

## International comparison of insurance taxation

# Italy

### General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	As reported by the Legislative Decree n. 209 of 7 September 2005 (Code for Private Insurance), a P&C insurance company is a company performing its activity in the following 18 lines of business: accidents, health, land vehicles, railway rolling stock, aircraft, ships, goods in transit, fire and natural forces, other damage to property, motor TPL, aircraft liability, liability for ships, general TPL, credit, surety, miscellaneous pecuniary loss, legal expenses, assistance.	Italian tax law does not provide a specific definition of P&C insurance companies.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	<p><b>Separate Financial Statements</b></p> <p>Italian generally accepted accounting principles (GAAP) as set out in the Italian Civil Code, in special legislation (Legislative Decree 26/5/1997, no. 173 and Legislative Decree no. 209 of 7 September 2005) and in specific rules issued by the Italian Insurance Supervisory Authority (ISVAP).</p> <p><b>Consolidated Financial Statements</b></p> <p>International Financial Reporting Standards (IFRS) endorsed by EU, Legislative Decree no. 209 of 7 September 2005) and in specific rules issued by the Italian ISVAP.</p>	Corporate income taxes (IRES and IRAP) are imposed on P&L, some tax adjustments need to be made in accordance with Italian tax law.
Regulatory return	A specific set of regulatory return documents is provided by a number of ISVAP regulations. It mainly includes several templates detailing solvency margin, assets covering technical reserves, technical and non technical balances as well as other detailed information about specific features (e.g. reinsurance).	N/A.
Tax return	The income statement (separate) represents the basis for the calculation of corporate income taxes (IRES and IRAP).	Annual tax returns have to be filed for corporate income taxes (IRES and IRAP), Value Added Tax (VAT) and withholding tax purposes.
Technical reserves/ equalisation reserves	Accounting	Taxation
Unearned premiums reserve (UPR)	Calculated according to the pro-rata time apportionment principles or, if the result does not materially differ, by lump sums.	Allowed in accordance with accounting principles.

## Italy: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unpaid claims reported	Established on the basis of a fair estimate of all foreseeable costs due for each claim (“ultimate cost”). As an alternative, for sufficient amounts of homogeneous claims and only for the current generation of claims, it may be calculated on the basis of average costs of these claims.	For non-life insurance companies, only for IRES purposes, the variation of compulsory technical reserve relating to the long period component (i.e. 75% of the relevant amount), is deductible in the fiscal year for an amount not exceeding 30%. The exceeding amount can be deducted in equal instalments, within the subsequent 18 fiscal periods.  Starting from fiscal year 08, the residual instalments of tax adjustments made in previous fiscal years and not yet deducted, shall be deducted, for IRES and IRAP purposes, in equal instalments until the 18 <sup>th</sup> year following to the year in which the relevant tax adjustment was made.
Claims incurred but not reported (IBNR)	Established on the basis of frequency and average costs of claims. Other methods are admitted if the historical experience highlights significant variances in one or both parameters above.	Allowed in accordance with accounting principles.
Unexpired risks	This provision accounts for claims and expenses in excess of the related unearned premiums reserve.	Allowed in accordance with accounting principles.
General contingency/ solvency reserves	ISVAP establishes the minimum solvency capital required to maintain the P&C insurance business authorisation.	No specific tax rules.
Equalisation reserves	The current law allows the following equalisation reserves: <ul style="list-style-type: none"> <li>• equalisation reserves for debt insurance. This annual reserve is 75% of the technical balance which should not exceed 1.5 times the highest amount of premiums in the last five years. The max provision is 12% of premiums;</li> <li>• equalisation reserve for natural catastrophes on lines of business different from debt insurance and surety can not exceed 75% of the premiums, and the required provision could be either 2% of the premiums (if these are separately indicated) or 0.3% of the premiums (if not).</li> </ul>	Allowed in accordance with accounting principles.
Expenses/ refunds	Accounting	Taxation
Acquisition expenses	Acquisition costs may be charged in full in the year in which they are incurred, or alternatively, deferred and amortised using a straight-line basis over a maximum period corresponding to the expected life of the contract.	Acquisition costs related to annual policies are fully deductible in the year in which they are sustained and accounted for in the P&L. Acquisition costs related to policies lasting more than one year are deductible in equal instalments during that tax period and in the two following tax period instalments.
Loss adjustment expenses on unsettled claims (claims handling expenses)	The claims reserve should include also the component relating to the claims handling expenses for unsettled claims.	Allowed in accordance with accounting principles.
Experience-rated refunds	Credited when earned.	Taxed in accordance with accounting principles.

