Republic of San Marino

General information
San Marino, the most ancient republic in the world, was founded on 3 September 301 CE. It is an enclave in Italy, on the border between the regions of Emilia Romagna and the Marches. Approximately 15 km from the tollbooth of South Rimini on the A-14 highway, and roughly 20 km from the Federico Fellini International Airport in Miramare, San Marino is just over 61 km² (24 square miles) in size and has an estimated population of 32,600.

Workforce and GNP (at 30 March 2014)
The workforce stands at 21,706, including 18,442 employees and 1,890 self-employed workers.

The majority of workers are employed in the private sector, while the public sector employs around 3,900 people.

Despite the economic crisis, the unemployment rate of 8.36% is still below the European average.

There are over 5,000 businesses operating in various sectors. Of these 2,756 are companies.

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. businesses</th>
<th>No. employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>86</td>
<td>49</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>435</td>
<td>5,243</td>
</tr>
<tr>
<td>Construction</td>
<td>386</td>
<td>1,056</td>
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<td>Merchandising</td>
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<td>Hotels</td>
<td>37</td>
<td>247</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>142</td>
<td>522</td>
</tr>
<tr>
<td>Financial services</td>
<td>72</td>
<td>879</td>
</tr>
<tr>
<td>Services</td>
<td>2,561</td>
<td>3,520</td>
</tr>
</tbody>
</table>

Manufacturing comprises various product sectors: engineering, chemical / pharmaceutical, paper, timber and furniture, clothing and information technology. According to the International Monetary Fund, GDP stands at approximately €1,360 million, with manufacturing leading the economy of San Marino and accounting for 33.3% of GDP.

Some two million tourists visit the Republic of San Marino every year.
How to set up in business
Setting up a company
Non-residents, through a deed executed before a notary, may also set up companies governed by San Marino law. Banking, trust and investment services must be authorised in advance by the regulatory authority, the Central Bank of the Republic of San Marino.

Type of entity
Private partnership
- General partnership (società in nome collettivo - Snc) (only individuals can be members).
- Limited liability company (società a responsabilità limitata - ‘Srl’) (minimum capital: €25,500)
- Joint-stock company (società per azioni - ‘SpA’) (minimum capital: €77,000).

These companies have legal personality, unlike private partnerships. Individuals and entities can both be members of corporations.

SpAs cannot have a sole member, whereas as Srls can. The shares of SpAs and the quotas of Srls are registered and can be held in trust by financial companies. However, anti-money laundering legislation requires the beneficial owner to be identified.

Register of companies - Legal personality
The deed of incorporation, after registration with the tax registration office, must be deposited by the notary at the court registry so that it can be entered in the register of companies held by the court. At this point the company acquires legal personality.

Quota/share capital
In the case of Srls and SpAs, at least half of the initial capital must be paid up within 60 days of the date of registration. The rest must be paid up within three years of registration.

Corporate offices
Administrative body
Srls and SpAs can be managed by a sole director or by a board of directors, whose members can be residents or non-residents. If they are non-residents, they must submit the certificates required by law for the purpose of criminal background checks.

Sole auditor
This role is necessary in both an SpA and an Srl if one of the following conditions obtains:
- the quota/share capital is €77,000 or more
- for two consecutive years the revenue from sales of goods and services exceeds €2 million.

The sole auditor must actually reside in the Republic of San Marino and be a registered auditor.

Board of the Auditors (Collegio Sindacale)
For corporations, a board of auditors is mandatory if revenues from sales of goods and services exceed €7.3 million for two consecutive years. The board must have three or five members (sindaci). At least two of them must be registered auditors; the others must be chartered accountants, lawyers admitted to the bar or registered notaries. The majority of the members must actually reside in the Republic.

Companies that have an obligation to appoint a board of auditors (Collegio Sindacale) may appoint a registered auditor of accounts (revisore) or audit firm to audit their accounts. In this case, the board of auditors has no responsibility for this function.

Only companies operating in the financial and banking sectors are obliged to appoint an audit firm.

Administrative authorisations
Operating licences
All businesses must apply for an operating licence, issued online by the Office of Industry, Crafts and Trade, which assigns a ‘trader code’ formed by the letters ‘SM’ and five figures. Each business must pay a licence fee of €1,000 a year.

Starting up
Within six months of obtaining an operating licence, companies must have obtained all the papers needed to start production and must meet all health and safety requirements.

To be able to provide food and beverages, prior authorisation from the Public Health Office is required.

Main tax aspects
Direct taxation
Corporate income tax
The standard corporate income tax (CIT) rate is 17%.

Measures to help newly established companies
For newly established companies:
- the general income tax rate is reduced by 50% to 8.5% for the first six years of business
- there is an exemption from the licence fee for the first four years.

