Italy

International Comparison of Insurance Taxation*

May 2009

Italy – General Insurance

Definition	Accounting	Taxation
Definition of property and casualty insurance company	There is not a specific definition of property and casualty (P&C) insurance companies under Italian Law. Law Decree 17 March 1995, no. 175 and Law Decree 7 September 2005, no. 209 stated that a P&C insurance company is a company performing its activity in 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, suretyship, 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	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).	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	Specific regulatory return required for policyholders receivables ageing.	N/A.
Tax return	P&L represents the basis for the calculation of Corporate Income Tax and Regional Tax on Productive Activities.	Annual tax returns have to be filed for corporate income taxes (IRES and IRAP), 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. In this case the reserve must be 35% of the gross premiums of the period for general insurance; 40% of the premiums for automobile and boat liability insurance; 15% of the premiums for short-time risks.	Allowed in accordance with accounting principles.
Unpaid claims reported	See Claims Reserves	See Claims Reserves
Claims incurred but not reported (IBNR)	Established on the basis of principles suggested by the supervisory authorities, not yet issued.	Allowed in accordance with accounting principles.

Italy - General Insurance (continued)

Technical Reserves/ Equalisation Reserves [continued]	Accounting [continued]	Taxation [continued]
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	The ISVAP establishes the minimum solvency capital required to maintain the P&C insurance business authorisation.	No specific tax rules.
Equalisation/catastrophe reserves	The current law allows the following equalisation reserves: • Compensation reserves for debt insurance. This annual reserve is 75% of the technical balance which is not to exceed 1.5 times the highest amount of premiums in the last five years. The max provision is 12% of premiums. Catastrophe Reserves: • This reserve can not exceed 75% of the premiums, and the required provision is 2% of the premium. • Other equalisation reserve against fluctuations of claims in future years. These reserves must be justified based on technical reasons in the annex to the financial statements.	Allowed in accordance with accounting principles.
Assets covering technical liability	Governed by specific rules issued by the Italian Insurance Supervisor in order to reduce credit and liquidity risks linked to assets held by companies.	No specific tax rules.
Claims reserves	Established on the basis of a fair estimate of all foreseeable costs due for each claim. As an alternative, for sufficient amounts of homogeneous 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 eighteen fiscal periods. Starting from 2008 fiscal year, the residual instalments of tax adjustments made in the previous fiscal years and not yet deducted, shall be deducted, for IRES and IRAP purposes, in equal instalments until the eighteenth year following to the year in which the relevant tax adjustment was made.
P&C Technical reserves, general rules	These reserves, certified by an external actuarial expert, have to be calculated based on Italian law and on prudent actuarial methodologies.	Compulsory technical reserves are tax deductible on accrual basis for insurance companies (for IRES and IRAP purposes) up to the maximum fixed by Italian regulatory law.

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 on the straight-line basis over 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 instalment.
Loss adjustment expenses on unsettled claims (claims handling expenses)	Accounted for according to general rule.	Allowed in accordance with accounting principles.
Experience-rated refunds	Credited when earned.	Taxed in accordance with accounting principles.

Italy - General Insurance (continued)

Investments	Accounting	Taxation
Gains and losses on investments	Unrealised losses resulting from a permanent devaluation of fixed investments should be accounted for in P&L. Unrealised losses resulting from a devaluation (fair value below cost value) of current investments should be accounted for in P&L. Realised gains and losses are included in P&L account. Investment income (dividend and interest) are accounted for in P&L. For 2008 fiscal year only, the evaluation of securities can be based on the market value at the date of June 30, 2008. In such a case, the company must book a special reserve for the corresponding amount (net of the fiscal charges). For Solvency Margin purposes, free capital assets must be indentified to cover such a reserve.	Unrealised losses, accrued in P&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: 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; b) for unlisted bonds (classified as trading assets), based on the above value of listed bonds having similar characteristics; 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. 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. Realised gains and losses on shares not satisfying *participation exemption* conditions are generally relevant for fiscal purposes. Nonetheless, in case of collection of dividend 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.
Investment reserves	N/A.	N/A.
Investment income	N/A	Interest income accrued in the P&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).

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premiums are deducted from gross premiums. Claims are indirectly reduced by claims recovered.	No specific tax rules are applicable. Premiums paid to group companies are deductible provided that they are at arm's length principle (ALP).

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	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.
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	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. Foreign companies carrying on a 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	N/A.
Captive insurance companies	No specific legislation for captive insurance companies is currently in force.
Regional Tax on Productive activities (IRAP)	IRAP is applicable on the added-value produced by the company in Italy, determined on the basis of the P&L account at a tax rate of 3.9%, increased up by 0.9176% pursuant to some regional laws. 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 in the P&L account. The following adjustments have to be made: • depreciation costs referred to capital goods and other administrative expenses are deductible within the limit of 90% of their amount; • 50% of dividends accrued in the P&L are relevant for IRAP purposes 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 interest are partially deductible for IRAP and IRES purposes. •10% of IRAP is deductible for IRES purposes (starting from 2008 fiscal year).

