

Doing Business in Italy

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Italy at a Glance

Italy is a country in south central Europe, often referred to being shaped like a boot, that juts out into the Mediterranean Sea and is bordered in the north by France, Switzerland, Austria, and Slovenia. The country's political geography has been defined by its landscape, with the towns and cities having a history of self-sufficiency, independence, and mutual cooperation. Visitors today remark on how different one town is from the next in cuisine, customs and even dialect. Italy is more of a collection of culturally related points rather than a single homogenous nation.

Traditionally, the country can be broken down into four regions, the north, the center, the south, and the islands. The north includes regions such as the Piedmont, long known for agriculture, and its independent cities known for industrial output. The center is known for its prosperous farms, art and culture, and encircles the country's capital of Rome. The southern region includes Naples and port cities that contain wineries, vineyards, processing plants, and some industry. The islands take pride in the fact that they are separated from the mainland and include tourism as a main commodity of the region; yet these islands are the poorest sections of the country.

The languages of the country are broken down into the following ethnolinguistic composition:

- Italian 96.0%
- North African Arabic 0.9%
- Italo-Albanian 0.8%
- Albanian 0.5%
- Other 1.8%

Religious affiliation in the country is somewhat varied:

- Roman Catholic (practicing) 28.0 %
- Roman Catholic (nominal) 55.0%
- Muslim 2.0%
- Non-religious/atheist 14.0%
- Other 1.0%

Economy

Since World War II, the economy of Italy has progressed into one of the most robust in Europe. Its weakness, however, lies in its lack of raw materials and energy sources; more than four-fifths of its energy requirements are imported. Its strengths are in the metallurgical and

engineering industries, as well as the flourishing chemical and textile sectors. Tourism, as previously mentioned, is also a very important sector of the economy.

While liberal trade policies following WWII enabled manufacturing to expand (automobiles, aircraft, and machinery), cumbersome bureaucracy and insufficient planning has hindered some sectors throughout the country. Seeking a balance with other European Union (EU) countries has to some degree reduced inflation, but certain areas are still feeling the effects of government rules and regulations prior to the EU.

The northern sector has thrived and taken over many of its Western European neighbors in productivity, while the southern sector has lagged in goods and services output. Economic studies indicate an imbalance between the northern and southern regions of the country.

Up until the 1990s, the state owned many “Holding Companies” which acted as a pyramid—the state being at the top, and a mass of companies below operating in diverse sectors that ranged from banking to transportation. In 1990, many of the companies began to be privatized under the “Banking Act of 1990”. For example, the state airline, Alitalia was sold to a private investment firm, in addition to many other enterprises. In 1992, wider privatization took place when four of the main state-owned holding companies were denationalized, including energy, insurance, transportation, and companies related to hydrocarbons (trucks, automobiles, aviation, and machinery). Since this time, Italy has turned into a free-market economy, reducing the state’s impact.

Italy’s economy is diversified and ranked the third largest in the European zone, and the eighth largest in the world. The GDP in 2021 was 2.106 trillion with a per capita of USD \$34,995 (25th largest in the world), but with a significant gap between the north and south. Industry accounted for 29% of the national income, dominated by engineering, fashion, industrial design, iron and steel, as well as agro-food sectors. Their manufacturing sector is the sixth largest in the world and they are the EU’s second largest exporter.

With a country population of nearly sixty million, Rome, its capital, is populated by three million inhabitants. The skill level in the northern sector is very high and has a technically trained workforce. As a result, education levels are also very high in this area.

The country’s legal structure is based upon a hierarchy of “inviolable rights” afforded to the individual:

1. The Italian Constitution
2. Constitutional Law
3. EU Legislation
4. Ordinary National law
5. Law Decrees and Legislative Decrees

6. Regional Laws
7. Regulations
8. Custom

Doing Business in Italy

There's no restriction to foreign investment or ownership in Italian companies. Foreign investors can acquire a business or purchase interest in a business under the same conditions as national investors.

The tax structure to individuals is 23% for income up to EUR €15,000, and up to 43% for income exceeding EUR €50,000. The employer applies a withholding tax equal to the annual tax owed by the employee and pays the employee's social security contributions.

Corporate tax is based on all income derived from commercial activities at a rate of 24%. In addition, the corporate income produced in the territory of each region is also subject to a productive activities tax of 3.9%, with an effective rate of 27.9%

The most attractive organizations to investors are capital companies, in particular Limited Liability companies, and joint stock companies. Like many other countries, the rules and regulations allow for, among other legal protections, freely transferable shares, liberal control, and possibly bankruptcy that does not involve shareholders. Governance is typically standard with a Board of Directors (BoD), or one or more directors that are appointed by shareholders.

While the country has instituted many changes since the 1990s, there are still hurdles that must be navigated to doing business in Italy. Like other countries, the following steps must be completed to begin the process:

1. Engage an attorney or legal representative
2. Engage an accounting firm
3. Be sure to complete a market analysis
4. Establish a banking relationship
5. Understand the labor situation in the areas you expect to begin your operations
6. Examine all options concerning location
7. Immediately engage a person or persons who are multilingual
8. Be sure to understand the culture; this is very important for success
9. Understand the employer/employee relationship
10. Be prepared to spend time in the country
11. Take advantage of government information and assistance
12. Identify a supply chain of materials that will support your business
13. Form alliances with other personnel who are engaged in the same business
14. Develop an exit strategy

15. Be aware of all expenses, fees, and ongoing administrative costs which are common in Italy

As with any other business transaction, have a compelling reason to start and maintain the company in a foreign country. While Italy offers access to the EU and its markets, giving the company a large sphere of opportunity, barriers to starting or investing in a business must be weighed against the opportunities to expand. Consider tariffs, logistics, housing for employees, if being relocated, and, of course, capital availability.

Italy does offer many recreational opportunities and has some of the best tourist locations in the world including Rome and Venice, and is nearby the Alps, Spain, and Europe . The quality of life is very good and medical care is readily available via both private and national services. The education and skill sets are high in the northern portion of the country, and all of Italy offers fine cuisine, culture, and all of the amenities one would expect for a good quality of life.

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