Tax incentives
- The standard income tax rate is reduced by 15% if a company increases its average annual workforce by at least three employees and 25% if it increases it by five employees.
- To benefit from the above incentive, the company must have at least five employees, three of whom must be from San Marino. If it is a manufacturing company, it must have at least eight employees.
b) The taxable income is also reduced, for a maximum of six years, by 40% to 90% of net profit, up to an amount equal to the investments in capital goods (it may be extended to eight years if the total investment exceeds €7,000,000). For investments in real estate, to benefit from the same incentive the company must hire an additional five employees, three of whom must be residents.

**Tax losses**

Tax losses can be carried forward to offset a maximum 80% of the taxable income of the next three periods. This means that, after three periods, tax losses are lost if not used in full to offset taxable income.

However, tax losses which arise in the first three tax periods of a new company can be carried forward indefinitely and deducted from the income of subsequent tax periods, provided that the company’s business is also a new one.

**General principles for determining corporate income tax**

Costs are tax deductible if and to the extent they relate to a business activity. Income and costs are included in the computation of taxable income on an accruals basis.

Income taxes, as well as penalties and interest resulting from late payment or non-payment of taxes, penalties for violations of the law, and interest on deferred payments are not deductible.

Directors’ fees are deductible only if they have actually been paid.

Costs or expenses deriving from offences cannot be deducted.

The following costs can be deducted within certain limits:

- Advertising costs, including sponsorship costs - up to an amount equal to 8% of operating revenue.
- All costs of data processing, including market research - up to an amount equal to 10% of operating revenue.
- Entertainment expenses - up to an amount equal to 5% of operating revenue.

**Assessment time limit**

Notices of assessment must be served by the end of the second year after that in which the taxpayer submits its tax return. If no return is filed, the assessment deadline is extended to 31 December of the third year following that in which the tax return should have been filed.

All accounts and supplementary records, as well as other documents relevant for tax assessments and inspections, must be kept for five years after the tax period to which they refer or until any tax assessment of that period ends.

**Deduction of interest expenses**

Interest expenses on loans used to purchase capital assets are not tax deductible until the assets are used or are ready to be used.

Interest expenses on loans from company members who are individuals are deductible on a cash basis.

**Transfers of equity interests and dividends**

Capital gains from sales of interests in resident or non-resident companies do not constitute taxable income if:

1. the equity interests are held continuously for a full 12 months before they are sold;
2. the equity interests are recorded as long-term investments in the first financial statements after their acquisition.

Capital losses from sales of equity interests in resident or non-resident companies are non-deductible if the above two conditions are met.

Dividends received from companies governed by the law of San Marino are not subject to CIT.

Ninety-five per cent of dividends from foreign companies are not subject to CIT, provided that the interests have been held for at least 12 months, and are duly recorded in the accounts and in at least one set of financial statements. The holding period requirement can also be met after the dividends are distributed.

**Deduction of amortisation**

For tax purposes, intangible property, including goodwill paid for the purchase of a business (or its branch), can be amortised at a maximum rate of 20% on a straight-line basis. However, if the period of use of the asset is fixed by law or a contract, or is predetermined, the amortisation charge is based on this period.

Any goodwill on the acquisition by a San Marino company of an interest in a subsidiary is not deductible as it forms part of the purchase cost of the interest.

**Simplified residency application scheme**

Under San Marino law, residency is granted to people who marry residents in San Marino or, alternatively, to the sons or daughters of women resident there. However, foreigners who wish to come to San Marino for work purposes can, on certain conditions, apply for residency under a simplified scheme.

If a new business is set up or an existing business is taken over in order for it to be turned around, there is a simplified residency scheme for the entrepreneur and/or managers and/or researchers involved in the project (as well as their families). The project must first be approved by the Technical Evaluation Committee (Comitato Tecnico Valutatore). To access the scheme, the entrepreneur and/or managers and/or researchers must undertake to:
a) hire eight residents (in the case of manufacturing activities);
b) hire five residents (in the case of other business activities);
c) sign a bank or insurance guarantee to the value of €300,000. As an alternative, a real estate property with a value of at least €300,000 must be purchased or acquired under a lease¹. These are used to guarantee the payment of any outstanding tax, social security contributions and salaries.
d) take out health insurance policies.

At least 60% of commitments a) and b) must be met by the end of the first two years of business.

Indirect taxation
Imports of goods and services are indirectly taxed at the ordinary rate of 17%. The indirect tax paid on goods imported from abroad can be refunded if the goods are subsequently exported.

For imports of capital goods the rate is 1% and is non-refundable.

Services provided between businesses are not subject to any indirect tax.

San Marino will introduce a VAT system similar to that of the EU from 2016.

Purchase of real estate
Real estate, purchased directly or under a lease agreement, is subject to the following taxes (unless adjusted by the tax authorities), which are levied on the value agreed by the parties:

- registry tax = 5%
- cadastral tax = 0.4%
- public registration tax = 1%.

Withholding tax on outbound dividends, interest, royalties
Unless a double tax treaty (DTT) applies, income paid to non-residents is subject to the following withholding tax rates.

Dividends distributed to resident and non-resident individuals are subject to withholding tax of 5%.