## Italy: General insurance – overview (continued)

Investments	Accounting	Taxation
Gains and losses on investments	<p>Realised gains and losses and investment income (dividend and interest) and losses are accounted for in P&amp;L.</p> <p>Unrealised losses resulting from a permanent devaluation of fixed investments should be accounted for in P&amp;L.</p> <p>Unrealised losses resulting from devaluation (fair value below cost value) of current investments should be accounted for in P&amp;L.</p>	<p>Unrealised losses, accrued in P&amp;L different from those on shares may be deducted up to a minimum fiscal value of the relevant assets, determined pursuant to the following rules:</p> <p>a) for listed bonds (classified as trading assets), the stock exchange price at the year end or the average of the stock exchange prices of the last month before the year end;</p> <p>b) for unlisted bonds (classified as trading assets), based on the above value of listed bonds having similar characteristics;</p> <p>c) for listed bonds (classified as financial assets), based on the average of the stock exchange prices of the last six months before the year end.</p> <p>Realised financial gains and losses are taxable. Unrealised gains and losses on shares (classified in the financial statement both as trading and assets) are not taxable.</p> <p>Realised gains and losses on shares not satisfying <i>participation exemption</i> conditions are generally relevant for fiscal purposes. Nonetheless, in the case of collecting dividends during the previous 36 months, capital losses are not deductible for an amount equal to the dividend not taxed (<i>dividend washing regime</i>).</p> <p>95% of capital gains arising from transfer of shares satisfying participation exemption conditions are exempt (starting from FY 2008). Realised losses on the shares that qualify for the <i>participation exemption</i> regime are not deductible.</p>
Investment reserves	N/A.	N/A.
Investment income	N/A.	<p>Interest income accrued in the P&amp;L is fully taxable. 95% of dividends collected are not taxable. Dividends distributed by companies resident in a country not included in the so called White List (to be issued) are fully taxable. Until the White List will be issued, reference has to be made to the Black List countries (as listed in the Ministerial Decree 21 November 2001).</p>
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premiums and claims are deducted from the corresponding gross amounts in the income statement and are presented separately in the year-end financial statements.	No specific tax rules are applicable. Premiums paid to group companies are deductible provided that they are at arm's length principle.
Mutual companies	Accounting	Taxation
Mutual companies (all profits returned to members)	No special treatment.	Mutual companies are subject to IRES and IRAP, according to general principles. Specific tax exemptions are granted to mutual companies with prevailing mutual purpose.

## Italy: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>Incurred losses (net of the amount of certain exempt proceeds) can be carried forward for five years for corporate tax (IRES) purposes only. No time limit for start-up losses incurred during the first three years of the business, provided that they refer to a new business activity.</p> <p>Starting from 2011, incurred losses can be carried forward without time limits and it can be computed in reduction of the tax period's income to the extent of 80% of taxable income.</p>
Foreign branch income	Foreign branch income is fully taxable in Italy; a foreign tax credit for taxes paid abroad is allowed, under certain conditions. Foreign branch income is not subject to taxation for IRAP purposes.
Domestic branch income	Italian branch's taxable income is calculated pursuant to the rules governing business income, comparing the costs and proceeds attributable to the branch as shown in its P&L account. Premiums relating to the policies placed into the Italian territory represent positive items of the branch's income, against the negative items and other costs (including technical reserves) sustained in carrying on the insurance activities in Italy.
Corporate tax rate	27.5% rate (IRES)
Other tax features	Taxation
Premium taxes	<p>IPT is levied on a proportional basis, based on the full amount of premium paid to the insurer at a rate varying from 2.50% to 21.25%, depending on the class of business. Additional surcharges may be applied (up to 1%) depending on the class of business.</p> <p>EEA companies (other than EU) carrying on a business in Italy under the FOS regime must appoint an Italian IPT representative to comply with the relevant IPT fulfilments.</p>
Capital taxes and taxes on securities	N/A.
Captive insurance companies	No specific legislation for captive insurance companies is currently in force.
Value added tax (VAT)	Insurance transactions are exempt from VAT taxation.
Regional Tax on Productive activities (IRAP)	<p>IRAP is applicable on the added-value produced by the company in Italy, determined on the basis of the P&amp;L account at a tax rate of 5,90% (starting from 2011), increased up by 0,92% pursuant to some regional laws.</p> <p>Non-residents Insurance Companies are taxed only on income from productive activities carried out in Italy through a permanent establishment. IRAP taxable basis is computed based on the sum of the results reported in the technical accounts referred to non-life and life business as shown in the P&amp;L account. The following adjustments have to be made:</p> <ul style="list-style-type: none"> <li>• depreciation costs referred to capital goods and other administrative expenses are deductible within the limit of 90% of their amount;</li> <li>• 50% of dividends accrued in the P&amp;L are relevant for IRAP purposes.</li> </ul> <p>Costs relating to personnel, interest for leasing transactions, local property tax, depreciation, losses and appreciation on credits and certain other costs are not relevant for IRAP purposes. Amortization costs referred to trade-marks and goodwill are deductible within the limit of 1/18 of the relevant cost. On the other side, appreciations and depreciations costs of non auxiliary real estate goods, not classified as "trade assets" are relevant for IRAP purposes. Payable interests are partially deductible for IRAP and IRES purposes.</p> <ul style="list-style-type: none"> <li>• 10% of IRAP is deductible for IRES purposes (starting from 2008 fiscal year).</li> </ul>

