

## Italian Renewable Assets – What You Need to Know

Italy is viewed as an attractive market for renewables based on the recently announced National Resilience and Recover Plan (NRRP). Due to the conflict in Ukraine, Italy is looking at its energy security and expects to become independent of Russian gas by Q2 2024. Italy is aiming to diversify its gas supplies in the medium term (2023-2024) and accelerate the development of renewable energy.

Renewable energy generation contributes to 41.7% of national electricity generation. Of the installed renewable energy capacity, the main sources are hydro (40.7%), followed by solar (21.3%), bioenergy (16.8%), wind (16%), and geothermal (5.2%)



### Renewable energy

With the announcement under the NRRP, Italy is devoting €59 billion to incentivise renewable energy development between 2021-2026. Italy plans to eliminate coal by 2025 and to bring renewables' share of final gross electricity production to 72% by 2030 and to 95–100% by 2050. To achieve this goal, Italy will have to add 70 GW of electric renewables, which, when added to the current 58 GW, will reach a total of 128 GW by 2030, meeting the above-mentioned 72% quota. To integrate new renewable power, it will also be necessary to install at least 60 GW of new, large-sized reserves, in addition to strengthening electric networks. (2)

### Energy storage

As a result of incentives and growing requirements to have sufficient energy storage systems, the market for storage systems is booming in Italy. By the end of June 2022, Italy had almost 122,000 storage systems linked to renewable energy power plants. These storage systems have a combined power of 720 MW and a maximum storage capacity of 1,361 MW. The number of units installed during the first six months of 2022 grew by 346% over the same period in 2021. Power and storage capacity grew 500% and 480%, respectively, over the same period. Nearly all units are connected to a photovoltaic plant, of which 97% are residential, and 98.5% of the installed storage systems are based on lithium-ion technology. (2)

### Other factors to consider

Italy has a number of compliance factors for companies. These include:

- Corporate income tax
- Vat compliance
- Municipal taxes on property
- Withholding taxes
- Energy Authority Contribution
- Contribution for the functioning of the Regulatory Authority for Energy, Networks and the Environment
- Chamber of commerce fee
- Windfall taxes

We'll break them each down in more detail below:

### Corporate income tax

Italian corporate entities and non-resident companies, only on Italian source income, are subject to a corporate income tax, imposta sul reddito sulle società (IRES), and to a regional production tax, imposta regionale sulle attività produttive (IRAP). The regional production tax (IRAP) is a local tax on productive activities realized within a regional territory. The standard rates are 24% for IRES and 3.9% for IRAP.

Business-related costs are deductible with respect to both IRES and IRAP, with some limited exceptions, such as amortisation of cars, PR expenses, and interest charges, where some restrictions apply.

The first instalment for both is due at the end of the sixth month of the accounting period, along with the balance for the previous tax year. The second instalment is due at the end of the eleventh month of the accounting period.



### VAT compliance

VAT returns are due to be filed quarterly by the last day of the second month following each quarter. The annual VAT return is to be filed by 30 April. VAT is to be paid by debit either monthly or quarterly.

VAT paid to suppliers for the majority of business-related expenses are deductible. VAT paid on certain expenses may not be deductible, either partially or fully. These include VAT on the purchase of cars and on PR expenses.

A VAT credit can be claimed as a refund or used to offset the company's tax liability; if the VAT credit to be compensated is higher than €5,000, it must be certified by a CPA or an auditor with the so-called "conformity visa" before being compensated.



### Municipal taxes on property

Imposta municipale unica (IMU) is the principal property tax in Italy. IMU is a property ownership tax, so it is the owner's responsibility. The amount of IMU depends on the value of the property and differs based on municipality. The first instalment is due by June 16 annually, with the second instalment due December 16 annually.

### Withholding taxes

A 30% withholding tax is applied to fees paid to non-residents for the use of industrial, commercial, or scientific equipment located in Italy as well as to cross-border payments of interests.

Distribution of profits are subject to a 26% withholding tax, reduced to 1.2% where the beneficial owner is a company resident in the UE.

Withholding taxes can be reduced under a tax treaty or eliminated under the EU interest and royalties directive or mother Directive. Italy has bilateral agreements with many foreign countries to avoid double taxation on income and capital. Management fees are not within scope of withholding tax.

Payment is due on 16th of the following month of payment of invoices.

### Energy Authority Contribution

The Italian Regulatory Authority for Energy, Networks and Environment (ARERA) requires a contribution (Contributo Arera) to be paid annually by entities operating in the electricity and gas sectors. A rate of 0.00025% of total revenue for the previous periods approved financial statements applies.

Payment is due at the end of the eleventh month following the end of the financial period.

### Contribution for the functioning of the Regulatory Authority for Energy, Networks and the Environment

The contribution (Contributon ARERA) is due annually on January 31. The fee varies by municipality, and the local authorities will send communication of the amount due in advance of the deadline.

