

# Prada – Italian Tax Booklet

concerning withholding tax on dividends, capital gains tax, inheritance and gift tax and financial transaction tax.

13<sup>th</sup> July 2017

---

Prepared by:

**Bernoni Grant Thornton (Bernoni & Partners)**

Member firm of Grant Thornton International Ltd

**CONTACTS:**

Mr. Paolo Besio  
*Partner*  
Email: paolo.besio@bgt.it.gt.com

Mr. Diego Pagliai  
*Senior Manager*  
Email: diego.pagliai@bgt.it.gt.com

Via M. Gioia, 8  
20124 Milan  
ITALY

Lungotevere Michelangelo, 9  
00192 Rome  
ITALY

T: +39 02 7600 87 51  
F: +39 02 7818 79



## 1. INDEX

<b>2. SUMMARY .....</b>	<b>3</b>
(A) General remarks.....	3
(B) Withholding tax on dividend distributions.....	4
(C) Capital gains tax on sale of shares (CGT).....	5
(D) Inheritance and gift tax on donation or inheritance of shares (IGT).....	5
(E) Financial Transaction Tax on transfer of shares (FTT).....	5
(F) Taxpayer liable to payment of CGT, IGT and FTT .....	6
<b>3. DOUBLE TAXATION CONVENTIONS .....</b>	<b>6</b>
(A) Jurisdictions with which Italy has entered into double taxation conventions.....	6
(B) Double taxation convention between Italy and Hong Kong.....	7
<b>4. WITHHOLDING TAX.....</b>	<b>8</b>
(A) General remarks.....	8
(B) Rates applicable to individual Shareholders.....	8
1. Individual Shareholders resident in Italy .....	8
2. Individual Shareholders not resident in Italy .....	9
(C) Rates applicable to corporate Shareholders .....	9
1. Corporate Shareholders resident in Italy .....	9
2. Corporate Shareholders not resident in Italy .....	9
(D) Tax withheld at source by the Company .....	10
(E) Credit refund procedure .....	10
<b>5. CAPITAL GAINS TAX .....</b>	<b>11</b>
(A) Rates applicable to individual Shareholders.....	11
1. Individual Shareholders resident in Italy .....	11
2. Individual Shareholders not resident in Italy .....	11
(B) Rates applicable to corporate Shareholders.....	12
1. Corporate Shareholders resident in Italy .....	12
2. Corporate Shareholders not resident in Italy .....	13
(C) "Substantial participation" .....	13
(D) Procedures for computation and payment of capital gains tax .....	14
<b>6. TAX RETURN .....</b>	<b>16</b>
(A) Tax return form with instructions on how to fill in each section .....	16
1. How to obtain an Italian Tax Identification Code ("Codice Fiscale") and Special PIN Code 16	
2. How to file the tax return .....	17
3. Deadlines for filing a tax return .....	17
4. Deadlines for the payment of capital gain tax.....	18
5. Methods of payment of capital gain tax .....	19
<b>7. CONSEQUENCES OF FAILURE TO FILE A TAX RETURN OR TO PAY TAX .....</b>	<b>19</b>
(A) Failure to file a tax return .....	19
(B) Failure to pay tax.....	20
<b>8. INHERITANCE AND GIFT TAX.....</b>	<b>21</b>
(A) Individual investors.....	21
(B) Procedures for payment of inheritance and gift tax .....	22

<b>9. FINANCIAL TRANSACTION TAX ON TRANSFER OF SHARES.....</b>	<b>23</b>
(A) Taxable transactions .....	23
(B) Tax rate.....	23
(C) Taxable value.....	24
(D) FTT Payment.....	24
(E) Person liable to FTT and person responsible for the payment.....	24
(F) FTT Return .....	24
(G) Record-keeping requirements .....	25
(H) Italian Centralized Management Company .....	25
(I) Tax collection and penalties .....	25
<b>10. OTHER TAX/DUTIES.....</b>	<b>26</b>
(A) Registration tax, stamp duty and wealth tax.....	26

## 2. SUMMARY

### **(A) General remarks**

This Booklet contains:

- (i) a description of the Italian tax law concerning:
  - (a) withholding tax on dividend distributions from, and
  - (b) capital gain tax on the sale of,

shares issued by PRADA S.p.A. (hereinafter, “PRADA” or the “Company”), a company incorporated in Italy which has its ordinary shares (“Shares”) listed on the Hong Kong Stock Exchange; and

- (ii) a general description of:
  - (a) the law on inheritance and gift tax in Italy, as may be applicable to Shareholders of the Company (“Shareholders”);
  - (b) the law on financial transaction tax in Italy, as may be applicable to Shareholders; and
  - (c) other tax and duties imposed under Italian law, as may be applicable to Shareholders.

As the Company is an Italian resident entity subject to Italian tax law, dividends distributed by the Company and capital gains realized through the sale of Shares may be subject to tax in Italy, as well as in the tax jurisdiction in which the recipient/seller is resident for tax purposes.

The description of the relevant Italian tax law contained in this Booklet is based upon Italian law and regulations currently in force and official interpretations published by the Italian tax authorities as at the date of this Booklet.

Law and regulations and their interpretation are subject to change and these amendments may have retroactive effect.

Neither PRADA nor Bernoni & Partners has undertaken to produce an updated version of this Booklet. It will be necessary, therefore, for investors to seek advice on the tax consequences of investing in the Shares. Further, this Booklet is provided for information purposes only and is not intended to be, nor should it be construed as, legal or tax advice.

The Italian tax regime applicable to dividends and capital gains may vary depending upon whether the Hong Kong Stock Exchange is a “regulated stock market” in accordance with Italian regulatory and tax law. Currently, the interpretations issued by the Italian Revenue Agency on the definition of “regulated stock

market” appear to exclude from its scope the Hong Kong Stock Exchange. If the Italian Revenue Agency issues a ruling on this topic, the Company will make an announcement to inform investors of this development and the consequences thereof.

In the paragraphs that follow, the treatment of (i) withholding tax on the Company’s dividend distributions, (ii) capital gains tax on the sale of Shares by Shareholders (whether individual or corporate, resident or not resident in Italy), (iii) inheritance and gift tax on donation or inheritance of shares and (iv) financial transaction tax on transfer of shares is described.

Unless otherwise specified, references in this Booklet to the “Shareholder” or to the “taxpayer” shall include beneficial owners of Shares even if legal title is held through another entity e.g. a nominee Company such as HKSCC Nominees Limited.

**The Company recommends that all Shareholders should consult their professional advisors in order to understand the taxation consequences of purchasing, holding, disposing of or dealing in Shares or exercising any rights attaching to them and to take all measures necessary in order to comply with Italian law and regulations.**

### ***(B) Withholding tax on dividend distributions***

Under Italian law, a withholding agent - such as the Company - must apply the correct withholding tax rate at the time of the payment of the dividend and is subject to penalties if it fails to do so.

Different withholding tax rates apply depending on whether (i) the Shareholder is resident in Italy, (ii) the investment is held privately or as part of the Shareholder’s business activities and (iii) the investment is substantial.

Due to the inherent characteristics of the Hong Kong Central Clearing and Settlement System (“CCASS”), the Company is not able, at the time of the payment of dividends, to ascertain the identity and the tax residency of the beneficial owners of Shares who hold their investments through CCASS. The Company is therefore not able to apply a rate of withholding tax on an individual basis to such beneficial owners of Shares.

In addition, CCASS does not have the capacity to attribute to each CCASS participant (and, accordingly, to each beneficial owner of the Shares) its respective share of distributed profits with the purpose of enabling the Company to apply the proper withholding tax rate (if any).

As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of dividends payable to such beneficial owners at a rate equal to 26%, which is the current ordinary rate for dividends paid to non-Italian residents on or after July 1<sup>st</sup>, 2014<sup>1</sup>.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced. Shareholders who have paid tax on the dividend in another jurisdiction may also claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend<sup>2</sup>.

---

<sup>1</sup> Dividends paid on or prior to December 31<sup>st</sup>, 2011 were subject to a 27% final withholding tax; due to amendments in Italian tax law, dividends paid on or after January 1<sup>st</sup>, 2012 but on or prior to June 30<sup>th</sup>, 2014 became subject to a 20% final withholding tax. Due to following amendments in Italian tax law, dividends paid on or after July 1<sup>st</sup>, 2014 are subject to a 26% final withholding tax.