Italy – Life Insurance

Definition	Accounting	Taxation
Definition of Life Assurance companies	There is no specific definition of life insurance companies under Italian law. Law Decree 17 March 1995, no. 174 and Law Decree 7 September 2005, no. 209 states that a life insurance company is a company carrying on activity in six lines of business (i.e. human life, wedding and birth, health-care, contract where financial risk is borne by policyholders, 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	According to Italian GAAP as set out in the 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).	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	N/A.	N/A.
Tax return	P&L represents the basis for the calculation of Corporate Income Tax and Regional Tax on Productive Activities.	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	There are separate accounting rules for policyholders and shareholder profits within statutory accounts (for certain revenue items).	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 incomes related to unit and index-linked policies	Included in P&L account.	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 *participation exemption* 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.
Calculation of underwriting profits or total income	**Accounting**	**Taxation**
Actuarial reserves Life technical reserves on traditional contracts	These reserves, certified by an external actuarial expert, are to be calculated based on Italian law and on prudent actuarial methodologies.	Technical reserves, accounted for in P&L and quantified in accordance with regulatory rules, are tax deductible.
Acquisition expenses	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. In such a case, 90% of the deferred acquisition costs amount may be used to cover technical reserves.	Acquisition costs related to the annual policies are deductible in the year in which they are sustained and accounted for in P&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.

Italy – Life Insurance (continued)

Calculation of underwriting profits or total income [continued]	Accounting [continued]	Taxation [continued]
Gains and losses on investments	Investment income (dividends and interest) are accounted for in P&L. Realised gains and losses are included in P&L. Unrealised losses resulting from a permanent devaluation of fixed investments must be taken through P&L. Unrealised losses resulting from devaluation (fair value below cost value) of current investments should be accounted for in P&L. For 2008 fiscal year only, the evaluation of securities can be based on the market value at the date of June 30, 2008. In such a case, the company must book a special reserve for the corresponding amount (net of the fiscal charges). Unrealised gains/losses resulting from financial assets backing contracts where the financial risk is borne by policyholders should be accounted for in P&L.	Unrealised financial losses, accrued in P&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: 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 year end; b) for unlisted bonds (classified as trading assets), based on the above value of listed bonds having similar characteristics; c) for listed bonds (classified as financial assets), based on the average of the stock exchange prices of the last six months before year end. 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. Nonetheless, in case of collection of dividend 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. Dividends, capital gains/losses on shares qualifying for the *participation exemption* 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.
Reserves against market losses on investments	N/A	N/A
Dividend (and interest) income	Included in P&L account.	Interest 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).
Policyholder bonuses	Deducted from P&L.	No specific tax rules.
Other special deductions	N/A.	N/A.

Reinsurance	Accounting	Taxation
Reinsurance premiums and claims	Ceded premiums are deducted from gross premiums. Sums pair are indirectly reduced by sum recovered.	No specific tax rules are applicable. Premiums paid to group companies are deductible provided they are at arm's length (ALP).

Italy – Life Insurance (continued)

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	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.
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	IRAP is applicable on the added-value produced by the company in Italy, determined on the basis of the P&L account at a tax rate of 3.9%, increased up by 0.9176% pursuant to some regional laws. 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 in the P&L account. The following adjustments have to be made: • depreciation costs referred to capital goods and other administrative expenses are deductible within the limit of 90% of their amount; • 50% of dividends accrued in the P&L are relevant for IRAP purposes 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 interest are partially deductible for IRAP and IRES purposes. • 10% of IRAP is deductible for IRES purposes (starting from 2008 fiscal year).
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	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. 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. Foreign companies carrying on insurance activities in Italy under FE regime (Freedom of Establishment regime) are liable to substitutive tax on mathematical reserves. EU insurance companies carrying on business in Italy under FOS regime (Freedom to Provide of Service 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.

Italy – Life Insurance - Other Tax Features (continued)

Policyholder taxation	Taxation
Deductibility of premiums	For life insurance policies executed through 31 December 2000, 19% of the premium paid (not exceeding Euros 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 case of a surrender, 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. Foreign companies carrying on the 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.

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Contact information

Giorgio De Pace

Partner

TLS – Associazione Professionale
di Avvocati e Commercialisti
V. Monte Rosa 91
20149 Milano Italy
Tel: +39 02.91605604
E-mail: giorgio.de.pace@it.pwc.com

Elena Robicci

Director

TLS – Associazione Professionale
di Avvocati e Commercialisti
V. Monte Rosa 91
20149 Milano Italy
Tel: +39 02.91605601
E-mail: elena.robicci@it.pwc.com

Nancy Saturnino

Senior Manager

TLS – Associazione Professionale
di Avvocati e Commercialisti
V. Monte Rosa 91
20149 Milano Italy
Tel: +39 02.91605602
E-mail: nancy.saturnino@it.pwc.com