



Italy: Patent Box regime loses trademarks

Tax Alert
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Law Decree no. 50 of 24 April 2017⁽¹⁾ amends the Italian Patent Box regime by excluding trademarks from the list of qualifying intangible assets that can take the tax benefit. The purpose of this amendment is finally to align Italian tax law with the OECD recommendations made in the BEPS Action 5 Final Report⁽²⁾.

The Italian Patent Box regime in brief

The optional Patent Box regime was introduced into the Italian tax system by the 2015 Budget Law.

The following taxpayers, generating business income in Italy, may opt for the Patent Box facility:

- resident entrepreneurs (e.g. corporate entities, partnerships and individuals);
- non-resident companies/entities that have permanent establishments in Italy and are residents in a treaty country allowing an adequate exchange of information with the Italian tax authorities.

The benefit is only available to taxpayers that engage in R&D with a view to developing, maintaining and enhancing certain intangible assets ('qualifying IPs').

This regime is available for (i) income earned from licensing qualifying IPs to third parties and (ii) income attributable to direct use of qualifying IPs by their owner. Income attributable to direct use must be determined in agreement with the Italian Revenue Agency, through the international tax ruling procedure.

The benefit is available for both corporate income tax (IRES) and regional business tax (IRAP) purposes. Essentially, a certain percentage of income attributable to the use of the qualifying IPs - 50% of income from 2017 onwards (for calendar-year taxpayers⁽³⁾) - is excluded from the tax base.

(1) Published in Official Gazette no. 95 of 24 April 2017 and in force from that date.

(2) See 'Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance', Action 5: 2015 Final Report, 5 October 2015, paragraph 38.

(3) The amount of excluded income was 30% in 2015 and 40% in 2016 (for calendar-year taxpayers).

In line with the OECD nexus approach, the income eligible for the exemption is calculated by multiplying the income derived from the qualifying IP by the ratio of qualifying R&D expenditure⁽⁴⁾ to the total expenditure on developing the intangible asset.

For 2015 and 2016 (for calendar-year taxpayers), the election for the regime had to be submitted electronically to the Italian Revenue Agency by the end of the year (i.e. by 31 December 2016, for 2016). From tax year 2017 (for calendar-year taxpayers), the option must be exercised in the income tax return⁽⁵⁾ and the regime will be effective from the year of the tax return. If a tax ruling is requested, the option will be effective from the tax year in which the request is filed. The regime lasts for five years (renewable) and it cannot be revoked.

Until the amendment introduced by Law Decree no. 50, the following were qualifying IPs:

- software protected by copyright
- patents
- *trademarks including collective brands (already registered or in the process of being registered)*
- legally protectable designs and models
- legally protectable processes, secret formulas and industrial, commercial or scientific knowledge, including know-how.

The amendment introduced by Law Decree no. 50/2017

Law Decree no. 50/2017 removes trademarks from the above list and clarifies that the amendment will apply to options exercised after 31 December 2016. In other words, for calendar-year taxpayers, the benefit no longer applies to trademarks as of 2017. Taxpayers who exercised their option in tax years in progress on 31 December 2015 or on 31 December 2016 may still benefit from the regime with respect to trademarks, until 30 June 2021.

A ministerial decree will update the implementation measures contained in the Decree of 30 July 2015⁽⁶⁾.

(4) Which can be increased by up to 30% by including the costs of acquiring the asset or the intercompany costs of R&D contracts for the asset.

(5) For non-IAS/IFRS adopters, the deadline for the 2016 income tax return is 16 October 2017.

(6) See our [Tax Alert of 3 November 2015](#).

Final remarks

Even though the new rule, by excluding trademarks from the benefit, removes an inconsistency of the Italian Patent Box regime with the OECD guidelines, the regime still does not seem to be fully compliant with the OECD recommendations. First, the benefit still applies to legally protectable processes, secret formulas and industrial, commercial or scientific knowledge, including know-how, which are only allowed as qualifying IPs in the BEPS Report on Action 5 if certain conditions are met⁽⁷⁾. Second, options exercised after 30 June 2016 remain unaffected by the amendments, although Action 5 established that no new options for regimes not consistent with the OECD principles would be admitted after 30 June 2016⁽⁸⁾.

However, as Law Decree no. 50 must be converted into law within 60 days, with or without amendments, its provisions are not yet final. We will issue a bulletin if the conversion law introduces any significant changes.

(7) See BEPS Action 5 Final Report, paragraph 37.

(8) See BEPS Action 5 Final Report, paragraph 63.

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