<sup>2</sup> For dividends paid on or prior to December 31<sup>st</sup>, 2011, the credit refund (if due) was equal to the lower of 4/9<sup>th</sup> of the Italian withholding tax and the tax actually paid abroad on the dividend; due to tax amendments, for dividends paid on or after January 1<sup>st</sup>, 2012 but on or prior to June 30<sup>th</sup>, 2014, the credit refund (if due) was equal to the lower of 1/4<sup>th</sup> of the Italian withholding tax and the tax actually paid abroad on the dividend. Due to following tax amendments (see also note 1), for dividends paid on or after July 1<sup>st</sup>, 2014, the credit refund (if due) is equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax and the tax actually paid abroad on the dividend.

Shareholders entitled to a reduced (or to zero) withholding tax may seek to recover the excess amount of tax paid through a refund procedure initiated with the Italian Revenue Agency.

### ***(C) Capital gains tax on sale of shares (CGT)***

Capital gains realized by non-Italian resident shareholders from the sale of Shares are subject to taxation in Italy if the participation is in an Italian company.

Capital gains realized from the sale of Shares are subject to a substitute tax of 26% for sales completed on or after July, 1<sup>st</sup>, 2014<sup>3</sup>.

There is no threshold before a taxpayer is liable to pay capital gains tax on a sale of Shares. Further, capital gains tax is payable on the entire amount of the gain realized.

The amount of tax due in Italy may be reduced or exempted pursuant to any applicable double taxation convention. A full exemption applies to Shareholders resident in jurisdictions which allow the exchange of information with Italy. Hong Kong is now included among these jurisdictions as a Double Taxation Agreement (the "DTA") has been signed between the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Government of the Italian Republic and has entered into force (for further details please refer to paragraph 3(B)).

### ***(D) Inheritance and gift tax on donation or inheritance of shares (IGT)***

The transfer of shares in Italian corporations for no consideration, between living persons or upon the death of a shareholder, gives rise to a tax liability in Italy for both resident and non-resident donees or heirs. The tax rate may be 4%, 6% or 8%, depending on the relevant circumstances. Exclusions are granted, in some circumstances, to relatives of the deceased or donor.

The amount of gift or inheritance tax due in Italy may be reduced or exempted pursuant to any applicable double taxation convention.

### ***(E) Financial Transaction Tax on transfer of shares (FTT)***

The transfer of the ownership of financial instruments (mainly shares and other participating financial instruments) issued by companies resident in Italy, wherever executed and regardless the residence of the parties involved in the deal, are subject to Financial Transaction tax.

The tax rates are equal to 0.10% for transfers of shares, other participating financial instruments issued by Italian resident companies and of securities representing equity investment, executed in regulated stock markets or through multilateral trading facilities and 0.20% for all other taxable transfers. Based on the specific FTT regulations, on the assumption that the Hong Kong Stock Exchange is considered a regulated stock market for FTT purposes<sup>4</sup>, the transfer of Prada's Shares should be subject to 0.10% FTT tax rate. The

---

<sup>3</sup> Depending on applicable circumstances, capital gains realized from the sale of Shares are subject to taxation at progressive rates levied on 49.72% of the capital gains realized until December 31<sup>st</sup> 2017 and on 58.14% of the capital gains realized starting from January 1<sup>st</sup>, 2018 under provision set by Ministerial Decree dated May 26<sup>th</sup>, 2017.

<sup>4</sup> Letter f) of paragraph 2 of article 1 of the ministerial decree dated February 21<sup>st</sup>, 2013 relating to the implementation of the FTT (the "Ministerial Decree") published by the Ministry of Economy and Finance in the gazette dated February, 28<sup>th</sup> 2013, defines the regulated markets and multilateral trading facilities as the markets and systems recognized pursuant to Directive 2004/39/EC of the European Parliament and of the Council of April, 21<sup>th</sup> 2004, relevant to the Economic European Area, as included in the list published in the specific section of the European Securities and Markets Authority' website (<https://www.esma.europa.eu/databases-library/registers-and-data>) for the purposes provided for in paragraph 2 of Article 13 of (EC) Regulation No 1287/2006 of the Commission, of August, 10<sup>th</sup> 2006, provided that they are established in States and territories included in the list referred to in the ministerial decree issued in accordance with Article 168-bis of the Italian CIT Code (i.e. the Presidential Decree n. 917, dated December 22<sup>nd</sup>, 1986, "TUIR"). In the case of the States to which the aforesaid provisions do not apply, regulated

Company recommends that all Shareholders should consult their professional advisors in order to confirm that the Hong Kong Stock Exchange can be considered (for regulatory perspective) in regular operation and authorized by a National Public Authority with State supervision.

***(F) Taxpayer liable to payment of CGT, IGT and FTT***

Even if an investor holds Shares through an intermediary, it is nonetheless the investor, as beneficial owner, who has the obligation to pay capital gains tax or inheritance and gift tax and to submit the tax return.

The FTT is due by the persons to which the ownership of shares (including the beneficial ownership) is transferred. Generally, the payment of FTT is executed by financial intermediary involved in the transaction.

**3. DOUBLE TAXATION CONVENTIONS**

***(A) Jurisdictions with which Italy has entered into double taxation conventions***

The following is a list of all jurisdictions with which Italy has entered into a double taxation convention (each, a “State”) (list published on the Ministry of Finance’s official website – <http://www.finanze.gov.it/opencms/it/fiscalita-comunitaria-e-internazionale/convenzioni-e-accordi/convenzioni-per-evitare-le-doppie-imposizioni/>):

Albania	Ethiopia	Malta	South Korea
Algeria	France	Mauritius	Former Soviet Union: (1)
Argentina	Finland	Mexico	Spain
Armenia	Georgia	Moldova	Sri Lanka
Australia	Germany	Morocco	Sweden
Austria	Ghana	Mozambique	Switzerland
Azerbaijan	Greece	Netherlands	Syria
Bangladesh	Hong Kong	New Zealand	Tanzania
Belarus	Hungary	Norway	Thailand
Belgium	Iceland	Oman	Trinidad and Tobago
Brazil	India	Pakistan	Tunisia
Bulgaria	Indonesia	Philippines	Turkey
Canada	Ireland	Poland	Uganda
Chile	Israel	Portugal	Ukraine
China	Japan	Qatar	United Arab Emirates
Congo	Jordan	Romania	United Kingdom
Cote d’Ivoire	Kazakhstan	Russian Federation	United States of America
Croatia	Kuwait	San Marino	Uzbekistan
Cyprus	Latvia	Saudi Arabia	Venezuela
Czech Republic	Lebanon	Senegal	Vietnam

---

markets and multilateral trading facilities are considered those in regular operation and authorized by a National Public Authority with State supervision, including therein those recognized by Italian Supervisory Authority For The Investors’ Protection (i.e. “CONSOB”) pursuant to Article 67, paragraph 2, of TUF, provided that they are established in States and territories included in the list referred to in the above mentioned ministerial decree.

Denmark	Lithuania	Singapore	Former Yugoslavia: (1)
Ecuador	Luxembourg	Slovakia	Zambia
Egypt	Macedonia	Slovenia	
Estonia	Malaysia	South Africa	

(1) Countries which are the former members of dissolved Federations apply the double taxation convention unless they have subscribed to their own particular tax convention. The double taxation convention subscribed to by the Soviet Union currently applies to Kyrgyzstan, and Tajikistan.

The double taxation convention entered into with the former Yugoslavia currently applies to Bosnia and Herzegovina, Serbia and Montenegro.

Starting from 2016 the DTA between Italy and Hong Kong has entered into force and has become effective (for further details please refer to paragraph (B)).

The Company recommends that all Shareholders should consult their professional advisors in order to check whether new double taxation conventions have been signed and have entered into force between Italy and other countries.

Double taxation conventions may limit the ability of Italy to tax income sourced in Italy, such as dividends and capital gains, arising out of an investment in shares in an Italian company, paid to or realized by non-Italian resident beneficial owners of such shares.

In general, the conventions do not settle procedural questions and each State is free to use the procedure provided in its domestic law in order to apply the limits provided by the convention unless a specific procedure is agreed between the two States. A State can therefore levy tax at a lower rate in accordance with the relevant provisions of the convention, subject to possible prior verification that the taxpayer is entitled to benefit from the convention, or it can impose the tax provided for under its domestic law and subsequently refund the part of that tax that exceeds the amount it is entitled to levy under the provisions of the convention.

### ***(B) Double taxation convention between Italy and Hong Kong***

The DTA between the Government of the Italian Republic and the Government of the Hong Kong Special Administrative Region of the People's Republic of China has entered into force on August 10<sup>th</sup>, 2015.

Under DTA provisions:

- the withholding tax rate applicable on dividends paid by the Company to an individual and corporate Shareholder resident in Hong Kong (who do not carry on business in Italy through a permanent establishment situated therein) cannot exceed 10% of the gross amount of the dividend; and
- capital gains realized by individual and corporate Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong.

