ITALY-SPAIN BUSINESS GUIDE

Consiglio Nazionale
dei Dottori Commercialisti
e degli Esperti Contabili

A.I.C.E.C.

Fondazione
Nazionale dei
Commercialisti
RICERCA

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Dear colleagues,

It is with great pleasure that we share this editorial initiative, dedicated to investments in Spain, continuing our path of international missions aimed at promoting the internationalization of Italian companies with greater understanding of the countries that are most relevant and of interest for investment and development. A country very similar to Italy in terms of ethnic-cultural, geographical, socio-business traits, in tune with the challenges related to generational transitions, to the way of understanding the commitment with and towards the European institutions, but also very different for certain aspects related to financial markets, leading sectors and development accelerators that today characterize it as a privileged country to pay attention to and with which to interact.

I would like to express my heartfelt thanks to AICEC, the operational arm of the CNDCEC, with its management team and network of passionate colleagues, for their tireless commitment to the internationalization of professionals. The missions organized by AICEC represent significant moments to open up to new realities and dynamics of foreign markets, providing those who participate with the knowledge and skills useful for finding their way in international contexts with satisfaction.

This volume is not only a practical guide, but also an invitation to explore the potential that Spain has to offer. I sincerely hope that the information and resources presented here will be of help to all of you, professionals eager to expand your horizons and actively contribute to economic growth.

I take the opportunity of this publication to reiterate the importance of this institutional segment, on which we will invest energy and attention also with the newly elected National Council starting from June 2026 and for the next four years, enhancing our category as capable of participating pragmatically in the processes of optimization and internationalization.

Enjoy reading and have a good trip!

Elbano de Nuccio
President of the Consiglio Nazionale
dei Dottori Commercialisti
e degli Esperti Contabili

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Dear colleagues

I wish once again to express my gratitude to all of you for the continued support and appreciation shown towards our initiatives and our missions.

In this first mission of 2026, we are going to Spain, a country that is confirmed as one of the most dynamic and resilient economies in the European landscape, offering an ecosystem favorable to investments and a unique international projection. The strength of Spain is based on modern structural pillars such as cutting-edge infrastructure, digitalization and innovation alongside leading industrial sectors such as aerospace and chemical and pharmaceutical that show a very high competitiveness.

In terms of competitiveness, one of the most important advantages of Spain is its privileged position as a strategic hub both to North Africa and to Latin America: especially for the latter, the deep historical ties, linguistic and cultural make Madrid a real bridge between the European Union and the Mercosur countries, came so strongly into the limelight also for the recent interim free trade agreement signed and entered into force on May 1st, which can offer a series of advantages to our companies provided appropriate knowledge of its rules; also towards Mexico, which is among the main recipients of Spanish direct investment and more generally towards the countries of Central America. This closeness results in a pragmatic economic diplomacy that promotes political and commercial dialogue, facilitating the internationalization of European companies in Latin America.

The ties with Italy are also particularly strong and felt, characterized by a deep industrial and cultural integration. Basically, in 2026 Spain is presented as an essential investment destination, an open market and a fundamental strategic partner for the Italian production system in the Mediterranean and overseas.

In this particularly delicate and turbulent moment of history that we have been going through for some time now, I would like to emphasize once again how to get to know foreign countries deeply, and among these also the countries of the European Union to which we are often close due to common regulatory derivations, can represent an important added value to support our clients' businesses in approaching new markets, but above all I would like to emphasize how knowing how to dialogue with subjects that for uses, habits and mentalities belong to realities different from ours, it also means being able to interpret the role of true consultants of our small and medium-sized enterprises in an international context in which they are or intend to operate, even when the recalled context becomes stormy. To know how to dialogue is necessary to know: countries, norms, opportunities and threats.

From this point of view, then, I emphasize again how the support that we accountants provide to the growth of these small exporting or importing companies, even in

the context of our EU, becomes fundamental for the entire national system. and I am particularly proud to be able to point out that the growth, in terms of skills and knowledge, of these small realities is also manifested thanks to the contribution that the AICEC, together with its associates, seeks to provide professionals through its own initiatives that aim to spread the culture of internationalization to increase the degree of awareness needed to address foreign countries.

In this spirit, we have organized the work that will allow us, also in this mission, on the one hand, to have a very useful direct relationship, as always happens, with the Sistema Italia abroad and, on the other hand, to be able to hear testimonies of economic entities and colleagues operating in Spain. All this, also this time, with the support of the now usual country guide, created to provide an interesting first approach to Spanish legislation and in general to *doing business* in Spain. In this regard, I sincerely thank the entire National Council of Chartered Accountants and Accounting Experts for their trust in us in supporting our initiatives and for the valuable collaboration they have continually offered in addressing issues related to internationalization and international trade. Last but not least, I also sincerely thank the working group, which once again worked tirelessly to draft this paper.

In wishing you, finally, a good reading I renew my most sincere thanks and invite you to continue to follow us in our initiatives.

Giovanni Gerardo Parente
President Associazione Internazionalizzazione
Commercialisti ed Esperti Contabili

ITALIAN ECONOMIC SYSTEM

1. Country presentation

1.1. Form of government

The Italian State is a parliamentary republic based on the principle of the separation of powers: legislative power is attributed to Parliament, the representative body of the popular will, while executive power is attributed to the Government, which operates on the basis of a vote of confidence received from the legislative body, and judicial power is exercised by the Judiciary, an autonomous system independent of any other power.

Apart from, and above, the traditional powers of the state there is the President of the Republic, the highest office of the State and representative of national unity, who is elected by Parliament in a joint session of its members.

The President of the Republic is a monocratic, impartial and *super partes* constitutional body to whom specific and predetermined prerogatives are attributed, aimed essentially at guaranteeing a balance of, and separation between, the other powers of the state and of safeguarding the Constitution, which represents the fundamental and supreme law of the Italian State.

More specifically, the Constitution, in its first twelve articles, establishes the fundamental principles of the Italian Republic; in the first Part, it identifies the rights and duties of citizens in the context of ethical-social relations and, in the second Part, regulates the organization of the Republic, that is, the bodies of which it is composed, local authorities, as well as, finally, constitutional guarantees.

Having stated the above, the main characteristics of the bodies to which the Constitution attributes the three fundamental powers of the state are outlined below.

1.2. Parliament

Parliament is a constitutional body, representing the political will of electors and is subdivided into two chambers (so-called perfect bicameralism): the Chamber of Deputies and the Senate of the Republic, which differ in the age limit required to vote and to stand, the number of members and the presence, in the Senate, of non-elected members.

The traditional and prevalent function of Parliament is legislative and is exercised by the Chambers collectively, through a law approval process that requires the perfect

matching of the will of both branches of parliament and, hence, approval of an identical text of law on the part of the two Chambers.

All laws, after having received parliamentary approval, must be promulgated by the President of the Republic who, in his capacity as guarantor of the Constitution, can, in the event of formal or substantial flaws in the act approved by Parliament, send back the text to the Chambers with a motivated message, requesting a review; due to the principle of the separation of powers, the President, in all events, has no right of veto, since if the text of law is newly approved by the Chambers, to which, as has been said, are attributed legislative power, the President is obliged to promulgate the law.

After promulgation, the law is published in the Official Gazette of the Italian Republic, which represents the official source of knowledge of the laws in force in Italy; once 15 days have elapsed from publication, (a term which, if provided for in the same law, can be greater or lesser), the law enters into force.

1.3. The Government

The Government is the constitutional body that exercises executive power and is composed of the Prime Minister, appointed by the President of the Republic, and by the ministers – similarly appointed by the latter, on the proposal of the Prime Minister and placed in charge of determined administrative structures – which together form the Council of Ministers, that is, the Cabinet.

Within ten days from its formation, every government must obtain the approval of the two Chambers, that is, a so-called vote of confidence, which must continue for the entire duration of office; if, in fact, during the legislature, the relationship of confidence between the legislative power and the executive one is withdrawn, the Government is obliged to resign from office.

The executive function is exercised by the Government through the identification, implementation and coordination of national political, economic and financial policies; the Government, moreover, is attributed the role of representing the interests of the Italian State in the international context (so-called foreign policy), as well as in the European context, in which a representative of the Government participates in the Council of the European Union, its decision-making body.

The Government is attributed the power to issue regulations – which constitute a secondary source of law – through which it can implement and integrate legislative provisions, regulate the organisation of public administrations and, generally, regulate on matters that the Constitution does not reserve exclusively to Parliament.

The Government can also exercise the legislative function traditionally attributed to Parliament in two cases provided for and strictly regulated by the Constitution.

The first is when Parliament itself assigns the Government the power to issue acts having the force of law, so-called legislative decrees, on the basis of a specific delegated law that establishes the guiding principles and criteria that the Government has to follow, the term within which the proxy has to be exercised and its specific subject matter.

The second case, on the other hand, permits the Government, in extraordinary cases of necessity and urgency that require an immediate legislative intervention, to adopt provisional acts with the force of law autonomously and under its own responsibility, so-called decree laws – that must be converted into law by Parliament within the following sixty days, on penalty of the loss of effectiveness right from their emanation.

In any case, in the event of failed conversion, the Chambers can regulate, with a specific law, juridical relations arising on the basis of the unconverted law decree.

1.4. The Judiciary

Judicial power is attributed to the Judiciary, which is the series of bodies that exercise the judicial function in a position of impartiality with respect to the other powers of the state.

Jurisdiction is either ordinary (civil and criminal) or special (administrative, accounting and military) and, subject to exceptions and particular choices of court proceedings, is based on three degrees of judgement.

The instrument for implementing the judicial function is the fair trial, in relation to which the Constitution identifies, as fundamental principles, the impartiality of the judge, the conduct of cross-examination between the parties in conditions of parity, as well as its reasonable duration.

The jurisdictional function is exercised by ordinary magistrates appointed and regulated by the rules of the judiciary.

In order to ensure the impartiality and autonomy of the judiciary, the Constitution attributes to a specific body, the *Consiglio Superiore della Magistratura* (Judicial Council) exclusive power with reference to the designation of appointments, transfers, promotions and disciplinary measures regarding magistrates.

1.5. Language and currency

The official language of the Italian Republic is Italian.

On 1 January 2002 Italy and 11 other European Union member States introduced banknotes and coins in euros to replace the respective national currencies of each country; today the euro is the official currency of 20 of the 27 member countries of the EU which together constitute the euro area, officially referred to as the euro zone.

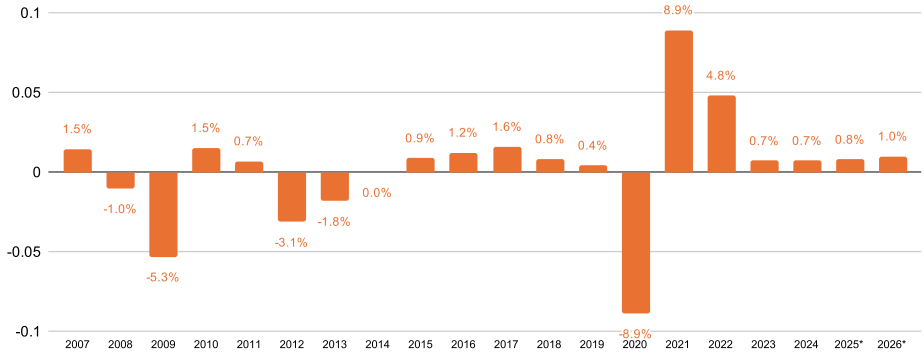
1.6. Economic outlook

1.6.1. The economic situation

After the GDP upswing that occurred in the post-Covid two-year period (2021-2022), economic growth in Italy slowed sharply in the following three years, with GDP growth stagnating at +0.5% in 2025, while expectations for 2026 do not go beyond 0.6%. In the current year, however, growth remains uncertain due to the global geopolitical situation and the repercussions it could have on energy prices in the summer months.