## Italy: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	As reported by the Legislative Decree n. 209 of 7 September 2005 (Code for Private Insurance), a life insurance company is a company carrying on activity in the following six lines of business: human life, wedding and birth, unit or index linked contracts, health-care, capitalisation, pension funds.	The Italian tax law does not provide a specific definition of life insurance companies.
Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Basis for the company's commercial accounts	<p><b>Separate Financial Statements</b></p> <p>Italian GAAP as set out in the Italian Civil Code, in special legislation (Legislative Decree 26/5/1997, no. 173 and Legislative Decree no. 209 of 7 September 2005) and in specific rules issued by the Italian ISVAP.</p> <p><b>Consolidated Financial Statements</b></p> <p>IFRS endorsed by EU, Legislative Decree no. 209 of 7 September 2005) and in specific rules issued by the Italian ISVAP.</p>	Corporate income taxes (IRES and IRAP) are based on P&L; some tax adjustments need to be made in accordance with Italian tax law.
Regulatory return	A specific set of regulatory return documents is provided by a number of ISVAP regulations. It mainly includes several templates detailing solvency margin, assets covering technical reserves, technical and no technical balances as well as other detailed information about specific features (e.g. reinsurance).	N/A.
Tax return	The income statement (separate) represents the basis for the calculation of corporate income taxes (IRES and IRAP).	Annual tax returns have to be filed for corporate income taxes (IRES and IRAP), VAT and withholding tax purposes.
General approach to calculation of income	Accounting	Taxation
Allocation of income between shareholders and policyholders	Separate accounting rules for policy- and shareholders profit. While the latter follows the statutory accounts and rules, the former is the result of the yield relating to "segregated funds" to which the policy is linked by contract. The calculation of the yield to be recognised to policyholders does not consider unrealised gain and losses on investments included in the segregated fund.	No specific tax rules are applicable.
Calculation of investment return	Accounting	Taxation
Calculation of investment income and capital gains	No special treatment.	No specific tax rules.
Investment income and losses relating to unit and index-linked policies	Included in the P&L accounts	Financial income and losses arising from assets underlying unit-linked and index-linked policies are relevant for IRES purposes. In particular, dividends, capital gains/ losses on shares qualifying for the <i>participation exemption</i> regime and unrealised capital gains losses on shares referred to investments the risk of which is sustained by the insured party (unit-linked and index-linked policies) concur to form the IRES taxable basis.