Please note that, due to the inherent characteristic of the "CCASS", the Company is not able to ascertain the identity and the tax residency of the beneficial owners of Shares who hold their investments through CCASS, so the Company applies a withholding tax rate of 26% on dividend paid to the individual Shareholders irrespective of their tax residency (included individual Shareholders resident in Hong Kong who can claim a tax refund to the Italian Revenue Agency for withholding tax paid over conventional 10%).



## 4. WITHHOLDING TAX

### **(A) General remarks**

As stated in paragraph 2(B), due to the inherent characteristics of CCASS, the Company is not able to ascertain the identity, and consequently the tax residence, of the beneficial owners of Shares who hold their investments in CCASS.

The Company is therefore not able to apply a rate of withholding tax on an individual basis to beneficial owners of the Shares who hold through CCASS.

In addition, CCASS does not have the capacity to attribute to each CCASS participant (and, accordingly, to each beneficial owner of the Shares) its respective share of distributed profits with the purpose of enabling the Company to apply the correct withholding tax rate (if any).

As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of the dividend payable to such beneficial owners at a rate of 26%, which is the ordinary rate of withholding tax applicable to dividends paid to non-Italian residents.

Shareholders entitled to be charged with a reduced (or no) withholding tax rate may seek to recover the excess amount of tax paid through a refund procedure initiated with the Italian Revenue Agency.

Shareholders should note that delays may be encountered in the process of obtaining a credit refund.

Italian tax law contains anti-avoidance provisions which may disregard the tax effects of the sale and purchase transactions of Shares put in place before a dividend distribution; the purpose of these provisions is to avoid Shareholders receiving a refund of taxes to which they would not otherwise be entitled.

### **(B) Rates applicable to individual Shareholders**

#### *1. Individual Shareholders resident in Italy*

Dividends paid by the Company to individual Shareholders resident in Italy are subject to different tax treatment depending on the following circumstances:

- dividends paid on a non-substantial participation not held in a business capacity are subject to a final withholding tax at a rate of 26%; and
- 41.86% of dividends paid on a participation held in a business capacity, or on a substantial participation not held in a business capacity, are exempt from tax (60% in the case of dividends paid out of profits of 2007 or previous years, and 50.28% in case of dividends paid out of profits from 2008 to 2016). The remaining 58.14%<sup>5</sup> of the dividends (40% in the case of dividends paid out of profits of 2007 or previous years and 49.72% in case of dividends paid out of profits from 2008 to 2016) is taxable at progressive rates (which range from 23% (for income up to €15,000) to 43% (for income exceeding €75,000)).

A participation is considered to be “substantial” when it entitles the holder to (i) more than 2% of the voting rights or more than 5% of the capital in companies listed on regulated stock markets (according to Italian law), or (ii) more than 20% of the voting rights or more than 25% of the capital in other companies, including companies listed on non-regulated stock markets (according to Italian law).

On the assumption, based on the interpretations issued by the Italian Revenue Agency, that the Hong Kong Stock Exchange is not regarded as a regulated stock market for this purpose, the thresholds of 20% and 25% would apply before a participation is considered to be “substantial”.

---

<sup>5</sup> Under provision set by Ministerial Decree dated May 26<sup>th</sup>, 2017.



Since the Company has currently issued only ordinary shares, the relevant threshold for determining if a participation is “substantial” or “non-substantial” is whether the participation is of more than 20% of voting rights in the Company.

## 2. Individual Shareholders not resident in Italy

Dividends paid by the Company to non-Italian resident individual Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are subject to a 26%<sup>6</sup> final withholding tax as a general rule.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced.

Provided that conditions set by article 10 of the DTA are applicable, for dividends paid by the Company on or after January 1<sup>st</sup>, 2016, Hong Kong resident individual Shareholders may claim a credit refund equal to the difference between the tax withheld and 10% of the gross amount of the dividends.

Alternatively, non-Italian resident Shareholders may claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence<sup>7</sup>. However, this credit refund cannot be enjoyed where a Shareholder seeks relief from double taxation based on an applicable tax convention, i.e. the two forms of juridical double taxation relief are alternatives.

## **(C) Rates applicable to corporate Shareholders**

### 1. Corporate Shareholders resident in Italy

In general, 95% of dividends paid by the Company to corporate Shareholders resident in Italy should be exempted from tax (the same rules apply to companies adopting IAS/IFRS, except for dividends paid on shareholdings classified as “held for trading” that are fully taxable).

No withholding tax is levied upon distribution.

### 2. Corporate Shareholders not resident in Italy

Dividends paid by the Company to non-Italian resident corporate Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are subject to a 26%<sup>8</sup> final withholding tax as a general rule.

Subject to the provisions of any applicable double taxation convention, the rate of withholding tax may be reduced.

Provided that conditions set by article 10 of the DTA are applicable, for dividends paid by the Company on or after January 1<sup>st</sup>, 2016, Hong Kong resident corporate Shareholders may claim a credit refund equal to the difference between the tax withheld and 10% of the gross amount of the dividends.

Alternatively, non-Italian resident corporate Shareholders may claim a credit refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence<sup>9</sup>. However, this credit refund cannot be enjoyed where a Shareholder seeks relief from double taxation based on an applicable tax convention, i.e. the two forms of juridical double taxation relief are alternatives.

---

<sup>6</sup> See note 1.

<sup>7</sup> See note 2.

<sup>8</sup> See note 1.

<sup>9</sup> See note 2.

Special rules apply, among others, for dividends paid to European Union (“EU”) or European Economic Area (“EEA”) “white listed” companies<sup>10</sup>, which are subject to a 1.2%<sup>11</sup> withholding tax; in this case the 11/26<sup>th</sup> credit refund would not be applicable<sup>12</sup>.

#### ***(D) Tax withheld at source by the Company***

As stated above, dividends paid by the Company to non-Italian resident Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) are generally subject to a 26% final withholding tax, which is withheld by the Company upon payment of a dividend.

As explained in sub-paragraph (A) of this section, due to the inherent characteristics of CCASS, the Company is not able to ascertain the identity, and consequently the tax residence, of the beneficial owners of the Shares who hold their investments in CCASS. As a consequence, the Company will, upon distribution, apply a withholding tax on the whole amount of the dividend payable to such beneficial owners at a rate equal to 26%, which is the ordinary rate applicable to dividends paid to non-Italian residents.

#### ***(E) Credit refund procedure***

Where no double taxation convention is applicable, non-Italian resident Shareholders may claim a partial refund equal to the lower of 11/26<sup>th</sup> of the Italian withholding tax levied and the foreign tax actually paid on the dividend in their country of residence. However, if the dividend is not subject to final taxation in Shareholder’s country of residence, the non-Italian resident Shareholder will not be entitled to receive any credit refund.

In order to be entitled to the credit refund, the non-Italian resident Shareholder must (i) provide evidence of being resident for tax purposes in its home jurisdiction, by way of a certificate issued by the relevant tax authority in that jurisdiction (ii) and demonstrate that a final tax on the same dividend has been paid, by means of proper documentation issued by the above mentioned tax authority.

Where double taxation convention is applicable, non Italian resident Shareholder may claim a partial or full refund of the Italian withholding tax levied. For the request of the credit refund official forms have been issued by the Italian Revenue Agency<sup>13</sup>.

A credit refund request, if any, must be filed with the Italian Revenue Agency by the Shareholder not later than 48 months following the date on which the tax on the dividend is finally paid by the Shareholder in its home jurisdiction.

---

<sup>10</sup> “White listed” companies are those companies resident in jurisdictions which allow an adequate exchange of information with Italy.

<sup>11</sup> The withholding tax rate was equal to 1.65% for dividends paid out of profits of 2007 or previous years and to 1.375% for dividends paid out of profits from 2008 to 2016.

<sup>12</sup> Furthermore, following the implementation of the 2011/96/EU European Union Parent-Subsidiary Directive (the “Directive”) of November 30<sup>th</sup>, 2011 (as amended by 2015/121/EU Directive), a withholding exemption applies if the corporate shareholder meets the following requirements:

- it is resident for tax purposes in an EU Member State;
- it is incorporated in one of the forms listed in the Annex to the Directive;
- it is subject to one of the taxes listed in the Annex to the Directive, without benefiting from an exemption, unless temporarily or territorially limited; and
- it holds at least 10% of the capital of the subsidiary for at least one uninterrupted year.

The parent-subsidiary regime is not available in the case of transactions falling within the scope of the so called “abuse of law” rule, which is aimed at disowning non-economic transactions that carry undue tax advantages.