According to the International Monetary Fund (World Economic Outlook, April 2026), the Italian economy will grow by 0.5% in 2026, compared to 1.1% growth in the euro area. The IMF's estimates for Italy in 2026 are slightly lower than those released by the Italian government (April 2026) in the Public Finance Document 2026-2029, which instead forecasts GDP growth of 0.6%.

Table 1 - Actual GDP trend (values chained-linked with reference year 2015). Years 2011-2025



Source: FNC analysis of ISTAT (the Italian National Institute of Statistics) data

On the economic front, data relating to the last quarter of 2025 show a growth of 0.3% on the previous quarter and 0.8% on the same quarter of the previous year. Quarterly growth was particularly supported by investment spending, which rose by 0.9% in the quarter, while consumer spending increased by just 0.1%. On the other hand, the contribution of foreign demand was negative, with exports falling by 1.2% compared to a 1% drop in imports.

On the international economic front, inflation is expected to rise slightly to 4.4% in 2026 after falling to 4.1% in 2025. Central banks remain cautious and are awaiting developments in the energy crisis. In the euro area and Italy, inflation fully returned to target in 2025, while forecasts for the current year are for moderate growth of around 2.6% (after hitting 1.6% in 2025).

In March 2026, the European Central Bank, following a cautious approach, left interest rates unchanged. Rate increases during the year are not ruled out if inflation remains above 2%.

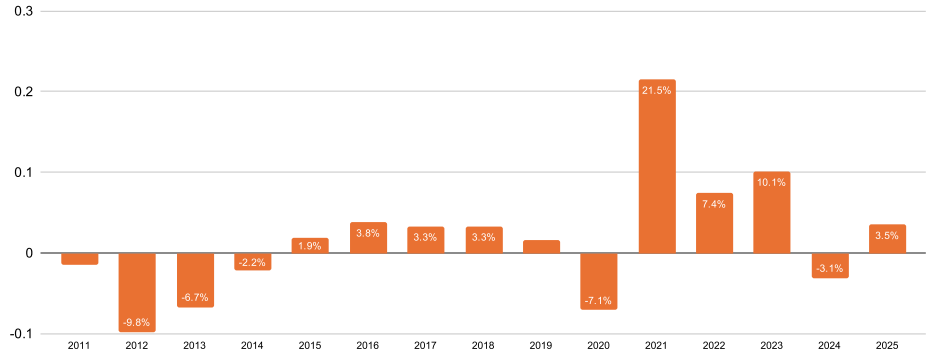
Despite the ongoing economic slowdown, the Italian labour market remains particularly dynamic. Employment continued to increase throughout 2025, while unemployment continued to decline. Currently, the employment rate in Italy has reached its historic high of 62.4% thanks to the significant strengthening of employed work, especially permanent contracts, even though in the last year there has been a significant recovery in self-employment. The unemployment rate decreased further, reaching 5.3% in February 2026, the lowest level in the last decade, although this phenomenon, partly linked to demographic dynamics, has still not resolved the problem of the mismatch between labour supply and demand.

After a strong recovery in the post-Covid two-year period, household consumption grew at a slower and particularly modest rate in 2025, just above zero, while the propensity to save rose slightly to 11.4%.

With regards to businesses, however, the indicators relating to turnover dynamics in the industrial sectors showed a significant recovery during 2025, with a more pronounced trend with regards to the service sector.

Investments, which are also expected to grow in 2025, were particularly supported by spending on housing, further boosted by the tax breaks introduced starting in 2020. In the fourth quarter of 2025, in fact, the overall level of investment in housing rose by 7.1%. Over the past year, the annual growth rate of gross fixed investment has recovered after the decline seen in 2024. In fact, in 2025, the annual variation was positive and equal to +3.5%.

Table 2 – Gross fixed investments. Annual % change. Years 2011-2025



Source: FNC analysis of ISTAT data

Inflation fell to 1% in Italy in 2024, lower than in other European countries. Inflation in 2025 was 1.5%.

In 2025, Italy's foreign trade showed weak growth, reflecting the slowdown in world trade and the weakness of major European economies, particularly Germany. The trade balance remains positive, albeit declining.

1.6.2. Economic policy

To face the pandemic emergency, in 2020 governments and central banks immediately adopted strongly expansive economic policies aimed at supporting the incomes, consumption and liquidity of businesses. In 2021 and, especially in 2022, faced with the worsening of the energy crisis and the increase in inflation, governments introduced new policies directed at businesses and families primarily in order to mitigate the effects of inflation.

During 2020, to deal with the devastating impact of the pandemic on GDP, the European Union launched Next Generation Eu (NGEU), an intervention of 750 billion euros intended to integrate the EU's 2021-2027 budget. To face the energy crisis caused by the Russia-Ukraine war, in 2022 the EU launched REPowerEU, an intervention of 300 billion euros.

In order to support the post-covid economic recovery, the Italian government has focused its efforts on the NRRP, the National Recovery and Resilience Plan, approved in 2021, which draws most of its resources from the NGEU and which amounts overall to 235 billion euros. The main strategic lines and objectives defined in the NRRP are:

- digitalisation, innovation, competitiveness, culture;

- green revolution and ecological transition;
- infrastructures for sustainable mobility;
- education and research;
- inclusion and cohesion;
- health.

Besides the financial measures aimed at fostering important economic investments, the NRRP also provides for a series of reforms of significant strategic value for the implementation of the plan itself. Among the most important are the reform of the public administration, the justice system, legislative and bureaucratic simplification, the plan for the promotion of competition and a series of sectorial reforms structured within the single objectives. In addition, there are a number of accompanying reforms such as that of the tax system and for the extension and strengthening of the social safety nets system.

There are, instead, three strategic goals pursued by the EU through the REPowerEU:

- energy-savings;
- diversification of supplies;
- expansion of renewable energy sources.

The plan forms part of the European Green Deal, already a cornerstone of the NGEU, and plans for the ecological transition also through the need to gradually reduce energy dependence on Russia as a result of the conflict in Ukraine.

RePowerEU has been conceived as an additional chapter of the single national RRPs and, following the logic of the Recovery and Resilience Facility, is broken down into single investment plans and legislative reforms of the system.

1.6.3. Economic outlook

In April 2025, as part of its economic planning, the Italian government set a growth target of 0.6% for 2026. The most recent forecasts by ISTAT (the Italian National Institute of Statistics) and the Parliamentary Budget Office put growth for 2026 at 0.6%. According to the International Monetary Fund, however, Italian growth in 2026 will be 0.5%. Generally, a cautious attitude prevails, due to geopolitical uncertainties that could have very significant impacts on European economies, especially due to the ongoing energy crisis.

Table 3 - International Monetary Fund growth forecasts

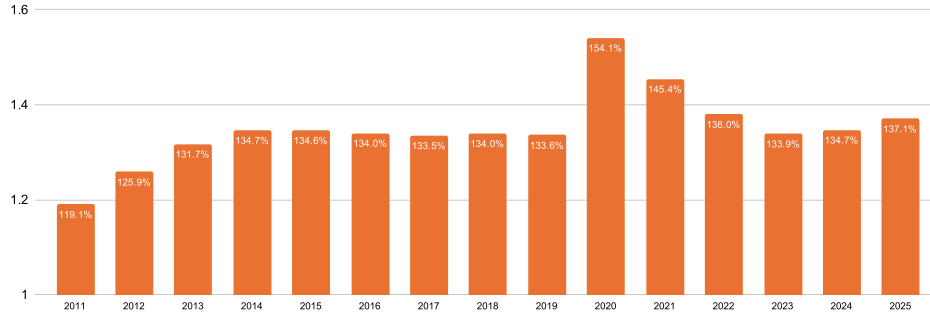
	2025	2026	2027
United States	2.1	2.3	2.1
Euro Area	1.4	1.1	1.2
Germany	0.2	0.8	1.2
France	0.9	0.9	0.9
Italy	0.5	0.5	0.5
Spain	2.8	2.1	1.8
Japan	1.2	0.7	0.6
United Kingdom	1.3	0.8	1.3
Canada	1.7	1.5	1.9

Source: World Economic Outlook, IMF, 25 July 2023

1.6.4. Public finances

As is well known, in 2020, due to the pandemic emergency and plans to support household income and business liquidity, and particularly thanks to the suspension of the "Fiscal Compact" (the Eurozone Treaty on Stability, Coordination and Governance), EU national governments embarked on highly expansionary fiscal policies, significantly increasing deficits and public debt. Thanks also in part to the accommodating monetary policies of the European Central Bank, which launched an extraordinary bond purchase program and brought real interest rates to negative levels, Italian public debt increased significantly in 2020, reaching 154.1% of GDP.

Table 4 – Trend of the public debt to gross domestic product ratio 2011-2025



Source: FNC analysis of Bank of Italy data

Between 2022 and 2023, thanks in part to the high inflation rate and the Italian government's prudent economic policies, the debt-to-GDP ratio returned close to pre-COVID levels. In 2024, it stood at 134.7% of GDP, while in the last year it rose to 137.1%, partly due to the lingering effects of the Superbonus introduced in 2020.

In 2025, Italy's total tax burden reached 43.1%, its highest level since 2014. The tax-only burden is projected to be 29.5%, while the contribution burden will be 13.5%. Direct taxes account for 15.3% of GDP, while indirect taxes reach 14.1%.

2. Starting a business activity in Italy

There are various ways a foreign investor can develop their business activity in Italy.

The choice of the manner a foreign entrepreneur can operate in Italy depends on numerous factors essentially linked to the organisation and objectives of their business, as well as the particular characteristics of the Italian market.

In general, a business activity can be carried on in individual or collective form, also subscribing or acquiring capital/stakes in an already existing company.

Moreover, with the current, definitive coming into effect of the reform of Italian insolvency procedures, enacted through Legislative Decree No. 14 of January 12, 2019 (Business Crisis and Insolvency Code) further to the implementation in Italy of EU Directive 1023/2019 on preventive restructuring frameworks[1], individual or collective entrepreneurs must adopt suitable measures or an adequate organisational, administrative or accounting structure for the nature and dimension of the enterprise, also for the purpose of the prompt detection of a state of crisis and are obliged to act without delay to adopt and implement one of the tools provided by the law for overcoming the crisis.

With reference to the ways to start a business venture, various approaches are possible, which are briefly described below.

2.1. The representative office

The representative office is the simplest form of market penetration; through this means, in fact, a foreign person or entity can directly promote their products or services in the Italian territory with limited obligations and costs and without acquiring any tax liability, avoiding administrative, accounting and fiscal commitments of any significance.

It is characterised by the presence in the Italian territory of a company without there being any exercise of its main activities and makes it possible to easily gauge the Italian market, while promoting its own business activity.