Profits distributed and paid to parties other than individuals are not subject to the 5% withholding tax, provided that the recipient declares to the company distributing the profits that it is not acting on behalf of an individual.

Royalties are subject to 20% withholding tax when paid to non-resident individuals or entities.

Withholding tax of 13% is levied on interest paid on loans granted by foreign companies. This withholding tax does not apply if the loan is granted by a credit institution. Interest on loans from company members who are individuals is tax deductible on a cash basis.

Interest on current accounts and deposits is subject to withholding tax of 11%.

For interest and other financial income from ‘repo’ transactions on securities of any type, the rate of withholding tax is 5%.

Interest and other financial income from certificates of deposit are subject to 5% withholding tax if the term is less than eighteen months. If the term is longer than eighteen months, the rate is 4%. Interest and other financial income from bonds are subject to withholding tax of 4%.

European Union and international tax agreements
The Republic of San Marino is not an EU member (although there is a customs union agreement for trade with the EU). EU directives are therefore inapplicable and do not affect direct taxation (especially dividends, interest and fees).

The Republic has signed 20 DTAs based on the OECD Model Convention and 29 Tax Information Exchange Agreements (TIEA). It is actively working to expand this network of international agreements.

List of countries with which San Marino has signed DTT and TIEA agreements

DTA (20 agreement)
Austria, Barbados, Belgium, Cyprus, Croatia, Georgia, Greece, Italy, Liechtenstein, Luxembourg, Malaysia, Malta, Portugal, Qatar, Romania, Saint Kitts and Nevis, Seychelles, Singapore (not ratified yet), Hungary and Vietnam.

TIEA (29 agreement)
Andorra, Argentina, Australia, Bahamas, Canada, China, Denmark, Faroe Islands, Finland, France, Germany, Great Britain, Greenland, Guernsey, India, Indonesia, Ireland, Iceland, Monaco, Norway, Holland, Poland, Czech Republic, Samoa, Spain, South Africa, Sweden, Switzerland and Vanuatu.

The DTT between Italy and San Marino came into force on 1 January 2014.

¹ Even if a bank or insurance guarantee is granted, within 12 months of the approval of the entrepreneurial project a real estate investment of at least €300,000 must in any case be made. After which, the bank/insurance guarantee is no longer necessary.
### List of DTT Agreements signed by San Marino

<table>
<thead>
<tr>
<th>Country</th>
<th>PF - PG</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
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<td>15%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Barbados</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>10%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Croatia</td>
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<td>10%</td>
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<td>0%</td>
</tr>
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<td>Georgia</td>
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<td>10%</td>
<td>0%</td>
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<td>Greece</td>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Italy</td>
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<td>13%</td>
<td>10%</td>
<td>0%</td>
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<tr>
<td>Liechtenstein</td>
<td>5%</td>
<td>13%</td>
<td>0%</td>
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<tr>
<td>Luxembourg</td>
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<td>Saint Kitts and Nevis</td>
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<tr>
<td>Seychelles</td>
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<td>0%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Singapore</td>
<td>Not ratified yet</td>
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<td>0%</td>
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<tr>
<td>Hungary</td>
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<tr>
<td>Vietnam</td>
<td>10%</td>
<td>15%</td>
<td>0%</td>
<td>0%</td>
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</table>
Labour costs, social security and pensions

Employment and self-employment

A social security system provides sickness and maternity benefits, family allowances, and social security cushions for employees.

The pension system guarantees a replacement rate of 60% to 80% of a worker’s average salary over his last 10 years of work, providing a maximum pension of €45,000.00 per year. To be eligible for the minimum pension scheme, social security contributions need to have been paid for at least 20 years.

The social security contributions payable by the company amount to 26.60% of the worker’s gross salary, while those payable by the worker amount to 6.70%.

‘Gestione separata’ social security scheme

Company directors (the sole director or managing director) or chairs of boards of directors must register with the gestione separata social security system and with the complementary pension scheme Fondiss.

Employment contracts

The collective labour agreements in the different sectors are nationwide ones and local/internal agreements are not allowed.

Staff recruitment

If a company hires a resident employee it is sufficient for it to notify the employment authority, while for a non-resident employee the company must request prior authorisation from the Employment Office or the Labour Commission (consisting of members of trade unions, employers’ associations and political parties).

Secondment

Under the Social Security Convention between Italy and San Marino employees can be seconded between companies of the two countries; they can be governed by the law of their country of origin for a maximum of 36 months.

San Marino has also signed social security agreements with France and Switzerland.

Industrial property

Industrial property rights are protected both by the law of San Marino and by international multilateral agreements.

In the San Marino legal system there is a specific set of rules governing industrial property (Law no. 79 of 25 May 2005, as subsequently amended). This law protects the exclusive rights obtained through (i) patents, utility models, plant variety property rights and (ii) registered trademarks, drawings, patterns, trade names, designations of origin, distinctive signs other than registered trademarks, and confidential business information.

In San Marino there is a Patent and Trademarks Office (USBM) which deals with applications for the registering and protection of patents, trademarks and other similar items.