<sup>13</sup> A copy of the forms, along with the related instructions, are available at the following links:  
[www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Documentazione/Fiscalita+internazionale/Modulistica+fiscale+internazionale+%28provvedimento+del+10+luglio+2013%29/Cover+page+forms+ABCDEF/COVER+PAGE\\_ABCDEF.pdf](http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Documentazione/Fiscalita+internazionale/Modulistica+fiscale+internazionale+%28provvedimento+del+10+luglio+2013%29/Cover+page+forms+ABCDEF/COVER+PAGE_ABCDEF.pdf)  
[www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Documentazione/Fiscalita+internazionale/Modulistica+fiscale+internazionale+%28provvedimento+del+10+luglio+2013%29/Instructions+for+filling+in+forms/ISTRUZIONI+ENG.pdf](http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Documentazione/Fiscalita+internazionale/Modulistica+fiscale+internazionale+%28provvedimento+del+10+luglio+2013%29/Instructions+for+filling+in+forms/ISTRUZIONI+ENG.pdf)

Shareholders should note that delays may be encountered in the process of obtaining a credit refund.

## 5. CAPITAL GAINS TAX

### **(A) Rates applicable to individual Shareholders**

#### *1. Individual Shareholders resident in Italy*

Capital gains realized by individual Shareholders upon a disposal of the Shares for consideration (i.e. not as a gift) are subject to the following tax treatment:

- capital gains realized through the sale of a non-substantial participation not held in a business capacity are fully (i.e. 100%) subject to a substitute tax of 26% for capital gains realized on or after July 1<sup>st</sup>, 2014);
- 50.28% of capital gains realized through the sale of a participation (qualifying for the “Participation exemption” regime described in paragraph (B) below) realized until December 31<sup>st</sup> 2017 held in a business capacity or of a substantial participation not held in a business capacity are exempt from tax. The remaining 49.72%<sup>14</sup> of the capital gains are taxable at progressive rates (which range from 23% (for income up to €15,000) to 43% (for income exceeding €75,000));
- 41.86% of capital gains realized through the sale of a participation (qualifying for the “Participation exemption” regime described in paragraph (B) below) realized starting from January 1<sup>st</sup> 2018 held in a business capacity or of a substantial participation not held in a business capacity are exempt from tax. The remaining 58.14% of the capital gains are taxable at progressive rates (which range from 23% (for income up to €15,000) to 43% (for income exceeding €75,000)); capital gains realized through the sale of a participation (not qualifying for the “Participation exemption” regime described in paragraph (B) below) held in a business capacity are fully (i.e. 100%) taxable at progressive rates (which range from 23% - for income up to €15,000 - to 43% - for income exceeding €75,000).

#### *2. Individual Shareholders not resident in Italy*

Capital gains realized by non-Italian resident individual Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) on the sale of Shares are subject to the following tax treatment:

- capital gains realized through the sale of a non-substantial participation in Italian companies listed on non-regulated stock markets (according to the interpretation issued by Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are fully (i.e. 100%) subject to a 26% substitute tax (the substitute tax is 20% for capital gains realized on or prior June 30<sup>th</sup>, 2014). In this case, the Shareholder is required to file a tax return in Italy. A full exemption applies to Shareholders resident in jurisdictions which allow the exchange of information with Italy; Hong Kong is among these jurisdictions starting from January 1<sup>st</sup>, 2016 for Italian perspective. **Individual Shareholders resident in Hong Kong will not therefore be subject to capital gains tax and will not be required to file a tax return in Italy for capital gains realized on or after January 1<sup>st</sup>, 2016 from the sale of the Shares;**
- 50.28% of capital gains realized through the sale of a substantial participation until December 31<sup>st</sup> 2017 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretation issued by Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 49.72%<sup>15</sup> of

---

<sup>14</sup> See note 3.

<sup>15</sup> See note 3.

the capital gains are taxable at progressive rates (which range from 23% - for income up to €15,000 - to 43% - for income exceeding €75,000). In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after January 1<sup>st</sup>, 2016 by individual Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);

- 41.86% of capital gains realized through the sale of a substantial participation starting from January 1<sup>st</sup> 2018 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretation issued by Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 58.14% of the capital gains are taxable at progressive rates (which range from 23% - for income up to €15,000 - to 43% - for income exceeding €75,000). In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after January 1<sup>st</sup>, 2016 by individual Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);
- capital gains realized through the sale of a non-substantial participation in Italian companies listed on regulated stock markets (according to the interpretations issued by Italian Revenue Agency the Hong Kong Stock Exchange is a non-regulated stock market) are not regarded as Italian-sourced income (i.e. they are not subject to tax in Italy).

The amount of tax due in Italy may be reduced or eliminated pursuant to any applicable double taxation convention.

## ***(B) Rates applicable to corporate Shareholders***

### ***1. Corporate Shareholders resident in Italy***

According to the “Participation exemption” regime, capital gains realized upon a disposal of shares in an Italian joint stock company by a corporate Shareholder resident in Italy are 95% exempted, provided that the following requirements are met:

- a) the participation has been held continuously from the first day of the 12<sup>th</sup> month prior to that of the disposal;
- b) the participation was classified as a fixed financial asset in the first balance sheet closed after the acquisition (in the case of companies adopting IAS/IFRS, shareholdings are deemed to be fixed financial assets if they are not held for trading);
- c) the subsidiary is resident in a “white list” country; and
- d) the subsidiary carries on a commercial activity.

The last two conditions must have been met since the beginning of the third year preceding the year of the disposal and, in the case of shares held in a holding company, they should be tested with reference to its subsidiaries.

Where one of these conditions above is not met, capital gains are fully taxable at the ordinary rate of 24%<sup>16</sup>.

The same tax regime applies to capital gains realized by a non-Italian resident corporate Shareholder upon a disposal of shares held through a permanent establishment in Italy (i.e. shares are effectively connected with the permanent establishment).

---

<sup>16</sup> Due to amendments in Italian tax law, the corporate income tax rate has been reduced from 27.5% to 24% starting from 2017 (in particular, starting from the fiscal year following the one ongoing on December 31<sup>st</sup>, 2016).

## 2. Corporate Shareholders not resident in Italy

Capital gains realized by non-Italian resident corporate Shareholders (who do not carry on business in Italy through a permanent establishment situated therein) on sales of shares are subject to the following tax treatment:

- capital gains realized through the sale of a non-substantial participation in Italian companies listed on non-regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are fully (i.e. 100%) subject to a 26% substitute tax (the substitute tax is 20% for capital gains realized on or prior June 30<sup>th</sup>, 2014). In this case, the Shareholder is required to file a tax return in Italy. A full exemption applies to corporate Shareholders resident in jurisdictions which allow the exchange of information with Italy; Hong Kong is among these jurisdictions starting from January 1<sup>st</sup>, 2016 for Italian perspective. **Corporate Shareholders resident in Hong Kong will not therefore be subject to capital gains tax and will not be required to file a tax return in Italy for capital gains realized on or after January 1<sup>st</sup>, 2016 from the sale of the Shares;**
- 50.28% of capital gains realized through the sale of a substantial participation until December 31<sup>st</sup> 2017 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 49.72%<sup>17</sup> of the capital gains are taxable at the ordinary rate of 24%<sup>18</sup>. In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after January 1<sup>st</sup>, 2016 by corporate Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);
- 41.86% of capital gains realized through the sale of a substantial participation starting from January 1<sup>st</sup> 2018 in all Italian companies i.e. not listed, listed on a non-regulated stock market or listed on a regulated stock market (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are exempt from tax. The remaining 58.14% of the capital gains are taxable at the ordinary rate of 24%<sup>19</sup>. In this case, the Shareholder is required to file a tax return in Italy (please note that under the DTA entered into force between Italy and Hong Kong, capital gains realized on or after January 1<sup>st</sup>, 2016 by corporate Shareholders resident in Hong Kong from the sale of the Shares are taxable only in Hong Kong);
- capital gains realized through the sale of a non-substantial participation in Italian companies listed on regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market) are not regarded as Italian-sourced income (i.e. they are not subject to tax in Italy).

The amount of tax due in Italy may be reduced or eliminated pursuant to any applicable double taxation convention.

### ***(C) "Substantial participation"***

A participation is considered to be "substantial" if it entitles the holder to (i) more than 2% of the voting rights or more than 5% of the capital in companies listed on regulated stock markets (according to Italian law), or (ii) more than 20% of the voting rights or more than 25% of the capital in other companies, including companies listed on non-regulated stock markets (according to Italian law).

---

<sup>17</sup> See note 3.

<sup>18</sup> See note 16.

<sup>19</sup> See note 16.

On the assumption, based on the interpretations issued by the Italian Revenue Agency, that the Hong Kong Stock Exchange is not regarded as a regulated stock market for this purpose, the thresholds of 20% and 25% would apply before a participation is considered to be “substantial”.