[1] This refers to Directive (EU) 2019/1023 of the European Parliament and Council of 20 June 2019 on preventive restructuring frameworks, on the discharge of debt and disqualifications, and on measures to increase the efficiency of procedures concerning restructuring, insolvency and discharge of debt, and which amends Directive (EU) 2017/1132 (Directive on restructuring and insolvency).

Functions merely auxiliary or preparatory but useful for the penetration of a foreign enterprise in the Italian market are carried out through a representative office, such as promotional and advertising activities, the gathering of information and the delivery of goods. These activities can be performed in laboratories, warehouses, deposits, offices, shops and showrooms, always provided an entire production or sales cycle is not carried out on a permanent basis, as the condition of a (concealed) permanent establishment would easily in this case materialise, with all the consequences linked to the relative omissions.

From a civil law point of view, the representative office does not have legal autonomy from the parent company, which remains the only entity responsible for corporate obligations assumed with relation to third parties. Italian legal provisions, however, apply regarding public access to official records.

For tax purposes, the foreign enterprise is not subject to taxation in Italy for the presence of a representative office unless, as already mentioned, it is effectively a permanent establishment of the foreign entity, carrying out a production or commercial activity on own account.

In this sense, it is necessary to pay attention to the activity performed by the representative office in order not to run the risk that said office is redefined subsequently as a permanent establishment in Italy of the foreign enterprise, with consequent taxation in Italy of the income generated by the permanent establishment.

2.2. The permanent establishment

A non-resident enterprise can carry on its activity in Italy through a permanent establishment. According to the definition provided by the OCSE[2] the expression "permanent establishment" refers to a fixed business site by means of which a non-resident enterprise exercises, in whole or in part, its own business activity in Italy. This includes: a management site, a branch, an office, a workshop, a laboratory and a building site for construction, assembly or installation (provided said building site has a duration of more than three months[3]).

A significant and continuous economic presence in the territory of the State set up so as not to have a physical presence in the same territory is also considered as a permanent establishment. This condition was introduced in 2018 with the aim of *"mitigating the link – until then fundamental – between the physical presence of an activity in the territory of the State and being subject to tax legislation"*.

[2] This definition has been substantially taken from Italian domestic legislation (art. 162 of Presidential Decree 917/1986 bearing the Income Tax Consolidated Act – the so-called *Tuir*), except for a number of differences.

[3] Art. 5 of the OECD Convention Model against double taxation provides for a duration of 12 months for the purpose of considering a building site a permanent establishment. Art. 162 of the *Tuir* provides for a duration of only three months.

The legislator has, moreover, defined a permanent establishment in a negative sense, listing a series of situations that do not constitute a permanent establishment (a so-called negative list).

In this sense, a fixed place of business is not considered a permanent establishment if it is used only for the purpose of purchasing assets or goods or for gathering information. The use of an installation for storage purposes only, the display or delivery of assets or goods belonging to the enterprise, or for the availability of assets or goods stocked only for storage purposes and for display or delivery or transformation on the part of another enterprise, are all considered as not constituting a permanent establishment. Finally, the same applies to the availability of a fixed place of business used only for the purpose of the combined performance of the above-mentioned activities.

In order to be considered not pertinent for the purpose of constituting a permanent establishment, the activities listed in the negative list must, in essence, be of a preparatory and auxiliary nature with respect to the main activity of the non-resident enterprise[4].

A permanent establishment is defined as "material" (M.P.E.) if it is established through the physical presence of a fixed place of business of the foreign enterprise[5]; it is defined as "personal" (P.P.E.), in the presence of non-independent agents that have the power to close contracts in the name and on behalf of the foreign company or act for their closure without substantial modifications made by the foreign enterprise (so-called commission agent)[6].

From a civil law point of view, the permanent establishment is also not a legally autonomous entity with respect to the parent company. It is essentially a mere means through which the business activity is carried on. As a result, although it is typically provided with an endowment fund, it does not need to formally establish share capital or have independent corporate bodies.

With reference to aspects relating to taxation, the permanent establishment is a significant entity both with regards to value added tax (VAT), and is an autonomous centre for the allocation of revenues and costs, and is taxed in the territory of the Italian State for the income generated there by the P.E..

[4] The new paragraph 5 of art. 162 of the Income Tax Consolidated Act provides for the so-called anti-fragmentation rule, aimed at preventing the non-resident enterprise from artificially subdividing a single activity into a number of operations, considered preparatory and auxiliary, only for the purpose of meeting one of the conditions excluding the permanent establishment definition provided for by the so-called negative list.

[5] The characteristics necessary for being defined as a M.P.E. include principally the fixed nature in time and space of the fixed place of business and the requirement that the activity of the foreign parent company is carried out in said place.

[6] With regards to the P.P.E., it should be noted that the power assigned to a person must be effectively exercised, not in an occasional manner, and must relate to the foreign parent company's business activity. Conversely, the status of permanent establishment is not met when the person that operates on behalf of a non-resident enterprise only carries on merely auxiliary and preparatory activities. When a person operates exclusively or almost exclusively on behalf of one or more enterprises with which they have close ties, they cannot be considered as an independent agent.

The permanent establishment is considered as an entity resident in the Italian state for tax purposes and as such is subject to the same tax regulations provided for individuals and entities carrying out business activities in Italy.

In accounting terms, the operations carried out by the permanent establishment are recorded in separate accounts from that of the parent company and merge into the financial statement of the foreign enterprise, consolidating with the accounting records of the parent company.

The permanent establishment keeps accounts only for tax purposes in order to quantify the income attributable to it according to the arm's length principle. Said income is definitively taxed in the foreign State, and is consolidated in the parent company's overall income. The taxes paid in Italy are deducted from the parent company's income through the tax credit system provided for by the OCSE Model and by art. 165 of the Income Tax Consolidated Act (in that case for foreign branches).

One advantage of the use of a permanent establishment with respect to the setting up of a company arises in the event of making substantial losses. With a company, in fact, it would be necessary to resort to recapitalisation, while in the case of a branch, it is not necessary to restore the initial endowment fund or, in all events, intervene with regards to capital.

In addition, distributions of the endowment fund from the branch to the parent company are not subject to withholding tax in the Italian State. The OCSE Guidelines on the attribution of profits to a permanent establishment permit, under certain conditions, the allocation of funds between the parent company and the permanent establishment. Said passive interests, together with interest payable on loans taken out directly by the permanent establishment can be deducted according to the ordinary rules of the Italian State.

2.3. Incorporating a company

The incorporation of a company is the most complete way of establishing a presence in Italy on the part of a foreign investor.

Italian law offers a wide range of company forms useable for carrying on a business activity, the choice of which depends on numerous factors relating to the entrepreneur's organisational requirements, the business objects established in the memorandum of association by the members or shareholders, as well as with respect to liability and the taxation regime to which it is intended to be subject. As mentioned, all entrepreneurs have the obligation to establish organizational, administrative, and accounting structures suitable to the nature and size of the business[7], which implies, on

[7] The principle is set out in Article 2086, second paragraph, of the Civil Code (c.c.) and reproduced with some minor differences in Article 3 of the Business Crisis and Insolvency Code (CCII). Combining the two provisions,

an operational level, the establishment of protocols and procedures to periodically monitor company management, also with the aim of identifying early signs of crisis or loss of business continuity, and of favouring the exchange of information between company departments for the implementation of appropriate remedies if risks or critical issues are found.

The rules regarding types of companies are contained in the Italian Civil Code and in special laws bearing detailed provisions for companies operating in sectors subject to supervision, such as listed companies, banks and insurance companies.

Limiting our analysis to companies that do not carry on their business activities in supervised sectors, a first classification to make, with regards to legal status, relates to the distinction between partnerships and companies.

The first category – including the *società semplice* (simple partnership) the *società in nome collettivo* (general partnership) and the società in accomandita semplice (limited partnership) – is characterized by:

- imperfect financial autonomy. The partners (all in general partnerships and in the simple partnership, in the latter case unless otherwise agreed to the contrary, general partners in limited partnerships) have unlimited and liability – meaning that each partner responds with their own personal assets for the obligations assumed by the partnership –– and joint liability, that is to say, each member is liable also for debts incurred, in the name of the partnership, by the other partners, with the consequence that the partnership's creditors can refer to any of the partners to require the fulfilment of the entire obligation;
- the invalidity of agreements through which one or more partners are excluded from any participation in profits or losses;
- the possibility of the simultaneous status of partner and director;
- the transferability, between living persons or for cause of death, of the status of partner, subject to the approval of all the other partners, that is, of all other surviving partners.

Companies, that is, joint-stock companies, limited liability companies plus partnerships limited by shares – are characterized by:

- perfect financial autonomy. The capital of the company, in fact, is completely separate from the capital of the members and, as a result, only the company is answerable for corporate obligations with its own capital to the limit of the share capital or the assets that the members have contributed

it follows that the company's organisational, administrative, and accounting structure corresponds to the business's specific circumstances and, therefore, in compliance with the principle of proportionality, the adoption of simplified organizational structures tailored to the specific characteristics of the company is justified.

to the company (excepting limited liability partnerships, where the unlimited and joint liability of the general partners is provided for);

- the separation between the status as member and power of management, for which a member is not, as such, a director of the company and a director of the company is not necessary one of the members;
- the transferability, between living persons or for cause of death, of the status of partner, subject to compliance with the particular restrictions established by the law in the specific regulations for the type of company chosen by the members upon incorporation.

A further classification of company types can be made on the basis of the business objects, making a distinction between profit-making companies, with the purpose of dividing the profits earned among the shareholders, and companies with a mutualistic purpose (cooperatives), whose object is the provision of goods and services or the creation of jobs for the members under more advantageous conditions than what the members would obtain in the market. It should be noted that the provisions for SPAs (join-stock companies) apply to cooperatives where compatible, that is, as regulated by the by-laws, and in the case that the number of members is lower than twenty and balance sheet assets do not exceed a million euros, regulations laid down for SRLs (limited liability companies).

Italian law, moreover, permits the incorporation of single-member companies, incorporated by a single member, upon the meeting of certain conditions and, since 2012, provides for the possibility of incorporating an SRL with a minimum capital of one euro (simplified limited liability company) and which does not exceed the amount of 10,000 euros.

Also starting from 2012, the Italian legislator introduced into the legal system a new type of innovative enterprise (the so-called innovative start-up), in relation to which significant tax and contribution concessions are provided for, as well as incentives for investors.

Innovative start-ups are limited companies, also in cooperative form, resident in Italy (or in another member country of the European Union, provided they have a production site or a subsidiary in Italy), which meet certain conditions[8] and whose business object, exclusively or prevalent, consists in the development, production or marketing of innovative products or services with a high technological content.

In the category of the aforementioned limited companies, the SPA (joint-stock company) and the SRL (limited liability company) represent the forms most used to start a business in Italy. As a result, it is only with reference to said legal forms that the main characteristics are described below.

[8] Reference should be made to art. 25 of Decree Law 18 October 2012 no. 179, converted with amendments by Law 17 December 2012, no. 221, as well as to paragraph 5.5.

2.3.1. Società per azioni (s.p.a.) (Joint-stock companies)

The capital is represented by shares and the minimum value is fixed at euro 50,000.00, of which 25% must be paid upon incorporation which must occur through a public deed drawn up by a notary.

