007)

#### **Examples of items for which input tax is deductible (if related to a taxable business use)**

Attendance at conferences, exhibitions, training and seminar (except for any amount for meals and accommodation, separately invoiced)

40% of the VAT incurred on the hire or lease of a car for business purposes

Fuel and maintenance costs

### ***Partial exemption***

Input tax directly related to making exempt supplies is not generally recoverable. If an Italian taxable person makes both exempt and taxable supplies it may not recover input tax in full. This situation is referred to as partial exemption. Exempt with credit supplies are treated as “taxable supplies” for these

purposes. In Italy the standard partial exemption calculation method is based on the ratio of taxable turnover to total turnover. Recovery percentages are rounded up or down to the nearest whole number (for example, a recovery percentage of 77.5% is rounded down to 77%, whereas a recovery percentage of 77.6% is rounded up to 78%).

### ***Capital goods scheme***

Capital goods are items of capital expenditure that are used in a business over several years. Input tax is deducted in the VAT year in which the goods are acquired. The amount of input tax recovered depends on the taxable person’s partial exemption recovery position in the VAT year of acquisition. However, the amount of input tax recovered for capital goods must be adjusted over time, if the taxable person’s partial exemption recovery percentage changes during the adjustment period.

In Italy, the capital goods adjustment applies to the following assets for the number of years indicated:

- Land and buildings (adjusted for a period of 10 years); and
- Other capital assets as defined in the Italian civil code (adjusted for a period of five years).

The adjustment is applied each year following the year of acquisition, to a fraction of the total input tax (1/10 for land and buildings and 1/5 for other capital assets). The adjustment may result in either an increase or a decrease of deductible input VAT, depending on whether the ratio of taxable supplies made by the business has increased or decreased compared with the year in which the capital goods were acquired.

### ***Refunds***

If the amount of input tax recoverable in a monthly period exceeds the amount of output tax payable in that period, the taxable person has an input tax credit. A refund of the credit may be claimed annually or quarterly, provided specific conditions are met. If the conditions for requesting a refund are not met, the input VAT credit may be carried forward to offset output VAT in the next VAT period.

### ***Annual VAT refund***

An annual refund may be claimed if any of the following conditions are met:

- The average rate of VAT paid by the taxable person on purchases exceeds the average rate of VAT applied to its sales, increased by 10%.
- Exports, intra-Community supplies or international services make up more than 25% of the taxable person’s total turnover.
- The VAT credit arises from either the purchase or import of depreciable assets or the purchase of goods and services for research and development activities, but the repayment is limited to that amount.
- The majority of the taxable person’s business activities is conducted outside the territory subject to Italian VAT.
- The taxpayer is a non-established business, VAT registered in Italy.
- The taxable person has had an input tax credit in the annual VAT return for three following years. In this case, the repayment is limited to the lowest the credit amounts in the three years.

### ***Quarterly VAT refund***

A quarterly refund may be claimed if any of the following conditions are met:

- The average VAT rate on purchases exceeds the average VAT rate applied on sales increased by 10%.
- Export or intra-Community supplies performed make up more than 25% of the taxable person's total turnover.
- The VAT credit arises from the purchase or import of depreciable assets, which represents more than 2/3 of the total amount of purchases subject to VAT. The repayment is limited to the amount of purchased depreciable assets.
- The taxpayer is a non-established business, VAT registered in Italy.

For annual refund claims, the VAT credit must exceed €2,582, unless the taxable person is claiming the lowest credit amount in a three-year period. For refunds exceeding €5,164, the claimant must provide a bank guarantee at the time the repayment is requested.

Since January 1 1998, taxable persons may use a VAT credit shown in the annual VAT return to offset other Italian tax liabilities. Currently, the offset may not exceed €516,457 a year.

### ***Habitual exporters***

Although the Italian VAT law provides that repayments are made within three months of the deadline of the claim, for credit amounts higher than €516,457, long delays are often experienced. This delay may represent a severe cash flow problem for businesses involved in international trade, because they are frequently in a VAT repayment position. To ease the situation, the Italian VAT law provides that "frequent exporters" may purchase, import and acquire goods and services without payment of VAT.