Since the Company has currently issued only ordinary Shares, the relevant threshold for determining if a participation being sold is “substantial” or “non-substantial” is whether the sale is of more than 20% of voting rights in the Company.

For the purpose of this computation, all disposals of the Shares that occurred within a 12-month period should be aggregated.

#### ***(D) Procedures for computation and payment of capital gains tax***

The following is a summary of the requirements for non-Italian resident Shareholders with regard to capital gains taxable in Italy that are realized through the sale of a non-substantial participation in the Company.

For what constitutes a “substantial” participation, please refer to paragraph (C) above.

For the purpose of computing the amount of capital gains which are taxable, all disposals of the Shares that occurred within a 12-month period should be aggregated.

The Italian Revenue Agency’s website contains a special section in English for non-resident taxpayers which provides general information (<http://www1.agenziaentrate.gov.it/inglese/>).

We recommend that Shareholders who are liable to tax in Italy for capital gains realized through the sale of a participation in the Company should consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers.

For Italian tax purposes, capital gains on shares issued by Italian-resident companies such as the Company are, as a general rule, deemed to be sourced in Italy and, consequently, taxable in Italy.

A capital gain is equal to the difference between:

- a) the sale price, less the costs directly attributable to the sale; and
- b) the tax basis (normally the purchase price, increased by the directly attributable costs of the purchase) of the participation,

provided that the difference is a positive number.

For a correct computation of the capital gain, please note that, in the case of shares purchased over a period of time in more than one tranche, a “LIFO” (last in first out) method must be applied to quantify the tax basis of the participation. This means that the last shares purchased are always considered to be sold first.

The LIFO method is illustrated in the following hypothetical example:

- consider a 3% shareholding in the capital of Company “A”, equal to 600 shares, purchased in two different transactions:
  1. first purchase of 400 shares, equal to 2% of the capital of the company, at a price of €10 per share;
  2. second purchase of 200 shares, equal to 1% of the capital of the company, at a price of €15 per share.

As a consequence, 3% of shareholding in the capital of Company “A” has been purchased at a total price of €7,000, divided as follows:

Number of shares	Price per unit (€)	%	Total cost
400	10.00	2%	4,000.00
200	15.00	1%	3,000.00
Total 600		Total 3%	Total 7,000.00

If the shareholder sells 1.5% of the shareholding in Company “A”, the relevant cost for the quantification of the capital gain applying the “LIFO” method will be calculated based on:

- the cost of the last purchase of 1%;
- the cost of the first purchase for the remaining 0.5%.

Hence, the total cost attributable to the 1.5% shareholding that is sold will be equal to €4,000.00, quantified as follows:

%	Number of shares	Price per unit (€)	Total cost
1%	200	15.00	3,000.00
0.5%	100	10.00	1,000.00
Total 1.5%			Total 4,000.00

**Accordingly, Shareholders must keep all relevant documentation evidencing the purchase/sale price of each tranche of the Shares purchased/sold and any other document related to the costs directly attributable to the purchase of the Shares.**

**For example, Shareholders should keep the following documentation:**

- a record of the purchase of the Shares (for each single purchase). If the Shares are purchased together with other shares or securities, it is important to be able to identify the exact purchase price of the Shares separate from the purchase price of the other shares or securities;
- invoice issued by intermediaries through whom the Shares have been purchased, showing the costs of intermediaries directly attributable to the purchase (if any);
- invoice issued by the Notary Public (in case the record of the sale and/or purchase of the Shares require the Notary Public’s assistance);
- a record of the sale of the Shares (for each single tranche sold). If the Shares are sold together with other shares or securities, it is important to be able to identify the exact sale price of the Shares separate from the sale price of the other shares or securities;
- invoice issued by intermediaries evidencing the costs directly attributable to the sale (if any).

If the taxpayer fails to produce the relevant documentation, the Italian Revenue Agency could argue that the whole amount of proceeds deriving from the sale must be treated as capital gain.

If the Shareholder realizes a capital loss from the transfer of the Shares (or if the Shareholder realizes a capital loss from a partial transfer of the Shares during a year and a capital gain from another partial transfer of the Shares during the same year), the capital loss (or the surplus of the capital loss versus the capital gain) can be carried forward for four years and offset capital gains to the extent of capital gains of the same nature (i.e. capital gains realized through the sale of the same type of participations in Italian companies of the same listing profile) realized in the following fiscal years provided that the capital loss is duly pointed out in the tax return referable to the period in which it was realized.

Due to amendments in Italian tax law, only:

- 48.08% of capital losses realized on or prior to December 31<sup>st</sup>, 2011;
- 76.92% of capital losses realized on or after January 1<sup>st</sup>, 2012 but within June 30<sup>th</sup>, 2014,

can be deducted from capital gains of the same nature realized in the following four fiscal years.

In order to compute the capital gain, both the proceeds deriving from the sale (i.e. the sale price) and any cost borne by the taxpayer (including the purchase price of the Shares) must be converted into Euro: (a) at the exchange rate on the day on which the amount is received/paid by the taxpayer; or (b) in the absence, the exchange rate of the closest preceding day; or (c) in the absence, the average exchange rate for the month in which the amount is received/paid by the taxpayer. The daily exchange rates are those published



in the Italian Official Gazette and they are also available on the website of Bank of Italy (“Banca d’Italia”) <https://www.bancaditalia.it/compiti/operazioni-cambi/cambi/index.html>

## 6. TAX RETURN

### ***(A) Tax return form with instructions on how to fill in each section***

As stated in paragraphs 5(A)(2) and 5(B)(2), where capital gains have been realized by a non-Italian resident shareholder through the sale of a non-substantial participation in companies listed on non-regulated stock markets (according to the interpretations of Italian Revenue Agency, the Hong Kong Stock Exchange is a non-regulated stock market), or through the sale of a substantial participation in any kind of company<sup>20</sup>, the relevant shareholder is required to file a tax return in Italy.

With specific reference to exemptions from capital gains tax and tax return filing granted to Shareholders resident in Hong Kong in case of sale of the Shares, please refer to paragraphs 5(A)(2) and 5(B)(2).

A specific tax return form (“Modello Unico”) is issued for each tax period; hence, this form changes every year. The relevant form, containing guidelines for completing the tax return, can be downloaded from the Italian Revenue Agency website. A special section on guidelines for non-residents is available in file n° 2 (“Fascicolo 2”). Currently the form and its guidelines are not available in English.

The tax return form are usually published on Italian Revenue Agency website in February of the tax period that follows the one to which the tax return refers.

In order to comply with the obligations imposed by Italian law, a non-Italian resident taxpayer (with no permanent establishment in Italy) must:

- i. apply for an Italian Tax Identification Code (“Codice Fiscale”);
- ii. fill in the proper tax return;
- iii. submit the tax return before the deadline;
- iv. pay the tax due within the deadline;
- v. use one of the allowed methods of paying the tax.

### **1. How to obtain an Italian Tax Identification Code (“Codice Fiscale”) and Special PIN Code**

#### *Tax Identification Code*

A Tax Identification Code (made up of 16 alphanumeric symbols – numbers and letters) is a means of identifying each natural or legal person for the purpose of managing his/her relationship with Italian public offices and administrations. In order to be valid, this code must be registered in the Tax Register under the domain of the Italian Revenue Agency (“Agenzia delle Entrate”).

An Italian Tax Identification Code may be obtained through the local Italian Consulate. The Italian Revenue Agency has enabled local Italian consulates to print paper certificates of attribution of the Tax Identification Code. A non-Italian resident may, in special circumstances, also apply for a plastic-coated card containing the Tax Identification Code (which is delivered to the local Italian consulate and then, in turn, to the applicant).

As an alternative, the Italian Tax Identification Code may be obtained through an Italian Chartered Tax Advisor.

---

<sup>20</sup> I.e. companies not listed, listed on a non-regulated stock market or listed on a regulated stock market.

### Special PIN Code

The Special PIN Code is a code assigned by the Italian Revenue Agency which allows, among other things, the tax return to be submitted online and the payment to be made online.

Shareholders who are neither resident in Italy, nor Italian citizens, may request a Special PIN Code online only if their tax domicile is in Italy (where the second part of the Special PIN Code will be delivered); or, if they are in an Italian national territory, they may contact the local Inland Revenue offices.

When a Special PIN Code is requested, the Italian Revenue Agency releases the first part of the code; the second part of the Special PIN Code is delivered to the applicant within the next 15 days.

Italian citizens who are resident abroad may request their personal Special PIN Code by submitting an online request through the Italian Revenue Agency website, following the instructions contained at the following link:

[http://www1.agenziaentrate.gov.it/english/services/online\\_services.htm](http://www1.agenziaentrate.gov.it/english/services/online_services.htm) Taxpayers without a Special PIN Code may only submit a tax return in paper form or via an Italian authorized intermediary (see paragraph (3.) in this section).