The SPA is characterised by three distinct management and control systems which, together with the shareholders' meeting, are responsible for the organization of the company. The independent audit is performed by a person or firm external to the company specifically appointed by the shareholders' meeting. In the traditional management and control system (see below) a provision of the articles of association can assign the audit to the statutory board of auditors.

The Shareholders' Meeting is the sovereign body of the SPA with exclusively decision-making functions and in which the will of the members is expressed, to be then implemented by the management body.

As mentioned, the management and control system of SPAs can be carried out through three different governance models:

- the traditional system, based on a management body and a control body;
- a system in which the management of the company is assigned to a Management Board, controlled by a Supervisory Board, which appoints the members of the former. In this case, the independent audit is always assigned to an audit firm or to an auditor external to the company;
- a system based on a management body (a Board of Directors) which internally appoints a Management Control Committee. Again, in this case, the independent audit is always assigned to an audit firm or to an auditor external to the company.

In the traditional management and control model, which is the most widely used and which is applied in the absence of a different provision in the articles of association, the management of the company is, therefore, assigned to a management body, which can be composed of a number of directors (called the board of directors), or by a single director (called the sole director).

The board of directors can delegate some of its powers of administration to an executive committee or to a managing director. It should be noted that the setting up of suitable structures for the nature and dimensions of the enterprise, also for the purpose of a prompt detection of a state of crisis (see below), is attributed exclusively to the directors.

The board of statutory auditors, in the traditional system of governance, monitors compliance with the law and with the articles of association, compliance with the principles of correct management and, in particular, the adequacy of the organisational, management and accounting structure adopted by the company and its effective functioning.

As mentioned, in some cases the board of statutory auditors can be assigned the audit: this applies to companies that are not obliged to draw up consolidated financial statements and with respect to which a specific provision of the articles of association attributes the audit to the board of statutory auditors.

2.3.2. Società a responsabilità limitata (s.r.l.) (Limited liability companies)

The SRL is a leaner and more flexible form compared to the SPA and is traditionally used for business activities of smaller dimensions compared to those that an SPA carries on and characterized by a lower level of investment.

Incorporation must occur through a public deed drawn up by a notary; the capital is in the form of shares and the minimum value is set at 10,000 euros, without prejudice to the possibility, as already mentioned, of incorporating a simplified limited liability company with a minimum capital of 1 euro.

The latter is a corporate form whose share capital – equal to at least 1 euro, as mentioned – must be less than 10,000 euros, subscribed and fully paid upon incorporation. In this case, payment must be made in money and paid to the management body.

It is worth noting, moreover, the recent introduction into Italian law of the category of *società a responsabilità limitata PMI (SRL PMI)* (SME limited liability companies) which reduces the differences between the SRL and SPA so that, in departing from the strict provisions regarding SRLs – on the basis of which shares cannot be offered to the public as financial products – it is permitted to place shares on the market through specific platforms for crowdfunding, in compliance with the legal limits provided for by the legislation[9].

Along the same lines, SRL PMIs are able to create different categories of shares[10], which are associated with specific voting rights and differentiated property rights[11].

With regards to the management and control system characterising the SRL, it should be pointed out that, unless otherwise provided for by the articles of association, management is assigned to one or more members appointed by decision of the shareholders. As a result, SRLs can be managed by a sole director or by a number of directors.

[9] Pursuant to art. 100-*ter*, para. 1-*bis*, Leg. Dec. 24 February 1998, excepting what is provided for by art. 2468, para. 1 of the Italian Civil Code, equity stakes in small and medium enterprises incorporated as *società a responsabilità limitata* can be offered to the public as financial products also through portals for the raising of capital regulated in the same provision.

[10] Pursuant to Art. 26, paragraph 2, of Decree-Law 179/2012, "the articles of association of an SME incorporated as a limited liability company (s.r.l.) may create categories of shares holding different rights and, within the limits imposed by law, may freely determine the content of the various categories, notwithstanding the provisions of article 2468, second and third paragraphs, of the Civil Code".

[11] For example, in terms of profit sharing and the absorption of losses.

When management is assigned to a number of people, they form the board of directors. The memorandum of association can, however, provide that management is assigned to the members of the board separately or jointly. It is worth pointing out that the setting up of suitable structures for the nature and dimensions of the enterprise, also for the purpose of a prompt detection of a state of crisis, is attributed exclusively to the directors.

The SRL is characterised by a particular control system, as only upon the exceeding of certain parameters or upon the meeting of certain conditions, is the shareholders' meeting obliged to appoint an external auditor or, alternatively, a control body composed of a number of members or a single person (the sole statutory auditor).

More precisely, pursuant to article 2477 of the Civil Code, the appointment of a control body – also monocratic (sole statutory auditor) – or of an external auditor (individual or firm) is obligatory if the company:

- is obliged to draw up consolidated financial statements;
- controls a company obliged to have an independent audit;
- has exceeded, for two consecutive financial periods, at least one of the following limits:
  - 4,000,000 € of assets in the balance sheet;
  - 4,000,000 € of revenues from sales and services;
  - 20 employees on average during the financial period.

With regards to the functions of the control body, the law provides that, also in the presence of a monocratic body (sole statutory auditor), the provisions referring to the board of statutory auditors of SPAs apply.

Independent audit

The individuals or entities engaged to perform the independent audit of Italian accounts (external auditors and audit firms) must be enrolled in the Register of external auditors kept by the Ministry of the Economy and Finance and must comply with the provisions contained in Leg. Dec. no. 39/2010, in its implementing provisions and in European Regulation no. 537/2014.

If the company is not obliged to draw up consolidated accounts and a specific provision of the articles of association provides for this, the board of statutory auditors (or to the sole statutory auditor of an SRL) can perform the statutory audit. In this case, all the members, or the sole statutory auditor, must be enrolled in the Register of external auditors and comply both with the rules provided for in the regulations relating to the supervisory function, and – with regards to the performance of the audit in collegial form – with the specific provisions of Leg. Dec. 39/2010, including the provisions relating to independence and the International Standards on Auditing (ISA Italia).

As mentioned, in companies that adopt the dualistic system or the one-tier system of administration and control, the independent audit is always carried out by an external auditor or audit firm.

2.4. The capital market

The capital market is a key funding channel for companies intending to support growth, innovation, and internationalization processes, allowing for access to alternative financial resources to traditional bank credit. In this context, admission to trading on regulated markets or multilateral trading facilities (MTFs) is a highly important tool for attracting investors. Also thanks to dedicated markets such as Euronext Growth Milan, the option of listing and accessing financial markets is within reach even for growing small and medium-sized enterprises characterized by high development potential.

In the last few years, the Italian legislator has intervened with a series of reforms aimed at strengthening the competitiveness of the national capital market, simplifying access to listing and introducing incentive measures for businesses, particularly for those of medium-small size (SMEs). Within this context, the recent amendments made by Legislative Decree no. 47 of March 27, 2026, to the Consolidated Law on Finance[12] ("TUF"), aim to make capital markets more efficient, flexible and attractive for new issuers[13].

The most significant measures include:

- a reorganisation of the regulation of asset managers and the introduction of differentiated categories (including 'authorized' and 'sub-threshold' managers), with the aim of encouraging the entrance of new operators;
- the introduction of new investment vehicles, such as partnership companies, aimed in particular at private equity and venture capital operators.
- a strengthening of the role of professional investors, expanding the categories of qualified entities with the aim of promoting the placement of financial instruments;
- greater flexibility in the capital structure of businesses and the use of financial instruments, also through the use of different classes of shares and participating instruments.

[12] Leg. Dec. 24 February 1998, no. 58.

[13] It should be noted that Leg. Dec. no. 47 of 27 March 2026, with a view to rationalizing the organizational structure of companies, strengthening their statutory autonomy, and enhancing the value of different forms of corporate governance, has also remodulated the regulations governing non-listed joint-stock companies (*s.p.a.*).

The introduction of a simplified regulatory regime for "newly listed issuers", aimed at reducing obstacles to entry into regulated markets, has been particularly significant. In this context, the reform provides for:

- the possibility of waiving certain corporate governance rules, such as the list-voting mechanism for the election of corporate bodies;
- the introduction of simplified voting quorums for amendments to the articles of association;
- limitation of the application of certain regulations, such as those regarding related-party transactions;
- the possibility of reducing or tailoring shareholder withdrawal rights during the listing process.

Alongside these measures there are other incentive tools already present in the legal system, such as:

- tax credits for listing costs (IPO)[14];
- tax incentives for investments in SMEs and innovate startups (see below);
- use of equity crowdfunding platforms, particularly important for limited liability companies and SMEs, as previously mentioned.

The legislator's aim is to limit the administrative burden on businesses as much as possible, so as to reduce barriers to entry and to facilitate listing processes and access to the capital market, particular with regards to small and medium enterprises.

These measures form part of a wider process of modernising the Italian financial system, aimed at promoting the transition from a "bank-centric" model to one more oriented towards capital markets and the use of alternative financing tools.

The strengthening of the Italian capital market is particularly important for foreign investors, as it extends investment possibilities and facilitates entry into the national business fabric through flexible and regulated tools.

[14] This instrument was introduced by Law no. 205 of 27 December 2017 (Article 1, paragraphs 89-92) and subsequently extended and amended. SMEs resident in Italy or with a permanent establishment in Italy that list on regulated markets or multilateral trading facilities (e.g.: Euronext Growth Milan) may benefit from the incentive in accordance with EU regulations. The benefit consists of a tax credit equal to 50% of the advisory costs incurred for the listing, up to a maximum of € 500,000.

2.5. Business crisis and insolvency legislation

Other recent changes of relevance to investors relate to the regulation of business crises, which has been profoundly reformed with the introduction of Legislative Decree no. 14 of 12 January 2019, containing the Corporate Crisis and Insolvency Code (CCII). The reform forms part of the European harmonisation process aimed at promoting the recovery and early detection of business crisis situations and improving the efficiency of insolvency procedures.

One of key elements in the new regulatory system is the transition from a liquidation-based approach to a model focused on crisis prevention and the protection of business continuity through, first and foremost, the establishment of organizational, administrative and accounting structures suitable for this purpose.

One of the most important innovative tools currently present in the legal system is the negotiated resolution of a crisis, regulated by articles 12 et seq. CCII, which allows the entrepreneur to initiate a voluntary, confidential process assisted by an independent expert, aimed at finding solutions to overcome not only conditions of crisis and insolvency, but also of mere patrimonial and economic-financial imbalance. This tool if characterised by procedural flexibility and limited invasiveness, facilitating dialogue with creditors and the continuity of business activity.

The CCII has, moreover, reorganised the previous procedures for regulating crisis and insolvency, introducing more efficient and coherent tools with respect to the need to safeguard business continuity, avoiding, when permitted, the realisation of assets through liquidation procedures, including:

- composition with creditors (articles 84 et seq.), the rationale of which lies in the desire to favour business continuity over liquidation;
- debt restructuring agreements (articles 57 et seq.), which provide for creditor satisfaction thresholds and flexible mechanisms;
- the restructuring plan subject to approval (articles 64-bis et seq.), which allows for waiving, under certain conditions, the rules of equal treatment of creditors, thus offering greater flexibility to the company.