### Chamber of commerce fee

Every company registered in Italy must pay an annual fee (in Italian “diritto annuale”) to the corresponding chamber of commerce. The fee depends on the company’s turnover and ranges from a minimum of €200 (companies with a turnover up to €100,000) to a maximum of €40,000 (for companies with a turnover higher than €50 million).

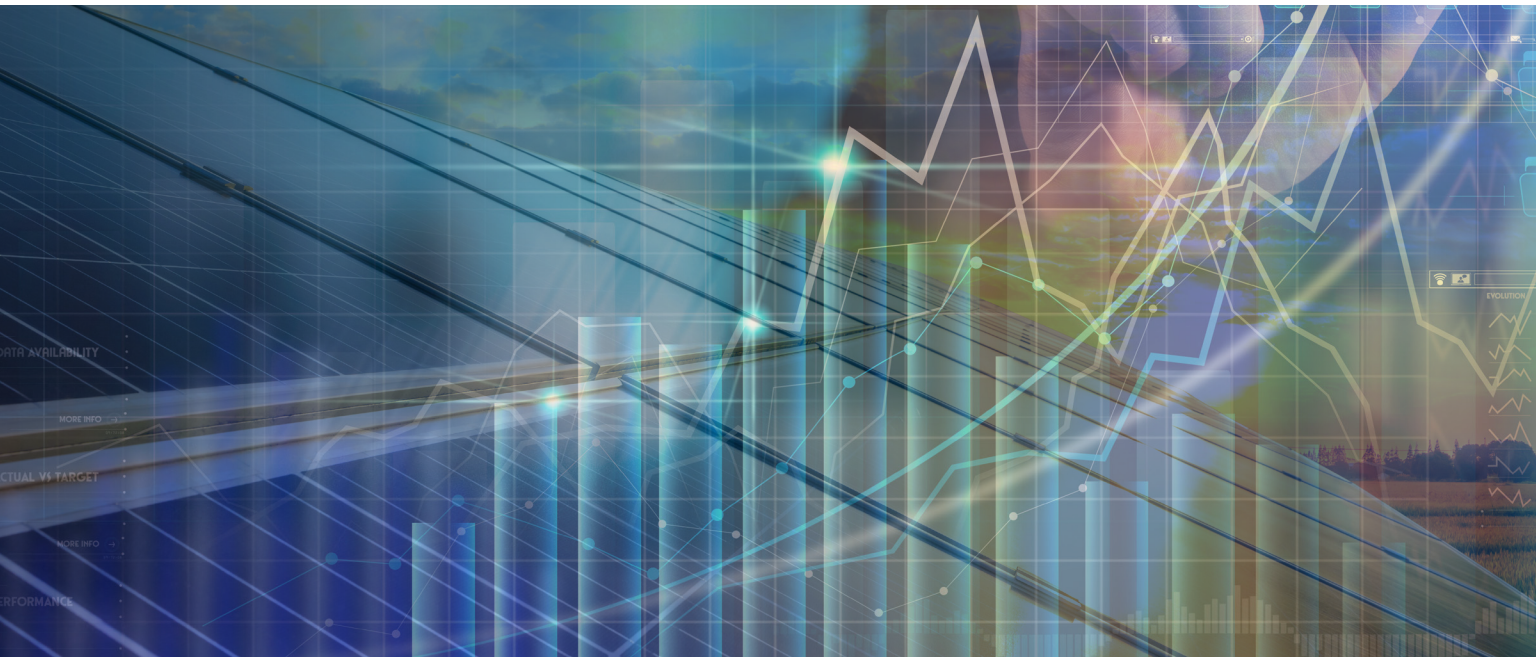
This is due for payment in June/July annually.

### Windfall taxes

Italy has introduced a one-off 50% windfall tax (“temporary solidarity contribution” (“TSC”)) on extra profit earned by energy companies. This is to be paid by eligible taxpayers by June 30, 2023 (exceptions apply). Taxpayers deriving 75% or more of their turnover from, among others, electric energy production, regardless of the source, are eligible to pay TSC.

The formula to calculate TSC is as follows:

- **TSC = 50% \* Extra profit**
- **Extra profit = Taxable profit for FY X – (110% \* Average taxable profit of the 4 tax years previous to FY running on January 1, 2022)**
- **FY X = taxable year before the FY running on January 1, 2023**
- **TSC cannot exceed 25% of the net equity as of the closing date of the FY previous to the one running on January 1, 2022.**



### Credit

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### References

- 1.<https://thelawreviews.co.uk/title/the-renewable-energy-law-review/italy>
2. (<https://www.trade.gov/country-commercial-guides/italy-natural-gas-renewable-energy#:~:text=Italy%20ranks%20third%20in%20Europe,in%20Italy%20is%2058%20GW.>)

All information correct as at **15 February 2023**. Please note none of the above purports to be accounting advice and is provided for information purposes only. Please get in touch if you wish to discuss your individual circumstances and we would be happy to assist you.

**Get in touch to find out how we can help streamline your insights and provide a complete overview of the financial health of your renewable energy projects**

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