To qualify as a "frequent exporter," export supplies must equal 10% of a taxable person's annual turnover. VAT-free purchases are limited to the value of the taxable person's export supplies either in the previous calendar year or in the previous 12 months (at the option of the taxable person). The term "exports" includes, for these purposes, exports of goods and services and intra Community supplies.

## **G. Recovery of VAT by non-established businesses**

Italy refunds VAT incurred by businesses that are neither established in Italy nor registered for Italian VAT. A non-established business is allowed to claim Italian VAT to the same extent as an Italian taxable person.

For businesses established in the European Union, refund is made under the terms of the EU 8th Directive; for businesses established outside the European Union, refund is made under the terms of the EU 13th Directive.

In accordance with the terms of the EU 13th Directive, refunds to non-EU businesses are made on the condition of "reciprocity," which the Italian VAT authorities strictly impose. This means that VAT is refunded to businesses that are established in countries that make refunds of VAT or sales taxes to Italian businesses. Switzerland and Norway are included in this category. In practice, businesses from a large number of non-EU countries, including the United States, are excluded from receiving refunds. However, a business established in a country that is excluded from the EU 13th Directive refund scheme may be able to recover Italian input tax, by registering for Italian VAT through a VAT representative, before making the purchase.

For the general VAT refund rules of the EU 8th and 13th Directives refund schemes see the chapter on the European Union.

### ***Refund application***

The deadline for refund claims is 30 June of the year following that in which the tax was incurred. This deadline is firm and cannot be waived or extended.

Claims must be submitted in Italian and must be accompanied by the appropriate documentation (see the chapter on the European Union). The minimum claim period is three months; the maximum period is one year. The minimum claim for a period of less than a year is €200. For an annual claim the minimum amount is €25.

Applications for refunds of Italian VAT may be sent to the following address:

Centro Operativo di Pescara  
Via Rio Sparto, 21  
65129 Pescara  
Italy

### ***Repayment interest***

Italian VAT law states that payment of recoverable VAT must be made no later than six months after the date when the application is filed. However, in practice, the refund procedure takes two or three years. Interest accrues at a rate of 2.75% per annum with effect from the 180th day after the date the claim is filed.

## **H. Invoicing**

### ***VAT invoices and credit notes***

An Italian taxable person must generally provide a VAT invoice for all taxable and exempt supplies made, including exports and intra-Community supplies. Invoices are not automatically required for retail transactions, unless requested by the customer. If the Italian acquirer of the goods or services acquired from an Italian supplier does not receive a correct invoice by the end of the fourth month following the month when the acquisition occurred, it must regularize the purchase by disclosing it and paying VAT to the Treasury by the end of the fifth month following the supply.

A VAT invoice is necessary to support a claim for input tax deduction or a refund under the EU 8th or 13th Directive refund schemes (see the chapter on the European Union).

A VAT credit note may be used to reduce the VAT charged and reclaimed on a supply. A credit note must reflect a genuine mistake or overcharge or an agreed reduction in the value of the original supply and must be issued only in particular cases listed under Italian law. The document must be marked "credit note," it must be numbered and it must refer to the original VAT invoice.

### ***Exports and exempt supplies***

Invoices for exports, intra-Community supplies of goods and exempt supplies must indicate the article of Italian law that applies to the transaction, to support the fact that VAT has not been charged.

### ***Proof of exports and intra-Community supplies***

Italian VAT is not chargeable on supplies of exported goods or on the intra-Community supply of goods (see the chapter on the European Union). However, to qualify as VAT-free, exports and intra-Community supplies must be supported by evidence that proves the goods have left Italy. Acceptable proof includes the following documentation:

- For an export, a copy of the export documents or invoice officially validated by customs; and
- For an intra-Community supply, a range of commercial documentation, such as airway bills, consignment notes and transport documentation.