The new measures introduced have a significant impact on the attractiveness of the Italian system for investors. In the first place, the greater predictability of procedures and the standardization of restructuring tools reduce the legal and operational risk associated with investments in companies in difficulty or engaged in innovative and high-risk projects. Secondly, the enhancement of negotiation regulation tools and the orientation towards the protection of business continuity also create opportunities for possible turnaround and distressed investing operations, which can be particularly interesting for private equity funds and specialized investors. A further element of attractiveness, therefore, is represented by the possibility of intervening at an early

stage of the crisis, before full-blown insolvency occurs, allowing investors to preserve corporate value and actively participate in recovery processes, promoting an out-of-court resolution of the crisis and avoiding costly and lengthy legal procedures.

In this sense, the new regulatory framework aligns with international best practices in restructuring, helping to make the Italian context more competitive.

In conclusion, the Code of Business Crisis and Insolvency represents not only a tool for managing pathological situations, but also an enabling factor for the entry of capital and for the development of a more efficient market for corporate restructuring, with positive effects on the efficiency and attractiveness of the entire economic ecosystem.

3. The taxation system

The Italian tax system is composed of a taxation of income, consumption and assets, and is implemented through the application of the following main taxes:

Imposta sul reddito delle società (IRES) (Corporate income tax);

- *Imposta sul reddito delle persone fisiche (IRPEF)* (personal income tax);
- *Imposta regionale sulle attività produttive (IRAP)* (Italian regional tax on production);
- *Imposta sul valore aggiunto (IVA)* (Value added tax);
- *Imposta sulle successioni e donazioni* (Inheritance and gift tax);
- *Imposta Municipale Propria (IMU)* (Municipal property tax);
- *Imposta di registro e tasse indirette su trasferimenti di proprietà* (Registration tax and indirect taxes on property transfers);
- *Imposta sul valore delle attività finanziarie estere (IVAFE)* (Tax on the value of foreign financial assets;
- *Imposta sul valore degli immobili esteri (IVIE)* (Tax on the value of foreign real estate).

The main taxes of particular interest for a foreign investor are analysed below.

3.1. IRES

The *Imposta sul Reddito delle Società (IRES)* (Corporate income tax) is aimed at taxing the incomes generated by activities exercised by both resident and non-resident companies, cooperatives and similar entities (associations, foundations, trusts, etc.). The income earned by said companies and similar entities, from whatever source, is subject to tax on income through *IRES*.

For resident entities taxable income includes not only the income generated in Italy, but also that generated abroad the (the so-called "principle of worldwide taxation").

For non-resident entities taxable business income in Italy is only that earned through a permanent establishment in Italy.

A company or entity other than a natural person is considered resident in Italy if, for the greater part of the tax period, has in Italy, alternatively, its (i) registered office, (ii) effective management office, (iii) main operating activity.

Effective management office is understood as the place where strategic decisions regarding the company or entity as a whole are taken in a continuous and coordinated manner. Ordinary management is understood as the continuous and coordinated performance of current management activities regarding the company or entity as a whole.

Partnerships are not subject to either IRPEF or IRES since, with regards to the income generated, the single partners are subject to taxes on income, on the amount of income attributed to them, determined proportionally to the share of participation in the profits of each of them and independent of its collection (so-called "transparency principle").

IRES is a proportional tax, the rate of which is 24%, and is applied on taxable income (the taxable base).

The payment of taxes on income is made twice a year: at the first deadline, generally at the end of June each year, the balance is due relating to the previous year together with the first down payment for the current year; at the second, generally at the end of November each year, the second down payment relating to the year in progress is due.

Tax base of business income: observations

In general, the business income of companies and commercial entities is determined by making increasing or decreasing adjustments to profit or loss, as provided for by tax legislation.

In the event of a negative tax base, the losses made in the first three financial periods from the start of operations are recordable in the subsequent tax periods, without time or quantity limits. Losses made from the fourth financial period are deducted from the income of subsequent tax periods up to a limit of 80% of the taxable income for each of them.

Interest payable is deductible up to correspondence with interest receivable. The excess is deductible within the limit of 30% of the gross operating profit determined on the basis of the tax legislation. Any further excess is deductible, according to the above limits, in subsequent financial periods.

Dividends paid by limited companies to non-resident shareholders are subject to a withholding tax or a substitute tax of 26% (without prejudice to the application of any more favourable rates provided for by Conventions against double-taxation; the withholding tax or substitute tax are not applicable on profits relating to a permanent establishment in Italy of a non-resident entity).

Withholding tax is at 1.20% in the event dividends are paid to companies or entities subject to corporate income tax resident in another member State of the European Union or in States that have signed up to the European Area Agreement and that permit an adequate exchange of information.

Finally, exemption from "outgoing" withholding tax is provided for dividends distributed to limited companies resident in another member State of the European

Union not benefiting from option or tax exemption regimes which hold, uninterruptedly for at least one year, a minimum equity investment of 10% in the limited company resident in Italy (so-called "parent-subsidiary" directive).

3.2. IRAP

The *Imposta Regionale sulle Attività Produttive (IRAP)* (Italian regional tax on production) is an "own derived tax", that is to say, a tax established and regulated by the law of the State, the revenue from which is attributed to the Regions which must, therefore, exercise their own tax autonomy within the limits established by State law.

IRAP revenue goes towards funding the National Health Service.

Limited companies and entities subject to IRES, as well as partnerships and professional associations, are subject to IRAP.

The ordinary rate is 3.9%, but the Regions have the power to vary it; within the limit of 0.92%, as well as to provide for reduced or increased rates for sectors of activities or categories of parties. An automatic increase of 0.15 percent of the rates in force is envisaged for Regions not in line with the objectives of the Recovery Plan from the Health Service management deficit.

The tax base, subdivided on a regional basis, is the net value of production, determined, as a general rule, from the difference between the positive and negative components of ordinary operations (not taking account of financial income and charges, losses on receivables or capital gains/losses from the sale of a company). Specific provisions for the cost of employees are also established: the cost relating to permanent employees is fully deductible, while that relating to fixed-term employees is deductible only with respect to contributions for compulsory accident insurance, the one relating to apprentices, disabled workers, staff hired with training and employment contracts and staff working on research and development is also fully deductible.

For entities with positive components of no greater of 400,000 in the tax period, a flat-rate deduction of 1,850 euro is provided for each fixed-term worker, up to a maximum of 5 employees.

For non-resident entities, IRAP is due only if its activities are carried on through a permanent establishment set up in Italy.

3.3. IRPEF

The *Imposta sul Reddito delle Persone Fisiche (IRPEF)* (Personal income tax) is imposed on all resident individuals with regards to all income however generated (in Italy or abroad), and on non-resident individuals, in relation to only income generated in Italy.

All those who, for the greater part of the tax period, also considering fractions of days, alternatively (i) have their residence in Italy according to the civil code (intended as the place where the person has their usual residence) (ii) have their domicile in Italy (considered as the place where they mainly develop personal and family relations), (iii) are there present, (IV) except where otherwise proven otherwise, are registered in the registries of populations resident. The reform that came into force in 2024 has strengthened the criterion of physical presence as an autonomous and concurrent element for determining tax residence.

IRPEF is a personal and progressive tax. The tax due is calculated applying to the overall income (composed of all the categories of revenue and, therefore, also of income different from those of the business), net of deductible costs, increasing rates by income brackets. The progressive rates by income brackets in force from 2025 are set out below:

- up to 28,000.00 euros, 23%;
- over 28,000.00 euros and up to 50,000.00 euros, 33%;
- over 50,000.00 euros, 43%.

Specific deductions provided for by current tax laws will be subtracted from the gross amount.

The above deductions are recognised also for non-resident individuals provided that the income produced Italy is at least equal to 75% of their overall income and that they do not enjoy analogous tax benefits in the State of residence.

From 2025, limits have been established on the use of certain tax deductions, except for specific categories of expenses, for taxpayers with a total income exceeding 75,000 euros, with mechanisms for the progressive reduction of the maximum deductible amount depending on the taxpayer's overall income and the number of dependent children. Without prejudice to the aforementioned maximum limits, for taxpayers with a total income exceeding 120,000 euros, a gradual reduction of the deductible amounts is provided for until they are eliminated at a total income equal to or greater than 240,000 euros.

3.4. IVA (VAT)

As a rule, the sale of goods or the provision of services in the Italian territory on the part of individuals and entities that habitually carry on a business activity, art or profession is subject to *Imposta sul Valore Aggiunto (IVA)* (VAT). It is an indirect tax imposed on the consumption of goods and services.

The ordinary rate is equal to 22%. Reduced rates are provided for specific goods and services: 4%, for example, for certain essential goods as established by law, including certain foods, drinks and agricultural products; 5%, for example, for other foods; 10%, among others, for the supply of electricity and gas for domestic use, hotel and catering services, medicines and renovation of the building heritage.

4. Labour relations in the Italian market

4.1. Regulatory sources and forms of work

The Italian labour market is regulated by a complex system of regulatory sources which includes the Civil Code, Special Laws, collective labour agreements and European Community legislation.

Businesses' demand for labour is met by two large contractual categories: subordinate employment and self-employment.

"Pure" self-employment is characterised by wide freedom of negotiation: the parties – client and worker- can freely determine the conditions of the relationship, within the limits of the legal system. The regulations for so-called hetero-organised 'parasubordinate' (quasi-autonomous) self-employment (art. 2, Legislative Decree no. 81/2015) are quite different, and for which the same protective legislation as for subordinate work generally applies whenever the service provided is exclusively personal, continuous and the methods of execution are organised by the client.

Subordinate employment, on the other hand, is subject to a protective statute of a mandatory nature. Pursuant to Article 2094 of the Italian Civil Code, a subordinate worker is someone who undertakes to work for the business by performing manual or intellectual work under the direction of the entrepreneur. The permanent employment contract is the common form of employment relationship, as established by Article 1 of Legislative Decree No. 81/2015.

4.2. Subordination and the employment contract

The distinctive feature of the subordinate employment relationship is the constraint of dependence and direction: the worker is inserted into the company's organization and is required to respect the employer's directives. The law grants the latter managerial power, disciplinary power and monitoring power in the management of employees.

On their part, the subordinate worker has the duty to obey company directives, to carry out their work with diligence and to observe the duty of loyalty towards the em-

ployer. This last obligation implies the prohibition, during the employment relationship, of carrying out activities in competition with the employer company.

According to the general rule, all employment relationships must be established by signing a written employment contract. Legislative Decree no. 104/2022, implementing European Directive no. 2019/1152 on the transparency of working conditions, has identified the minimum mandatory information content that must be included in the contract or communicated in writing to the worker within the first seven days of hiring. The essential information refers to: the identity of the parties; the place of work; the employer's headquarters; the position, level, and job title; the start date; the type and duration of the relationship; the identity of the temporary employment agency, if any; the length of the trial period; the right to training; the duration of holiday leave and other paid leave; procedures and notice periods in the event of termination; the initial salary amount and payment methods; the normal working hours schedule; the applicable national collective bargaining agreement; social security and insurance institutions.

4.3. Termination of the permanent employment relationship

4.3.1. Resignation and mutual termination

A permanent employment relationship may be terminated by agreement between the parties (consensual termination) or by unilateral withdrawal by one of the contracting parties. The worker can exercise the right of withdrawal by submitting their resignation, in compliance with the notice period established by the collective agreement applied to the employment relationship.