## Italy: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	<p>Reserves should be calculated according to a prospective actuarial method sufficiently prudent, considering all future obligations.</p> <p>A retrospective method could be adopted if the result is in any case higher than the one obtained adopting the prospective method.</p>	<p>Starting from 2010, technical reserves, accounted for in P&amp;L and quantified in accordance with regulatory rules, concur to determine the taxable income for an amount equal to the ratio calculated among the amount of incomes that concur to determine taxable incomes and the total amount of all incomes, even exempt or excluded ones, including the non-taxable portion of dividends. In any case, this ratio is tax relevant in an amount higher than 95% and lower than 98,5%</p>
Acquisition expenses	<p>Acquisition costs may be fully charged in the year in which they are incurred. Alternatively they maybe deferred and amortised on the straight-line basis over the expected life of the contract, according to the tariff and within uploads limit.</p>	<p>Acquisition costs related to the annual policies are deductible in the year in which they are sustained and accounted for in P&amp;L. Only for life insurance, the acquisition costs related to policies lasting more than one year are deductible alternatively in equal instalments during that tax period and in the two following periods or for the full amount in the year in which the policy has been stipulated. Such costs if included among the assets covering the technical reserves, are deductible up to the amount of the corresponding charges for premiums; such costs are deductible for a period not longer than the duration of each contract, and in any event not more than 10 years.</p>
Gains and losses on investments	<p>Realised gains and losses and investment income (dividend and interest) and losses are accounted for in P&amp;L.</p> <p>Unrealised losses resulting from a permanent devaluation of fixed investments should be accounted for in P&amp;L.</p> <p>Unrealised losses resulting from devaluation (fair value below cost value) of current investments should be accounted for in P&amp;L.</p> <p>Unrealised gains/losses resulting from financial assets backing contracts where the financial risk is borne by policyholders should be accounted for in P&amp;L.</p>	<p>Unrealised financial losses, accrued in P&amp;L (different from those on shares), may be deducted up to a minimum fiscal value of the relevant assets, determined pursuant to the following rules:</p> <ol style="list-style-type: none"> <li>for listed bonds (classified as trading assets), the stock exchange price at the year end or the average of the stock exchange prices of the last month before year end;</li> <li>for unlisted bonds (classified as trading assets), based on the above value of listed bonds having similar characteristics;</li> <li>for listed bonds (classified as financial assets), based on the average of the stock exchange prices of the last six months before year end.</li> </ol> <p>Realised financial gains and losses (different from those on shares) are included in taxable income. Unrealised gains and losses on shares (classified in the financial statement both as trading and assets) are not taxable. Realised gains and losses on shares not satisfying participation exemption conditions are generally relevant for fiscal purposes.</p> <p>Nonetheless, in the case of collecting dividends during the previous 36 months, capital losses are not deductible for an amount equal to the dividend not taxed (dividend washing regime). 95% of capital gains arising from transfer of shares satisfying participation exemption conditions are exempt (starting from FY 2008). Realised losses on the shares that qualify for the participation exemption regime are not deductible.</p> <p>Dividends, capital gains/ losses on shares qualifying for the <i>participation exemption</i> regime and unrealised capital gains losses on shares referred to investments the risk of which is sustained by the insured party (unit-linked and index-linked policies) concur to form the IRES taxable basis.</p>

## Italy: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Reserves against market losses on investments	Insurance companies should consider the need to integrate life reserves with a reserve for financial risk on the basis of the foreseeable yield of the assets backing life insurance liabilities.	N/A.
Dividend income	Included in the P&L accounts.	Interests accrued in P&L are fully taxable. 95% of the amount of dividends collected is exempt. Dividends distributed by companies resident in a country not included in the so called White List (to be issued) are fully taxable. Until the White List will be issued, reference has to be made to the Black List countries (as listed in the Ministerial Decree 21 November 2001).
Proceeds on UCITS investments	N/A.	Starting from 2011, income arising from participation in UCITS and those included in the difference between the value of redemption, liquidation or sale of shares and the weighted average cost of purchase or subscription of shares is taxed applying a withholding tax to the extent of 12.5%.
Policyholder bonuses	Technical reserves' calculation should consider future policyholder bonuses.  Amounts paid for policyholder bonuses should be charged to the income statement.	No specific tax rules.
Other special deductions	N/A.	N/A.
Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premiums and claims are deducted from the corresponding gross amounts in the income statement and are presented separately in the year-end financial statements.	No specific tax rules are applicable. Premiums paid to group companies are deductible provided they are at arm's length.
Mutual companies/ stock companies	Accounting	Taxation
Mutual Companies	No special rules.	Mutual companies are subject to IRES and IRAP according to the general principles. Specific tax relieves are granted to mutual companies with prevailing mutual purpose.