## **2. How to file the tax return**

In this respect, please note that:

- a) there are specific tax return forms for both non-Italian resident individuals (the “MODELLO UNICO PERSONE FISICHE”) and non-Italian resident companies (the “MODELLO UNICO ENTI NON COMMERCIALI ED EQUIPARATI”). An updated version of the tax return forms is issued every year by the Italian Revenue Agency;
- b) the tax return form can be downloaded from the Italian Revenue Agency website. Guidelines for filling in the tax return are also available on the same website. Neither the tax return forms nor the relevant guidelines are currently available in English;
- c) the tax return form can be completed:
  - I. by the taxpayer, by filling in a printed paper version of the tax return form by hand;
  - II. by the taxpayer, by filling in an electronic version of the tax return form using special software provided by the Italian Revenue Agency. In order to file a tax return electronically using this software, the taxpayer is first required to obtain a Special PIN Code from the Italian Revenue Agency. Guidelines on how to obtain the Special PIN Code are available on the Italian Revenue Agency website (in Italian only) and summarized in sub-paragraph (1.) above; or
  - III. by an Italian authorized intermediary (e.g. a Chartered Tax Advisor), upon instructions of the taxpayer.

## **3. Deadlines for filing a tax return**

The tax return can be filed:

- I. **Electronic submission:** the taxpayer may file the tax return electronically by using the special software for filing and managing the tax return provided by the Italian Revenue Agency. There are instructions on how to file a tax return (but only in Italian). In the case of electronic submission, the tax return must be filed by September 30<sup>th</sup> of the tax period following the one in which the capital gain is realized. For the electronic submission of the tax return, the taxpayer is first required to obtain a Special PIN Code from the Italian Revenue Agency; then, he needs to access the special page of the Italian Revenue Agency website dedicated to web services in order to prepare the electronic file and submit it. Guidelines on how to obtain the Special PIN Code are summarized in

sub-paragraph (1.) above. Please note that taxpayers who are neither resident in Italy, nor Italian citizens, may request a Special PIN Code online only if their tax domicile is in Italy; or, if they are in an Italian national territory, they may contact the local Italian Revenue Agency; or

- II. **By post:** the taxpayer may submit the tax return through a Post Office in Italy (i.e. by handing in the form in person at an Italian Post Office) or, by post from overseas. When posting from overseas, the completed tax return must be placed unfolded in an ordinary envelope. The envelope must be sent by registered post or by equivalent means from abroad clearly showing the date of dispatch. The envelope should be addressed to the following office of the Italian Revenue Agency:

**Agenzia delle Entrate**  
**Centro Operativo di Venezia**  
**via Giorgio De Marchi n. 16**  
**30175 – Marghera (VE)**  
**Italy**

The envelope should bear a label with the following information:

- the taxpayer's surname and first name;
- the taxpayer's Tax Identification Code;
- the label "Contiene dichiarazione Modello Unico Persone Fisiche" (Modello Unico Persone Fisiche form inside).

The tax return must be filed by:

- June 30<sup>th</sup> of the tax period following the one in which the capital gain is realized if the tax return is submitted through an Italian post office in Italy; or
- September 30<sup>th</sup> of the tax period following the one in which the capital gain is realized if the tax return is posted from abroad; or

- III. **Via an Italian authorized intermediary:** the tax return may be filed by an Italian authorized intermediary on behalf of the taxpayer. In this case, the tax return must be filed by September 30<sup>th</sup> of the tax period following the one in which the capital gain is realized.

Please note that for individuals the tax period coincides with the calendar year (i.e. from January 1<sup>st</sup> to December 31<sup>st</sup>). The Shareholder may include in the tax return an overseas address for tax notification purposes.

Based the interpretations issued by the Italian Revenue Agency, the tax period for non-Italian resident companies (who do not carry on business in Italy through a permanent establishment situated therein) coincides with the calendar year (i.e. from January 1<sup>st</sup> to December 31<sup>st</sup>).

Please note that all of the above deadlines may be subject to amendment from time to time. Updated information will be available (in Italian) on the Italian Revenue Agency's website at the link <http://www.agenziaentrate.gov.it/wps/portal/entrate/home>.

#### **4. Deadlines for the payment of capital gain tax**

For both **non-Italian resident individuals** and for **non-Italian resident companies**, ordinarily, the payment must be made by June 30<sup>th</sup> (or within the following 30 days with an additional levy equal to 0.4% of the tax due) of the tax period following the one in which the capital gain is realized.

Shareholders should note, therefore, that payment is due before the deadline for filing the tax return. Please note that these deadlines may be subject to amendment from time to time.

## 5. Methods of payment of capital gain tax

Payment of capital gains tax can be made as follows:

- a) through the internet (“F24 Online”, which is available to taxpayers who have already obtained a Special PIN Code and have a bank account with a bank authorized with the Italian Revenue Agency – list is available at the following link: <http://www.agenziaentrate.gov.it/wps/content/Nsilib/Nsi/Home/CosaDeviFare/Versare/F24/Scheda+Info+F24/Elenco+banche+convenzionate+f24/> – or post office (Poste Italiane Spa)). The procedures on how to obtain a Special PIN Code are summarized in sub-paragraph (1.) above;
- b) through an Italian bank via internet banking (for taxpayers who have a bank account in Italy with a bank that offers internet banking facilities enabling tax payments); or
- c) non-resident taxpayers can pay taxes by a wire transfer in Euro compliant with the standard of “SWIFT MT 103” and it has to indicate as a BIC code “BITAITRRENT”.

The transfer must be addressed to the IBAN code **IT 15C 01000 03245 348 0 06 1034 04**<sup>21</sup> and in the space provided for indicating the “reason for the transfer” the following information shall be provided:

- the taxpayer’s Tax Identification Code;
- the tax code “1100”;
- the tax year to which the payment relates.

Generally, IBAN codes and Tax codes do not change every year; however the Company recommends that all Shareholders should consult their professional advisors in order to verify possible IBAN and Tax codes changes.

Payment by cheque is not permitted. In addition, please note that capital gains tax must be paid in Euro.

## 7. CONSEQUENCES OF FAILURE TO FILE A TAX RETURN OR TO PAY TAX

### ***(A) Failure to file a tax return***

If a taxpayer fails to submit a tax return when due, the following penalties will apply (in addition to any unpaid tax and accrued interest):

- a) a penalty ranging from 120% to 240% of the amount of tax due (with a minimum penalty of €250); or
- b) a penalty ranging from €250 to €1,000 if tax is not due (e.g. capital gains realized are offset by capital losses realized in the same tax year).

In case the taxpayer proceeds on a voluntary basis with the payment of taxes resulting from the omitted tax return, the above penalty amounts to €250.

In case the tax return is submitted after 90 days from the deadline but within the deadline set for the filing of the tax return related to the following fiscal year (and in any case before any tax assessment), the following penalties will apply (in addition to any unpaid tax and accrued interest):

- c) a penalty ranging from 60% to 120% of the amount of tax due (with a minimum penalty of €200); or
- d) a penalty ranging from €150 to €500 if tax is not due (e.g. capital gains realized are offset by capital losses realized in the same tax year).

In case the taxpayer proceeds on a voluntary basis with the payment of taxes resulting from the omitted tax return, the above penalty amounts to €150.

---

<sup>21</sup> Please note that the IBAN code “IT 15C 01000 03245 348 0 06 1034 04” and the Tax code “1100” are referable only to the substitute tax on capital gains; there are different IBAN and Tax codes applicable for different tax and different tax payments.

In the case of tax assessment, the above penalties are reduced to one-third if the taxpayer pays the whole amount due within 60 days from the tax assessment notice.

According to provisions in the Italian tax law on “voluntary settlement”, the taxpayer can rectify, within fixed deadlines and with reduced administrative penalties, any omission or irregularity concerning the completion or submission of his/her tax return.

Every taxpayer (natural or legal persons), resident or non-resident in Italy, can make use of the voluntary settlement procedure.

The following mistakes and irregularities can be rectified:

**1. Failure to submit the tax return by the deadline.**

If the tax return is submitted within 90 days of the deadline, regardless of whether tax is due or not, the irregularity may be rectified by paying, simultaneously with the submission of the tax return, a penalty of €15, that is 1/10 of €150. Please note that penalties for any possible violations concerning omitted, insufficient or late payment of taxes declared in the tax return, if not yet rectified, are applicable (see paragraph (B) below).