To ensure the authenticity of the expression of will and to prevent the phenomenon of so-called “blank resignations”, the law (art. 26, Legislative Decree no. 151/2015) requires that resignations be submitted exclusively electronically, via the Ministry of Employment and Social Policies website or through authorised entities, such as social security offices, trade unions, bilateral bodies, certification commissions, labour consultants and territorial offices of the National Labor Inspectorate. The same electronic procedure is foreseen for the formalisation of the mutual termination of the employment relationship

Notice is not required - neither by the employer nor by the employee - when there is a just cause for termination, that is, when a circumstance occurs that is so serious as to make the continuation, even temporary, of the employment relationship unsustainable, as the trust underpinning the relationship between the parties has been lost.

4.3.2. Individual dismissal: rules and remedies

The employer can withdraw from the employment contract notifying the worker with a letter of dismissal which must specify the reasons justifying it. Dismissal can occur: for just cause (art. 2119 of the Civil Code), without notice, when the worker's behaviour is so serious that it does not allow even temporary continuation of the employment relationship; for justified subjective reasons, that is, for non-fulfilment of contractual obligations; for justified objective reasons, due to operational or organizational needs.

The reform implemented with the Jobs Act (Legislative Decree no. 23/2015) introduced the so-called "increasing protection" regime for workers hired from 7 March 2015, profoundly modifying the system of remedies against unfair dismissal, originally governed by Article 18 of the Workers' Statute. The Constitutional Court has intervened several times to rebalance the system, progressively expanding the scope of reinstatement protection.

In light of the current regulatory framework - resulting from Legislative Decree no. 23/2015 and subsequent rulings of the Constitutional Court (judgments no. 194/2018, no. 150/2020, no. 22/2024, no. 128/2024 and no. 129/2024) - the system of remedies can be summarized as follows: Full reinstatement protection: applies in cases of invalid dismissal (discriminatory, retaliatory, verbally intimated, or contrary to law). Constitutional Court ruling no. 22/2024 eliminated the limitation to "express" invalidity only, extending the protection to all cases of invalid dismissal.

Reduced reinstatement protection (with compensatory indemnity limited to 12 months' salary): applies to disciplinary dismissal based on an unfounded material fact, as well as - following ruling no. 128/2024 - to dismissal for objective justified reasons where the non-existence of the material fact alleged by the employer is judicially ascertained (for example, when the job has not actually been eliminated). Judgement no. 129/2024 extended the same protection to cases of disciplinary dismissal for a fact which, even if existing, the collective agreement sanctions with a merely conservative measure.

Compensatory protection: in other cases of unfair dismissal, the worker is entitled to compensation commensurate to seniority of service, within the limits established by law, with a minimum of 3 and a maximum of 27 months' salary (increased to 36 for companies with more than 15 employees in some cases).

4.4. Working hours, rest and holidays

Normal working hours are established by law at 40 hours per week (Legislative Decree no. 66/2003), distributed over a period of five or six days. In no case may the worker be employed for more than 48 hours per week, including overtime, calculated as an average over a period not exceeding four months (which can be increased to six or twelve for certain categories or by collective agreement). Work performed in excess of normal hours constitutes overtime; the law and collective bargaining agreements establish the quantitative limits and the wage increase.

Each worker has the right to a minimum daily rest of 11 consecutive hours in every 24-hour period. Every seven days a worker must enjoy a weekly rest period of at least 24 consecutive hours, usually coinciding with Sunday, in addition to the 11 hours of daily rest. Every worker is also entitled to a period of paid annual leave of not less than 4 weeks, which cannot be replaced with financial compensation, except in the case of termination of the employment relationship.

Night work is subject to specific protective legislation (Legislative Decree no. 66/2003), which provides for limits on working hours, periodic health care, and wage increases established by collective bargaining.

4.5. Remuneration: constitutional principles and regulatory updates

Art. 36 of the Italian Constitution established the worker's right to a fair wage proportionate to the quantity and quality of their work and, in any case, sufficient to ensure themselves and their family a free and dignified life. The two main parameters of remuneration are therefore the working time and the professionalism of the worker.

According to the consolidated orientation of the Court of Cassation and the Constitutional Court, the levels of minimum remuneration to be taken as a benchmark for compliance with the constitutional principles of sufficiency and proportionality are those established in national collective labour agreements signed by the most representative trade union organisations in the reference category. Italy has not traditionally adopted a legal minimum wage, entrusting this function to collective bargaining.

In implementation of European Directive no. 2022/2041 on adequate minimum wages, the Italian Parliament approved in September 2025 Delegated Law no. 144/2025, published in the Official Gazette on 3 October 2025. The law does not introduce a fixed salary threshold through direct legislation, but delegates the Government to adopt, within six months, one or more legislative decrees aimed at: strengthening the minimum wages set by the most representative collective bargaining

agreements, making them binding also for workers not covered by the applicable collective bargaining agreement; combatting contractual dumping and so-called "pirate contracts"; introducing mechanisms for control, transparency, and information on the application of contracts; providing for forms of worker participation in company management and profit distribution.

The implementing decrees of Delegation Law no. 144/2025 are under preparation at the time of the drafting of this text.

Even before the implementing decrees for enabling law no. 144/2025 had been adopted, the Government intervened once again on this matter by means of an emergency measure. Decree-Law no. 62 of 30 April 2026 contains 'Urgent provisions on fair wages, employment incentives and combating digital gangmastering' and came into force on 1 May 2026. The measure introduces the concept of 'fair pay' into the legal system, addresses work via digital platforms and contains a transitional social security measure regarding severance pay. The decree must be converted into law by 29 June 2026.

The decree does not introduce a statutory minimum wage threshold and does not set a minimum hourly rate expressed as a specific figure. The "fair wage" is the total remuneration, for example, comprising the basic wage, the thirteenth-month bonus, the fourteenth-month bonus, bonuses and other remuneration components, established, pursuant to Article 7 of Decree-Law no. 62/2026, by the national collective agreements entered into by the organisations that are comparatively more representative. The decree specifies that the total remuneration provided for by national collective agreements other than those indicated may not be lower than the established standards.

4.6. Flexible employment contracts

4.6.1. Fixed-term contracts

The regulation of fixed-term contracts is contained in Legislative Decree no. 81/2015, amended several times by the "Dignity Decree" (Legislative Decree no. 87/2018), the Employment Decree (Legislative Decree no. 48/2023, converted into Law no. 85/2023), the Employment Act (Law no. 203/2024), and the *"Milleproroghe"* Decree 2025 (Legislative Decree no. 202/2024, converted into Law no. 15/2025).

The fixed-term contract can be freely entered into - without the need to indicate a reason - for a duration not exceeding 12 months. Once this threshold has been exceeded, and in any case within the overall maximum limit of 24 months with the same employer, the contract requires the presence of at least one of the following conditions:

In the cases provided for by national, territorial or company collective agreements entered into by the most representative trade union associations at national level.

When replacing other absent workers who have the right to retain their jobs.

In the absence of provisions in the applicable collective bargaining agreement, and in any case by 31 December 2025, for technical, organisational or production needs identified by the parties (residual reason, extended by the *Milleproroghe* Decree 2025). The reason must be specific and verifiable: a generic or tautological formulation exposes the employer to the risk of the relationship being automatically converted into a permanent contract from when the 12-month period is passed.

The Employment Act (Law no. 203/2024) introduced further innovations: it regulated the limits of the trial period in fixed-term contracts (1 day of actual performance for every 15 calendar days, with a minimum of 2 days and a maximum of 15 days for contracts up to six months, and 30 days for contracts between six and twelve months); it extended the possibilities for seasonal activities exempt from the so-called "stop-and-go" regime; it modified the rules on the supply of labour, also introducing exemptions from the obligation to provide a reason for workers belonging to vulnerable groups obligation to provide a reason for workers belonging to vulnerable groups.

At the end of the maximum period of use of the fixed-term contract (24 months), it is possible to enter into an assisted contract with a maximum duration of 12 months before the Territorial Labour Inspectorate, also with possible union assistance of the worker.

4.6.2. The part-time contract

A part-time employment contract can be signed by any worker, provided that the timeframe for the performance is specified in the employment contract (distribution of work times across days of the week and periods of the month or year). The worker has the right to freely dispose of their own time outside the contractually agreed hours

In compliance with the provisions of collective bargaining, the parties may agree in writing on flexible clauses relating to the variation of the timing of the work provided, or flexible clauses that allow for an increase in the duration of working hours compared to what was initially established. In both cases, the worker is entitled to a salary increase.

4.7. The provision of labour and the ban of interposition

The Italian legal system generally prohibits any form of illicit intermediation and interposition in the employment relationship (so-called supply of third-party labour)

on the basis of the principle that a direct relationship must exist between the actual employer and the employee. The employer cannot, as a rule, transfer or lend its employees to other parties.

Professional labour supply is only legitimate when operated by temporary employment agencies authorized by the National Labour Inspectorate, pursuant to Legislative Decree no. 276/2003. The supply contract is the contract - permanent (staff leasing) or fixed term - with which an authorised agency makes one or more of its employees available to a user company. Said employees carry out their activity in the interest and under the direction and control of the user for the entire duration of the mission.

The law sets quantitative limits on the number of temporary workers that can be employed by each user; these thresholds are integrated and specified by collective bargaining. The Employment Act (Law no. 203/2024) modified certain criteria for the calculation of these numerical limits, introducing more favourable rules for permanent employment.

4.8. Child protection and gender equality

The Italian legal system specifically protects the work of minors and women. Children under the age of fifteen cannot be employed. Adolescents between the ages of fifteen and eighteen may work only if they have reached the age of sixteen and have completed compulsory education, and only for types of activities that do not harm their health, safety and development.

With regards to gender equality, the law prohibits any form of discrimination - including pay - against female workers compared to male workers. The ban extends to all initiatives relating to access to employment, vocational guidance and training, promotion, and working conditions. Law no. 162/2021 strengthened the certification of gender equality in companies, introducing the possibility for companies to obtain a dedicated certification (UNI/PdR (*parità di genere*) 125:2022) in light of the adoption of concrete measures to reduce the pay and professional gap between men and women.

Legislative Decree no. 105/2022, implementing European Directive no. 2019/1158, has comprehensively reformed the parental leave regulations, expanding the rights of working fathers (mandatory ten-day paternity leave, non-transferable to the mother) and increasing the allowance for optional periods of parental leave, with the aim of promoting a more balanced sharing of family responsibilities between parents.

4.9. Health and safety in the workplace

The protection of workers' health and safety is regulated by the Consolidated Law on Safety (Legislative Decree no. 81/2008 and subsequent amendments). The employer is the main recipient of the prevention obligations and must evaluate all the risks present in the workplace, adopting the appropriate measures to eliminate or reduce them.

The Employment Act (Law no. 203/2024) made some changes to Legislative Decree no. 81/2008, including the establishment of a Commission for inquiries regarding health and safety matters, the introduction of an annual reporting obligation by the Minister of Labour to the Chambers of Parliament on the state of safety in the workplace, and the strengthening of health surveillance procedures.

The State-Regions Agreement of 17 April 2025 updated and standardised the legislation on mandatory training in workplace safety at a national level, establishing uniform criteria for the duration, content and delivery methods of courses, including e-learning.

4.10. Freedom of association and collective rights

The Italian legal system guarantees workers full freedom to organize in the workplace. Article 39 of the Constitution recognizes the right of every worker to join a trade union of their choice. The Workers' Statute (Law no. 300/1970) establishes the right of every worker to form trade unions, to join them and to carry out trade union activities within the workplace.