## Italy: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	<p>Incurred losses (net of the amount of certain exempt proceeds) can be carried forward for five years for corporate tax (IRES) purposes only. No time limit for start-up losses incurred during the first three years of the business, provided that they refer to a new business activity.</p> <p>Starting from 2011, incurred losses can be carried forward without time limits and it can be computed in reduction of the tax period's income to the extent of 80% of taxable income.</p>
Foreign branch income	Foreign branch income is fully taxable in Italy; a foreign tax credit for taxes paid abroad is allowed, under certain conditions. Foreign branch income is not subject to taxation for IRAP purposes.
Domestic branch income	Italian branch taxable income is calculated pursuant to the rules governing business income, as shown in its P&L. Premiums relating to the policies placed into the Italian territory represent positive items of the branch income, against the negative items and other costs (including technical reserves) sustained in carrying on the insurance activities in Italy.
Corporate tax rate	27.5% rate.
IRAP	<p>IRAP is applicable on the added-value produced by the company in Italy, determined on the basis of the P&amp;L account at a tax rate of 5,90% (starting from 2011), increased up by 0.92% pursuant to some regional laws.</p> <p>Non-residents Insurance Companies are taxed only on income from productive activities carried out in Italy through a permanent establishment. IRAP taxable basis is computed based on the sum of the results reported in the technical accounts referred to non-life and life business as shown in the P&amp;L account. The following adjustments have to be made:</p> <ul style="list-style-type: none"> <li>• depreciation costs referred to capital goods and other administrative expenses are deductible within the limit of 90% of their amount;</li> <li>• 50% of dividends accrued in the P&amp;L are relevant for IRAP purposes.</li> </ul> <p>Costs relating to personnel, interest for leasing transactions, local property tax, depreciation, losses and appreciation on credits and certain other costs are not relevant for IRAP purposes. Amortization costs referred to trade-marks and goodwill are deductible within the limit of 1/18 of the relevant cost. On the other side, appreciations and depreciations costs of non auxiliary real estates goods, not classified as "trade assets" are relevant for IRAP purposes. Payable interests are partially deductible for IRAP and IRES purposes.</p> <ul style="list-style-type: none"> <li>• 10% of IRAP is deductible for IRES purposes (starting from 2008 fiscal year).</li> </ul>
Assets covering technical liabilities	Governed by specific rules issued by the Italian Insurance Supervisor in order to reduce the credit and liquidity risks linked to the assets held by companies.
Solvency margin	The ISVAP establishes the minimum solvency capital required to maintain the life insurance business.
Substitutive tax on mathematical/ actuarial reserves	<p>Life-insurance companies carrying on the insurance business in Italy must pay a 0.35% tax on mathematical reserves (0.39% only for 2008 fiscal year), with the exception of those regarding death risk contracts, permanent invalidity or non-self-sufficiency contracts, pension funds and social security insurance policies.</p> <p>Substitute tax can be treated as a tax credit to be used, starting from 1 January 2005 (or 1 January 2009 for foreign companies carrying on the business in Italy under FOS regime), to offset any withholding tax or substitute tax due on income from capital derived from insurance policies. If the total amount of withholding and substitutive taxes due for each year is lower than the tax paid for the fifth prior year, the difference may be used, wholly or partly, to offset taxes and contributions due or transferred to other companies.</p> <p>Foreign companies carrying on insurance activities in Italy under "Freedom of Establishment" (FE) regime are liable to substitutive tax on mathematical reserves.</p> <p>EU insurance companies carrying on business in Italy under "Freedom to Provide of Service" (FOS) regime which act (on a voluntary basis) as withholding agent with reference to capital income arising from insurance policies are liable to substitutive tax on mathematical reserves. EU insurance companies operating under FOS regime and not acting as withholding agent are not subject to substitutive tax on mathematical reserves.</p>

## Italy: Life insurance – other tax features (continued)

Policyholder taxation	Taxation
Deductibility of premiums	For life insurance policies executed until 31 December 2000, 19% of the premium paid (not exceeding EUR 1,291.14) can be deducted from an individual's income taxes. For life insurance policies starting from 1 January 2001, the above-mentioned deduction is limited to the portion of premiums related to the death risk.
Interest build-up	Capital gain (including interest) is taxed 12.5%.
Proceeds during lifetime	In the case of surrendering, capital gain is taxed at 12.5% on an amount corresponding to the difference between the surrender value and premiums paid by the policy holder.
Proceeds on death	Exempt from taxation.
Other tax features	Taxation
Premium taxes	2.50% of premiums paid, on contracts executed until 31 December 2000. No premium tax on contracts executed thereafter. EEA companies (other than EU) carrying on business in Italy under the FOS regime must appoint an Italian IPT representative to comply with the relevant IPT fulfilments.
Capital taxes and taxes on securities	None.
Captive insurance companies	No special rules.
Value added tax (VAT)	Insurance transactions are exempt from VAT taxation

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