**2. Mistakes and omissions in the information submitted in the “Modello Unico” tax return form, affecting the computation and payment of taxes.**

The penalty of 30% of the omitted (or partial omitted) payment and a penalty ranging from 90% to 180% of the amount of the higher tax due (or the lower credit used) emerging from the amended tax return will be reduced, provided that:

- all applicable penalties and interest on the taxes due are paid;
  - an additional tax return containing the correct information is submitted;
- and depending on the deadline for the submission of the tax return, as better detailed in the following paragraph (B).

**(B) Failure to pay tax**

In the case of omitted, insufficient or late payment of taxes declared in the tax return, the taxpayer is subject to a penalty of 30% of the unpaid amount or the late payment amount (15% in case payment is made in delay but within 90 days from the deadline).

This penalty will be reduced to 10% (one-third) if the amount due is paid within 30 days from receipt of an automated irregularity notice or 20% (two-thirds) if the amount due is paid within 30 days from receipt of the result of a formal check of the tax return.

According to provisions in Italian tax law on “voluntary settlement”, the taxpayer can rectify, within fixed deadlines and with reduced administrative penalties, any omission or irregularity concerning his/her tax return and the relevant payments.

Every taxpayer (whether natural or legal persons or withholding agents), resident or non-resident in Italy, can make use of the voluntary settlement procedure.

For payment omissions, in whole or in part, of the amounts due as down payments or as settlement resulting from the tax return, a penalty of 30% of the unpaid amounts will be applied (15% in case payment is made in delay but within 90 days from the deadline).

This penalty is reduced to:

- 0.1% for each day of delay, if the payment is made within 15 days starting from the deadline for payment of tax;
- 1.5% (1/10 of 15%) if the payment is made between the 16<sup>th</sup> and 30<sup>th</sup> day starting from the deadline for payment of tax;

- 1.67% (1/9 of 15%) if the payment is made within 90 days starting from the deadline for submitting the tax return;
- 3.75% (1/8 of 30%) if the payment is made by the deadline for submitting the tax return relating to the year of the irregularity;
- 4.29% (1/7 of 30%) if the payment is made by the deadline for submitting the tax return relating to the year following the one of the irregularity;
- 5% (1/6 of 30%) if the payment is made by the deadline for submitting the tax return relating to the second year following the one of the irregularity;
- 6% (1/5 of 30%) If the payment is made prior to the issuance by the Italian Revenue Agency of a tax assessment or similar relevant document for the omitted payment.

Taxpayers who wish to make amends for omitted payments shall pay simultaneously: the taxes due, the interests accrued (according to the legal annual rate starting from the day in which payment was due until the day of the actual payment), and the reduced sanction.

The current legal annual interest rate is 0.1%, as set by article 1284 of the Italian Civil Code and may be subject to modifications.

Voluntary settlement is effective only once all the requirements set out above have been met; failure to fulfil any payment, legal interest or penalty will invalidate the voluntary settlement.

## 8. INHERITANCE AND GIFT TAX

### **(A) Individual investors**

The transfer of shares in Italian corporations for no consideration, between living persons or upon the death of a shareholder, gives rise to a tax liability in Italy for both the donee or heir, regardless of the residence of the donor/deceased or the donee/heir.

The tax is applied on the value of the shares<sup>22</sup> at the following rates and with the following threshold of exemption<sup>23</sup>, depending on the degree of kinship<sup>24</sup>:

---

<sup>22</sup> For the inheritance and gift tax purposes, the value of listed shares shall be intended as the average value of the shares traded in the last quarter previous to date of the transfer, including the amount of accrued interest at that date.

<sup>23</sup> The tax exemption threshold is applicable:

- to each donee/heir (e.g. in the case of a transfer to a son of shares worth, for inheritance and gift tax purposes, €1,200,000, only €200,000 is subject to inheritance and gift tax, the first €1,000,000 being free of tax; in addition, in case of a donation to two sons, receiving 50% each of shares valued €2,100,000, only €100,000 is subject to tax - €50,000 upon each son),
- and
- once in a life time (e.g. whether one son received a first donation of €600,000 - exempted – and then a second donation of € 600,000, only taxes calculated upon € 200,000 on the second donation are due).

<sup>24</sup> Please note that, pursuant to Italian civil law, for the purpose of the computation of degrees:

- in direct line, degrees are computed by reference to the number of generations there are, excluding the common ancestor (e.g. father and son are relatives of the first degree; brothers are relatives of the second degree).
- in collateral line, degrees are computed by generations, moving up from one of the relatives to the common ancestor and down from the latter to the other relative, always excluding the common ancestor (e.g. cousins are relatives of the fourth degree: donor — parent — grandparent — uncle — cousin).

Affinity is the connection between a married person and the relatives of the other spouse. A person is connected by affinity with one of the spouses in the same line and degree in which he is a relative to the other spouse (e.g. between the daughter-in-law and the father-in-law there is affinity in line of the first degree; between the wife and the cousin of the husband there is affinity in collateral line of fourth degree).

- a) 4% with a tax exemption threshold of €1,000,000, if the transfer is to a spouse or direct descendent or ancestor of the donor shareholder;
- b) 6% with a tax exemption threshold of €100,000, if the transfer is to siblings of the donor shareholder;
- c) 6% with no tax exemption threshold, if the transfer is to another relative of the donor shareholder, up to the fourth degree, or a person related by affinity in direct line, as well as a person related by affinity in a collateral line up to the third degree; and
- d) 8% with no tax exemption threshold, in all other cases.

If a beneficiary is disabled, the tax exemption threshold for inheritance and gift tax purposes is, in any case, set at €1,500,000. On the exceeding value the same rates set out above (4%, 6% or 8%, depending on the case) are applicable.

There is currently no double tax treaty or other arrangement in place between Hong Kong and Italy to enable Shareholders resident in Hong Kong to claim a credit refund for inheritance and gift tax.

### ***(B) Procedures for payment of inheritance and gift tax***

In the case of **inheritance**, an inheritance tax return must be filed, in general, by the heirs with the Italian Revenue Agency within 12 months from the death of the deceased; in the case of a non-Italian resident deceased, the inheritance tax return must be submitted to “Agenzia delle Entrate – Direzione Provinciale di Roma II – Ufficio territoriale di Roma 6-EUR-Torrino – via Canton n. 20 – CAP 00144 – Rome – Italy”.

The inheritance tax return is not due if the inheritance is assigned to a spouse or direct descendent or ancestor of the deceased Shareholder, the legal assets have a value not exceeding €100,000 and the assets do not include real estate properties or property interests.

The inheritance tax return form can be downloaded from the Italian Revenue Agency’s website (the form is currently available only in Italian) at the link [http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Home/CosaDeviFare/Dichiarare/Dichiarazione+di+successione/Modistr+DichSucc/Modello+dic+successione/Successione\\_modelli\\_20012017.pdf](http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Home/CosaDeviFare/Dichiarare/Dichiarazione+di+successione/Modistr+DichSucc/Modello+dic+successione/Successione_modelli_20012017.pdf) and can be submitted by person or by post from overseas, whether the non-Italian resident taxpayer can not file it online<sup>25</sup>.

The Company recommends that all Shareholders should consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers if they have any queries in relation to Italian inheritance tax or for filing and submitting the inheritance tax return.

After submitting the inheritance tax return, the Italian Revenue Agency will quantify the inheritance tax due from the heirs. The inheritance tax payment must be made within 60 days of the receipt of the notice of payment sent by the Italian Revenue Agency.

If a non-Italian resident heir fails to submit the inheritance tax return due, the following penalties will apply (in addition to any unpaid tax and accrued interest):

- a) a penalty ranging from 120% to 240% of the amount of taxes due; or
- b) a penalty ranging from €250 to €1,000 if tax is not due.

If the inheritance tax return is submitted within 30 days from the deadline, the following penalties will apply (in addition to any unpaid tax and accrued interest):

- c) a penalty ranging from 60% to 120% of the amount of tax due; or
- d) a penalty ranging from €150 to €500 if tax is not due.

---

<sup>25</sup> The on-line procedure is mandatory for Italian resident taxpayers from January 23, 2017. For non-Italian resident taxpayers this procedure it is not compulsory, but it can be adopted by the taxpayer who has his/her own Tax Identification Code and Special PIN Number (see paragraph 6.1).



Please note that an Italian joint-stock company cannot record any entry in its corporate books nor perform any activity related to the shares assigned as inheritance in the absence of: (i) proof that the inheritance tax return has been submitted to the Italian Revenue Agency; or (ii) a written declaration by the heir that he/she was exempted from submitting an inheritance tax return.

In the case of a **gift**, the deed of gift must be subscribed in the form of public deed (i.e. a deed drawn by a Notary Public) or legalized private deed (i.e. a private deed subscribed in front of a Notary Public) in accordance with Italian legal requirements and must be submitted for registration to the Italian Revenue Agency within 60 days of its being signed (20 days if the deed of gift is signed in Italy).