The law prohibits employers from engaging in any discriminatory behaviour motivated by the worker's union affiliation, and sanctions with nullity any discriminatory agreement or act. Company trade union representatives ("RSA" - *rappresentanze sindacali aziendali*) and unitary trade union representation ("RSU"- *rappresentanza sindacale unitaria*) play a fundamental role in second-level collective bargaining and in the management of industrial relations within individual workplaces.

National collective bargaining agreements ("CCNL" - *contratti collettivi nazionali di lavoro*), entered into between trade unions and employers' associations, constitute the main source of supplementary regulation of the employment relationship: they regulate, among other things, minimum wages, job classifications, working hours, the reasons for fixed-term contracts, trial periods, holidays and other regulatory and economic conditions.

5. Forms of incentive and aid to investors and businesses

5.1. Investment support: hyper-depreciation

The 2026 budget law[15] provided for the possibility for companies to benefit from increased tax deductibility in relation to investments in capital goods intended for production facilities located within the territory of the State.

The investments must be made between 1 January 2026 and 30 September 2028 and concern:

a. new tangible and intangible instrumental assets included, respectively, in the lists in Annexes IV and V attached to the 2026 budget law, and related to the company's production management system or supply network. In particular, they are goods whose functioning is controlled by computerised systems or managed through appropriate sensors and actuators, as well as intangible assets (software, systems, platforms, applications, algorithms and digital models) functional to the digital transformation of companies.

b. new tangible assets instrumental to the operation of a business, aimed at the self-production of energy from renewable sources for self-consumption, also remotely, including systems for storing the energy produced.

The depreciation rates[16] relating to the goods in question are increased to the extent of:

- 180% for investments up to €2.5 million;
- 100% for investments over €2.5 million and up to €10 million;
- 50% for investments over €10 million and up to €20 million.

This benefit can be combined with other incentives financed with national and European resources relating to the same costs, provided that the support does not cover the same cost allocations as the individual investments in the innovation project and does not lead to exceeding the total cost incurred.

[15] Law no. 199/2025.

[16] The measure also applies to financial leasing fees relating to the acquisition of eligible assets.

5.2. Tax credit for investments in the Single Special Economic Zone ("SEZ")

In the regions in the South of Italy it is possible to take advantage of the benefits connected with the Special Economic Zone (Single SEZ).

With regards to this particular facilitation tool, especially as a competitive lever and investment attraction, further observations of particular interest are set out in the dedicated appendix at the foot of this chapter.

The Single SEZ includes the assisted zones in the following regions: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia, Sicily Marche and Umbria.

A contribution is envisaged, in the form of tax credit, for investments in new capital goods, intended for productive structures located in the assisted zones of the above regions.

The aforementioned tax credit is attributed in relation to investments made from 1 January 2026 to 31 December 2026 and will also be in force in 2027 and 2028. To this end, the legislator has allocated a budget of 2.3 billion euros for 2026, 1 billion for 2027 and 750 million for 2028. The eligible investments, forming part of an initial investment plan[17], relate to:

- the acquisition, also through financial leasing contracts, of various new machinery, plant and equipment intended for productive structures already existing or which are to be established in the territory;
- the acquisition of land;
- the acquisition, development or expansion of real estate instrumental to the investments.

Tax credit is proportionate to the share of the overall cost of the investments made and is subject to meeting the following requirements:

- the value of the land and real estate cannot exceed 50% of the overall value of the subsidized investment;
- the overall cost eligible for the benefit, for each investment project, cannot be less than 200,000 euros or exceed 100 million euros.

The tax credit is withdrawn in the event of failure to comply with the obligation to maintain the activity in the plant area in which the investment has been made for at least five years.

The credit is granted to all resident businesses, including stable organisations of non-resident parties, with the exception of those operating in the following sectors:

[17] See art. 2, points 49, 50 and 51, of Regulation (EU) no. 651/2014.

the iron and steel, coal and lignite industry, the transport sector and relative infrastructures, energy production, storage, transmission and distribution and energy infrastructures, the broadband sector as well as the credit, financial and insurance sectors. Companies subject to bankruptcy proceedings and companies in difficulty are excluded.

The "theoretical" maximum amount of the benefit for investments of under 50 million, depending on the size of the enterprise and the location of the investment, is set out on the Table below.

Size of the enterprise	Campania, Calabria, Puglia and Sicily	Basilicata, Molise and Sardinia	Abruzzo, Marche and Umbria
Piccola	60%	50%	35%
Media	50%	40%	25%
Grande	40%	30%	15%

For large investment projects with costs eligible over 50 million euros, as set out in point 19 (18) of the Guidelines on National Regional aid for 2007-2013, the maximum aid intensities for large enterprises apply also to small-medium enterprises and are calculated according to the «adjusted aid amount» as per art. 2, point 20, of Regulation (EU) no. 651/2014[18].

The effective amount of the tax credit that enterprises can benefit from be determined on the basis of the percentage made known by a provision of the Director General of the Revenue Agency, to be issued within ten days from the expiry of the deadline for submission of the supplementary communications on the investments made.

The tax credit is cumulative with *"de minimis"* aid and with other State aid that refer to the same costs eligible for the benefit, provided that said the accumulation does not lead to exceeding the highest level or amount of aid permitted by the pertinent reference European provisions.

From a procedural point of view, the Presidency of the Council of Ministers has established an SEZ Mission Structure for the coordination and implementation of the activities envisaged in the Strategic Plan of the Single ZES. It also handles the preliminary appraisal and carries out administrative functions for the purpose of issuing the single authorization referred to in art. 15 of the "SOUTH Decree"[19]. This element represents a further significant advantage for companies intending to invest in the SEZ

[18] The "adjusted aid amount" is the maximum aid amount allowed for a large investment project, calculated according to the following formula: maximum aid amount = R × (A + 0.50 × B + 0 × C) where: R is the maximum aid intensity applicable in the area concerned as set out in a regional aid map in force on the date on which the aid is granted, excluding the increased aid intensity for SMEs; A is the first 50 million euros of eligible costs, B is the part of eligible costs between 50 million euros and 100 million euros and C is the part of eligible costs above 100 million euros.

[19] Decree-Law 19 September 2023, no. 124.

area, as the interventions will follow a rapid, streamlined and simplified procedural process, to be implemented through the Digital Single Desk.

References and contact information:

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- www.strutturazes.gov.it;
- strutturadimissionezes@governo.it;
- info.zes@governo.it (information on the SEZ);
- sportello.zes@governo.it (information on the digital single desk and on applications already submitted).

5.3. Tax credit for research and development

The measure aims at supporting enterprises' competitiveness, stimulating investments in research and development, technological innovation, also within the context of the 4.0 paradigm and the circular economy, design and aesthetic ideation.

The incentives are aimed at all businesses, with the exception of those in liquidation and subject to bankruptcy proceedings. In any case, enjoyment of the benefits is subject to compliance with workplace safety regulations and the correct fulfilment of obligations to pay social security and welfare contributions for workers.

Research and development tax credit, which does not contribute to the formation of business income or the taxable base for IRAP (Italian regional tax on productive activities), can only be used in the form of compensation, in three annual instalments of equal amount, starting from the tax period following that in which the costs were incurred.

The aid intensity, the maximum amounts and the benefits provided vary according to the activities to which they refer:

1. fundamental research, industrial research and experimental research in the scientific and technological field[20];
2. design and aesthetic ideation activities aimed at significantly innovating an enterprise's products in terms of form and other elements that are not technical or functional (lines, contours, colours, surface structure, ornaments).

[20] The criteria for the correct application of these definitions are established by art. 2 of the MISE decree of 26 May 2020 which distinguishes them taking into account the general principles and criteria contained in the OECD Frascati Manual (Frascati Manual 2015 - Guidelines for collecting and reporting data on research and experimental development. https://www.oecd.org/sti/inno/frascati-manual.htm).

Different aid intensities and different amount limits are provided for, depending on the type of activity and when the investment is made, and are summarized in the table below.

		2025	2026 – 2031
Research and development	Rate	10%	10%
	Amount limit	5 million	5 million
Design and aesthetic ideation	Rate	5%	
	Amount limit	2 million	

5.4. Patent box

The measure aims at making the Italian market more attractive for investments in intangible assets and for research and development activities. The beneficiaries are all entities with business income, regardless of legal form, size and sector of activity.

The new regulation allows a deduction, for IRES (Corporation tax) and IRAP (Italian regional tax on productive activities) purposes, increased by 110%[21] of the costs incurred in carrying out research and development activities aimed at the maintenance, strengthening, safeguarding and growth of the value:

- software protected by copyright;
- industrial patents;
- legally protected designs and models.

For the purpose of the incentive, specific eligible expenses relate to:

- staff directly involved in the performance of the relevant activities;
- amortisation provisions, capital portion of leasing fees and other expenses relating to instrumental movable assets and intangible assets used in the performance of relevant activities;
- consultancy and equivalent services relating exclusively to the relevant activities;
- materials, supplies and other similar products used in the relevant activities;
- maintenance of rights on subsidised intangible assets, their renewal upon expiry, their protection, also in associated form, and relating to counterfeit-

[21] This means that, against €100,000 in eligible costs, the company will be able to tax-deduct €210,000, directly reducing the taxable income, with an impact of just over 30%.

ing prevention activities and the management of disputes aimed at protecting said rights.

The law also provides for the possibility of accessing the increase in tax deductibility for costs connected to "off-site" research activities, carried out through research contracts with third-party companies, universities or research bodies.

The 110% increase can be applied to expenses incurred up to the eighth tax period preceding the one in which the asset obtained an industrial property title (as provided for by art. 6 paragraph 10-*bis* of Legislative Decree 146/2021).

5.5. Start-ups and innovative SMEs

Favourable regulations are provided for in corporate, fiscal and employment law contexts for enterprises that operate in Italy in the field of innovation, so-called "innovative start-ups" and "innovative SMEs".

The measures are aimed at encouraging new entrepreneurship, sustainable growth, technological innovation and employment (in particular, young people).

The **innovative start-up** is a microenterprise or an SME incorporated as a joint stock company that meets certain requirements:

a. It has been incorporated for not more than sixty months;
b. Starting from the second year of activity, the total annual value of production is not greater than 5 million euros;
c. It does not distribute, and has not distributed, profits;
d. it has, as its exclusive or prevalent object, the production and marketing of innovative products or services of high technological value;
e. it has not been formed by a merger, corporate split or following the transfer of a business or business unit;
f. it meets at least two of the following further requirements:

1. it incurs research and development costs to an extent equal or more than 15% of the greater between the total cost or value of production;
2. it employs as employees or collaborators in any capacity, in a percentage equal to or greater than a third of the total workforce, staff with a PhD degree or degree who have carried out certified research activities for at least three years in public or private research institutes, in Italy or abroad or, in an equal or greater percentage of two thirds of the total workforce, staff with a master's degree;
3. is the owner or custodian or licensee of at least one industrial patent.

Permanence in the special section of the register of companies, after the end of the third year, is permitted for up to a total of five years from the date of registration, provided at least two of the following requirements are met:

a. increase in research and development expenses to 25%;
b. the entering into of at least one experimentation contract with a public administration;
c. increase revenues deriving from characteristic management or employment structure of the company, greater than 50% from the second to third year;
d. the setting-up of a capital reserve of greater than 50,000 euros, through obtaining a convertible loan or a capital increase at a premium that leads to an equity interest not exceeding that of a minority on the part of a third-party professional investor, a certified incubator or accelerator, a supervised investor, a business angel or through equity crowdfunding, and an increase to 20% in the percentage of research and development expenses;
e. the obtaining of at least one patent.

