

# Italy: Tax Credit for R&D Activity

Paolo Tognolo  
Studio Tributario Tognolo, Milan

Italy has implemented an R&D tax credit. The following article discusses eligible activities, rules and the benefits offered by the credit.

The tax advantages granted under article 3 of the Decree Law number 145/2013<sup>1</sup> have been amended by means of the provisions included in the Stability Law for 2015.<sup>2</sup> The rules that taxpayers will need to follow in order to benefit from this tax credit have been included in the Decree dated May 27, 2015<sup>3</sup>.

## I. Eligible Activities

The activities that can benefit from this special treatment are as follows:

- a) experimental or theoretical works carried out for the purpose of acquiring knowledge on the basis of phenomena and observable facts, without foreseeable direct commercial applications;
- b) planned research or critical technical surveys for the purposes of acquiring knowledge which can be used to set up new products, processes or services or to permit an upgrade of existing products, processes or services or to create components of complex systems, necessary for the industrial research;
- c) acquisition, combination, structuring and use of scientific, technological and commercial knowledge to generate plans, projects or designs for new, modified or improved products, prototypes, processes and services; and
- d) production and testing of products, processes and services, subject to the condition that they are not used for industrial applications or commercial purposes.

All ordinary or periodic changes made to products, production lines, industrial processes and services are excluded, even if they allow an improvement to be made.

## II. Eligible Costs

Costs incurred for the eligible R&D activity correspond to the determination of the tax credit on an accrual basis.

The types of eligible costs and the rules for the determination of the values are laid out in the table below.

With reference to the research agreements, the Decree excludes all the costs sustained for R&D activities assigned to companies belonging to the same group.

### A. Tax Credit

The maximum amount of the annual granted tax credit is equal to 5 million euros, provided that the expenses and costs incurred for the R&D activity during the tax period:

- are equal to 30,000 euros;
- exceed the average of the costs for investments realized in the three tax periods preceding the one in progress on December 31, 2015.

For business activities borne and operative for less than three years, the average is calculated on the lower period starting from their incorporation.

The tax credit is determined on the "overall incremental expense" to which specific ratios are applied.

### 1. Determination of the Overall Incremental Expense

The determination of the overall incremental expense is given by the following formula:

$$\begin{array}{rcl} \text{Overall incre-} & & \text{annual aver-} \\ \text{mental ex-} & = & \text{age of the} \\ \text{penditure} & & \text{same ex-} \\ & & \text{penses sus-} \\ & & \text{tained in the} \\ & & \text{three previ-} \\ & & \text{ous tax peri-} \\ & & \text{ods} \end{array}$$

### 2. Determination of the tax credit

The tax credit is determined by applying to each category of expenses the following ratios:

Paolo Tognolo is  
Senior Tax Partner  
at Studio Tribu-  
tario Tognolo,  
Milan