The request for registration must be made through an Italian Notary Public, who will provide a sworn translation in Italian of the deed of gift and will take payment of the gift tax (with cash transferred by the donee) at the moment of registration.

The Company recommends that all Shareholders consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers if they are in any doubt as to the taxation implications of making a gift of Shares.

## **9. FINANCIAL TRANSACTION TAX ON TRANSFER OF SHARES**

Within this chapter it is provided a general overview of the Italian Financial Transaction Tax (FTT). For further details please make also reference to “Prada – FTT Memorandum” and the related announcements published on Prada’s Corporate web site.

### ***(A) Taxable transactions***

The transfer of the ownership (including the bare ownership) of:

- a) shares and other participating financial instruments issued by companies resident in Italy and securities representing equity investments regardless of the place of residence of the issuer;
- b) financial derivatives and transferable securities, provided that the underlying or reference value consists for more than 50% of the market value of the instruments referred to the said shares (and other financial instruments);
- c) transactions executed on the Italian financial market deemed to be “High-frequency Trading” referred to the said shares (and other financial instruments), financial derivatives and transferable securities, are subject to Financial Transaction Tax.

In the following paragraphs is commented only the impact of the FTT on the transfer of the ownership of the Shares.

### ***(B) Tax rate***

The FTT ordinary tax rates are:

- a) 0.10%, for transfers of shares, other participating financial instruments issued by Italian resident companies and securities representing equity investment, executed in regulated stock markets or through multilateral trading facilities;
- b) 0.20% for all other taxable transfers.

Based on the specific FTT regulations, on the assumption that the Hong Kong Stock Exchange is considered a regulated stock market for FTT purposes<sup>26</sup>, the transfer of Prada’s Shares should be subject to 0.10% FTT tax rate. The Company recommends that all Shareholders should consult their professional advisors in

---

<sup>26</sup> See note 4.

order to confirm that the Hong Kong Stock Exchange can be considered (for regulatory perspective) in regular operation and authorized by a National Public Authority with State supervision.

### ***(C) Taxable value***

The value of the transaction subject to FTT is determined on the basis of the net balance of the transactions regulated daily, calculated for each liable person with reference to the number of Shares traded on the same day and relating to the same financial instrument.

The FTT base is the number of Shares resulting from the algebraic positive sum of the final net balances multiplied by the weighted average price of the purchases made on a particular day.

### ***(D) FTT Payment***

FTT is payable within the 16<sup>th</sup> day of the month following the transaction date.

FTT must be paid through the so called “F24” payment form using the payments code released by the Italian TA with the resolution n. 62 dated October 10, 2013<sup>27</sup>.

Non-residents who are not provided with an Italian bank account and are not in the condition to process payments through the F24 form, can process the FTT payment by wire transfer.

### ***(E) Person liable to FTT and person responsible for the payment***

The FTT is due by the persons to which the ownership of shares (including the beneficial ownership), other participating financial instruments issued by Italian resident companies and of securities representing equity investment is transferred, regardless of their place of residence and the place where the contract is concluded. Generally, the payment is executed by the financial intermediary involved in the transaction. When no financial intermediaries - or other persons such as financial intermediaries qualified for providing collective asset or portfolio management services, trusts and notaries - are involved in the transfer of the Shares, payment are executed by the ultimate purchaser.

If there are more than one financial intermediary involved in the execution of the transaction, the obligation to pay the FTT falls on the intermediary that directly receives the transaction(s) order from the ultimate purchaser.

In this latter case, if the purchaser or final counterparty of the order of execution is a financial intermediary or other person involved in the execution of the transaction(s) which is located in a country with which Italy has agreements in force for the purposes of the exchange of information or the assistance in the collection of tax credits (as identified in the specific Provisions dated March, 1<sup>st</sup> 2013 and March, 29<sup>th</sup> 2013 issued by the Director of the Italian Inland Revenue Office – please note that Hong Kong is not included in such list), such person shall pay directly the FTT due. If the financial intermediary or other person involved for any reason in the execution of the transaction(s) is located in a country with which Italy has no agreement in force for the purposes of the exchange of information or the assistance in the collection of tax credits, such person shall be considered for all effects as purchaser or final counterparty of the order of execution.

### ***(F) FTT Return***

The persons obliged to pay the FTT shall annually comply with the tax return obligations for the transactions.

The deadline for the submission of the FTT Return is the 31<sup>st</sup> of March<sup>28</sup>. This can be filed either electronically or via registered mail<sup>29</sup>.

---

<sup>27</sup> The English version of the Resolution is available at the following link:  
[http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Home/CosaDeviFare/Versare/Imposta+sulle+transazioni+finanziarie/Normativa+e+prassi+Imposta+transazioni+finanziarie/resolution+62E/Resolution\\_62\\_E.pdf](http://www.agenziaentrate.gov.it/wps/file/Nsilib/Nsi/Home/CosaDeviFare/Versare/Imposta+sulle+transazioni+finanziarie/Normativa+e+prassi+Imposta+transazioni+finanziarie/resolution+62E/Resolution_62_E.pdf)

The Return along with the related instructions (already in the English version) can be found at the following link

<http://www.agenziaentrate.gov.it/wps/content/Nsilib/Nsi/Home/CosaDeviFare/Versare/Imposta+sulle+transazioni+finanziarie/Modello+e+prospetti+Imposta+transazioni+finanziarie/>

The persons obliged to pay the FTT are exempted from the obligation to file a tax return if the tax amount is lower than €50.

The Company recommends that all Shareholders/Financial intermediaries should consult an advisor who specializes in tax compliance issues for non-Italian resident taxpayers if they have any queries in relation to Italian financial transaction tax or for filing and submitting the financial transaction tax return.

### ***(G) Record-keeping requirements***

Financial intermediaries, responsible for the payment of the FTT, are bound to keep a register of the relevant details of transactions subject to FTT.

Financial intermediaries qualified for providing collective asset or portfolio management services, trusts, notaries and taxpayers different from individuals have the duty to keep all the documentation related to the transactions and a chronologic daily register of the transaction history.

Individual taxpayers must keep documents able to certify the transaction also by means of bank statements.

### ***(H) Italian Centralized Management Company***

All persons responsible for the payment of the FTT can delegate payment and filing of the annual FTT Return to the Italian Centralized Management Company granting it with a proper proxy. However, the proxy-grantor is still responsible for the correct payment of the FTT due and bound to comply with the record-keeping requirements.

### ***(I) Tax collection and penalties***

If a taxpayer fails to submit the FTT return when due, the following penalties will apply (in addition to the unpaid FTT and accrued interests):

- a) a penalty ranging from 120% to 240% of the amount of FTT due (with a minimum penalty of €250);  
or
- b) a penalty ranging from €250 to €2,000 if the transactions to be reported are not subject to the FTT.

In case the FTT return is submitted within the deadline set for the filing of the FTT return related to the following fiscal year (and in any case before any tax assessment), the following penalties will apply (in addition to the unpaid FTT and accrued interests):

- c) a penalty ranging from 60% to 120% of the amount of FTT due (with a minimum penalty of €250);  
or
- d) a penalty ranging from €250 to €2,000 if the transactions to be reported are not subject to the FTT.

If a taxpayer makes mistakes in the calculations and in determining the declared FTT, the penalty ranges from 90% to 180% of the higher FTT due.

---

<sup>28</sup> The deadline for the submission of the 2016 FTT Return has been postponed to 31<sup>st</sup> May 2017.

<sup>29</sup> The possibility to not electronically submit the FTT Return is provided only for non residents without an Italian PE or an Italian fiscal representative.

In the case of omitted, insufficient or late payment of taxes declared in the tax return, the taxpayer is subject to a penalty of 30% of the unpaid amount or the late payment amount<sup>30</sup>.

## **10. OTHER TAX/DUTIES**

### ***(A) Registration tax, stamp duty and wealth tax***

Transfers of Shares based on contracts executed in Italy before a Notary Public are subject to a lump-sum registration tax of €200.00. This tax is also payable in “case of use” in Italy (e.g. where a contract executed abroad or with different formalities is presented to an Italian registration office or an Italian court).

The sale of Shares is exempt from Italian stamp duty; there is no applicable wealth tax to non tax residents in Italy.

---

<sup>30</sup> For the reduction of penalties through the voluntary settlement procedure please make reference to the comments already provided under chapter 7(B).

[www.bgt-grantthornton.it](http://www.bgt-grantthornton.it)

© Bernoni & Partners. All rights reserved.

“Grant Thornton” refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Bernoni & Partners is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another’s acts or omissions. Please see [www.bernoni-grantthornton.it](http://www.bernoni-grantthornton.it) for further details