### ***Self-invoices for reverse charge supplies***

If an Italian taxable person receives a supply of goods or services that is subject to the reverse charge in Italy, it must issue a self-invoice, showing all the details of an Italian tax invoice and the correct VAT due. The self-invoice must be recorded in both the taxable person's purchase and sales ledgers.

### ***Intra-Community acquisitions***

Invoices received for intra-Community acquisitions must be adapted to show all the information necessary for an Italian tax invoice, including the correct VAT due. The invoice must be entered into the taxable person's purchase and sales ledgers. If the supplier does not issue an invoice for the transaction, the Italian acquirer of the goods must self-invoice by the end of the second month following the month when the acquisition occurred. Invoices issued in a foreign currency must be converted to Euros (€).

### ***Invoices issued in a foreign currency***

If an invoice is issued in a foreign currency, all values must be converted into Euros (€), using the official exchange rate (printed in financial newspapers or available from banks). The conversion must be done using the rate for the day the transaction took place or, if that rate is not available, the rate available for the preceding day that is closest to the transaction date.

## **I. VAT returns and payment**

### ***VAT payments***

Italian taxable persons calculate VAT payments on a monthly or quarterly basis, depending on turnover, and pay the VAT. No monthly or quarterly VAT returns must be submitted. VAT may be paid on a quarterly basis if the turnover realized during the previous year (or anticipated for the first year of activity) does not exceed €309,874 for supplies of goods or €51,645 for supplies of services. Interest of 1% must be added to quarterly VAT payments.

Monthly payments are due by the 16th day of the month following the month for which VAT is due.

Quarterly payments are due by the 16th day of the second month following the quarter for which VAT is due.

### ***VAT returns***

All Italian taxable persons must submit an annual VAT return each year. The VAT return period is the calendar year. The return must be filed by the last day of October following the VAT year. However, this deadline is subject to change.

With effect from 2003, Italian taxable persons must also submit an annual summary of supplies made. The annual summary is due by the last day of February following the VAT year.

With effect from 2007, Italian taxable persons must also submit an annual list of suppliers and customers.

### ***Penalties***

If the annual VAT return is submitted more than 90 days after the deadline, the penalty is 120% to 240% of the VAT due. The minimum penalty is €258.

The penalty for the late payment of VAT is equal to 30% of the VAT paid late. In addition, interest is due, charged at a rate of 2.75% per annum.

If the annual VAT return is submitted with incorrect data, the penalty is between 100% to 200% of the VAT not correctly declared.

## **J. EU declarations**

### ***INTRASTAT***

Italian taxable persons that trade with other EU Member States must complete statistical reports, known as INTRASTAT. Separate reports apply to intra-Community acquisitions (INTRASTAT Arrivals) and intra-Community supplies (INTRASTAT Dispatches). No separate European Sales Listing report is used in Italy for intra-Community supplies (unlike in most other EU countries). INTRASTAT declarations must be filed in Euros.

INTRASTAT reports may be monthly, quarterly or annually, depending on the level of intra-Community trade (with effect from 1 January 2003, quarterly reports are used only for dispatches). Statistical information is required only from businesses that complete monthly reports. The following table sets out the INTRASTAT reporting periods and filing dates, based on turnover.

<b>INTRASTAT arrivals</b>	<b>INTRASTAT dispatches</b>	<b>Frequency of filing</b>	<b>Filing deadline</b>
Greater than €150,000	Greater than €200,000	Monthly	The 20th day of the month following the return period
	Greater than €40,000	Quarterly	The 20th day of the month following the quarterly return period
Below €150,000	Below €40,000	Annual	31 January of the year following the return period

### ***Penalties***

INTRASTAT returns filed more than 90 days after the due date are subject to a penalty, ranging from €516 to €1,032. The same penalty applies to returns that are incorrectly filed. However, if the error is corrected after notification from the Italian VAT authorities, the penalty may be reduced or waived.

### ***EU sales lists***

In Italy, all information related to intra-Community transactions is reported using the INTRASTAT form. No separate EU Sales List is used.