The five-year overall term for remaining in the special section of the register of companies can be extended for a further two years, up to a maximum of four years overall, for transition to the "scale-up" phase", provided at least one of the following requirements are met:

a. capital increase at a premium by a collective investment scheme, by an amount exceeding 1 million euros, for each year of extension;
b. increase in revenues deriving from the business's characteristic management greater than 100% per year.

The main incentives relate to:

› reduction of bureaucratic burdens during the incorporation phase;
› exemptions from certain provisions of corporate law (for example, in relation to losses in the year);
› flexible working provisions;
› possibility of remuneration through equity investment instruments;
› simplified access to the Guarantee Fund for access to credit;
› dedicated subsidised financing (for example, the Smart&start Italia programme);
› possibility of access to other forms of dedicated financing;
› tax incentives for investors.

Tax incentives are also envisaged in favour of parties that invest in innovative start-ups, which can be summarised as follows:

a. for **natural persons**, an IRPEF (personal income tax) deduction of 65% of investments in the risk capital of the innovative start-up is envisaged. The eligible investment, which must be maintained for at least three years, amounts to a maximum of 100,000 euros for each tax period. Said incentive, which falls under the *"de minimis"* regime, applies only to innovative start-ups up to the third year of registration in the special section of the register of companies;
b. starting from 2025, certified **incubators and accelerators** that invest directly or indirectly in innovative start-ups can benefit from a tax credit equal to 8% of the investment, up to a maximum of 500,000 euros per year.

The benefits as per letter a) do not apply if the investment generates the investment generates a qualified equity investment exceeding 25% of the share capital or rights of governance or if the contributor is also a supplier of services to the start-up, directly or through a subsidiary or associated company, for a turnover greater than 25% of the eligible investment.

Innovative start-ups can also benefit from access to the SME guarantee fund to cover 80% of the funds required without further assessment with respect to what has been carried out by the credit institute.

Innovative SMEs are joint-stock companies, including cooperatives, which meet the following requirements:

- they have carried out the certification of the latest financial statements;
- they are not listed in a regulated market;
- they are not simultaneously registered in the special section of innovative start-ups.

Finally, an SME is innovative if it meets at least 2 of the 3 following subjective requirements:

1. it has incurred expenses for R&D and innovation equal to at least 3% of the higher value between turnover and production cost;
2. it employs highly qualified staff (at least a fifth holders of a PhD degree, PhD students or researchers, or at least one third with a master's degree);
3. is the owner, custodian or licensee of at least one patent or the owner of a registered software.

It is also possible for SMEs to benefit from an exemption on capital gains deriving from the sale of equity investments held for at least three years, the enjoyment of which depends on meeting at least one of the following conditions:

a. not having operated in any market;
b. operating in any market for less than seven years from their first commercial sale;
c. the requirement of an initial investment for risk financing which, on the basis of a business plan drawn up for the launch of a new product or entry into a new geographical market, is greater than 50% of the annual average turnover in the last five years.

The relief relating to the exemption of capital gains deriving from the sale of shares in start-ups and innovative SMEs, however, introduced by Legislative Decree no. 73/2021 (so-called *Sostegni-bis* Decree), was temporary in nature and was applicable to investments made in the period 2021–2025. In the absence of generalised extensions, this regime is, as of today, no longer in force, with only possible residual situations relating to the reinvestment of capital gains or remaining specific sector measures.

5.6. Purchase of capital goods – the "New Sabatini"

The facility is aimed at supporting investments for the purchase, also through leasing, of machinery, equipment, plant, capital goods for productive use, as well as hardware, software and digital technologies. The instrument is aimed at SMEs operating in all production sectors, including agriculture and fishing.

The facility is in the form of a contribution that covers part of the interests on bank loans and is determined in an amount equal to the value of the financial charges calculated, as a general rule, on a loan lasting five years and of an amount equal to the investment, at an annual interest rate of:

› 2.75% for ordinary investments;
› 3.575% for investments in so-called "industry 4.0" and green technologies.

The contribution is correlated to a bank loan (or leasing), of between 20,000 euros and 4 million euros, of a maximum duration of five years[22], which can be assisted by the Guarantee Fund for up to 80% of the amount.

[22] Including a 12-month pre-amortisation period.

A new type of facility has recently been introduced, relating to the "New Sabatini" instrument. It is aimed at micro, small and medium enterprises established in the form of joint-stock companies that are engaged in a capitalisation process which intend to implement an investment plan in machinery, equipment, plant, capital goods for production use and hardware, as well as software and digital technologies.

This relief is in the form of a contribution for expenditure on plant and equipment, the amount of which is determined in an amount equal to the value of the financial charges calculated, as a general rule, on a loan lasting five years and of an amount equal to the investment, at an annual interest rate of:

- 5% for micro and small enterprises;
- 3.575% for medium enterprises.

The 2026 Budget Law refinanced the New Sabatini with 650 million euros for 2026 and 2027.

5.7. Guarantee fund for SME access to credit

The aim is to favour access to financial resources for small and medium enterprises[23] through the granting of a public guarantee that accompanies and often replaces the real guarantees provided by companies to credit institutes.

Thanks to the Fund, an enterprise has the concrete possibility of obtaining bank loans without additional guarantees (and therefore without the costs of surety bonds or insurance premiums) on the amounts guaranteed, generally equal to 80% of the loan requested for investments[24], the maximum amount of which is 5 million.

[23] Medium-sized enterprises, taking into account any associated and/or affiliated enterprises, have fewer than 250 employees and an annual turnover of no more than €50 million or an annual balance sheet total of no more than €43 million. Small enterprises, taking into account any associated and/or affiliated enterprises, have fewer than 50 employees and an annual turnover or annual balance sheet total of no more than €10 million. Microenterprises, taking into account any associated and/or affiliated enterprises, have fewer than 10 employees and an annual turnover or annual balance sheet total of no more than €2 million.

[24] Up to 50% for financing for liquidity needs. Law no. 199/2025.

5.8. European Funds

It should be noted that Italy, as a member country of the European Union, has access to a wide range of European Funds with reference to the 2021-2027 programming cycle, managed at both national and regional level. For more information, reference should be made to the website: http://europa.eu/european-union/about-eu/funding-grants_it.

5.9. Other incentives and subsidies

For a complete and updated overview of the additional incentives for businesses and investors, reference should be made to the website: https://www.mimit.gov.it/it/incentivi.

6. A number of customs issues: the Italian reform, the origin of goods, "made in" and free trade

In international trade, businesses have understood the importance of knowledge of customs law which, with specific procedures and fulfilments, often regulates delicate aspects with significant impacts for each individual operator, not only in relation to duties.

For businesses operating in Italy and, in general, those established in the European Union, it's useful to know the customs requirements deriving from the Union Customs Code (UCC)[25] and the delegated and implementing regulations connected to it[26] in order to be able, in the "pre-operation" phase, to adequately plan foreign trade, and to be ready to manage any critical issues linked to pathological aspects that may arise, often also linked to non-tax profiles[27], in the "post-operation" phase.

The management of "Trade compliance" is a delicate part of running a company, since the enterprise, in its relations with customs authorities and therefore with regards to the relative amount payable deriving from the customs regime[28] of where the goods are intended for, often relies on external agents, abandoning the planning phase and assigning the management of customs aspects to third parties (shipping companies, customs agents) who, by virtue of their specific experience in foreign trade, then need to comply with customs procedures and formalities on account of

[25] The current legal framework regarding customs matters is formed of a complex structure of European Community and national rules, which have stratified and succeeded one another over time as a result of the gradual evolution of European integration. The European Union Customs Union is unique of its kind. Inside the Union the 27 member States adopt a uniform system for the management of goods which are imported, exported and in transit and apply a common series of customs provisions, called the Union Customs Code (UCC) which is planned to be reformed in the next few years. The code came into force on 1 May 2016. A uniform system of customs duties is applied to imports from third countries, while there are no customs duties at the borders between member States (see EUR-Lex - customs_union - EN - EUR-Lex (europa.eu)).

[26] Regulation (EU) no. 952/2013 of the European Parliament and Council, of 9 October 2013, which establishes the Union Customs Code (recast directive) (Official Gazette l. 269 of 10/10/2013); Delegated Regulation (EU) no. 2015/2446 (DR); Implementing Regulation (EU) no. 2015/2447 (IR); Transitional Delegated Regulation (EU) (TDR) no. 2016/341.

[27] Further profiles impacting international exchanges, the procedures for which pertain to the customs area, relate, for example, to restrictive measures in the Dual Use area or for trade with certain countries, those concerning the CITES regulations referred to in the Washington Convention or the measures issued regarding the CBAM (Carbon Border Adjustment Mechanism), the EUDR Regulation (regarding deforestation) and forced labour, as a result of other specific EU Regulations.

[28] In the UCC, exportation and release for free circulation are "ordinary" customs regimes, while Transit (types T1 and T2), Deposit (including special tax concession zones), Particular Use and Inward and Outward Processing are special customs regimes.

and in the interest of the company so that the a product from a third country can enter the EU of vice-versa. This "delegation" mechanism can cause inefficiencies in the enterprise and sometimes misalignment between internal data, normally used in accounting, compared to customs data.

One effective way of overcoming these inefficiencies and to limit responsibility profiles, is to integrate the function of customs agents with better communication and more precise knowledge on the part of the company – and of the assisting accountant – of the matter and of the customs requirements involved, establishing - where possible - specific internal controls.

The following, among others, form part of adequate Trade Compliance management:

- the issue of certificates of preferential origin and the use of certifications of non-preferential origin;
- the collection of documentation inside and outside the company (for compliance with rules of origin);
- periodic monitoring of international agreements, directives, European regulations and laws and national trade regulations (including embargos and concessions);
- the identification of necessary licenses for import into foreign countries;
- the creation of checklists and procedures that need to be used by intermediate operators in the supply chain, such as brokers and suppliers, in compliance with the standards adopted by the exporting company, hired to take on particular tasks (such as, for example an AEO[29]);
- risk prevention and mitigation measures regarding possible violation of various regulations (with the adoption of the 231 Model, extended to the crime of smuggling and into which, by Legislative Decree 211/2025[30], some violations regarding restrictive measures issued by the European Union with regard to certain products and/or certain countries or subjects have also been incorporated as new predicate crimes).

Specifically, economic operators' familiarity with the concept of *origin* (together with the customs concepts of *classification* and *values*) of certain goods and, above all, the rules that identify the country the goods can be considered as originating from, can bring them significant competitive advantages. This is both with regards to com-

[29] An Authorised Economic Operator (AEO) is an economic operator established in the European Union (and with an Eori code) who has obtained, following an audit by the customs authorities, an AEO authorisation valid throughout the European Community customs territory, an authorisation that attributes a recognition of reliability and solvency associated with a series of advantages depending on the type of AEO authorisation required.

[30] Legislative Decree No. 211 of 30 December 2025, which states "Implementation of Directive 2024/1226/EU of the European Parliament and of the Council of 24 April 2024 on the definition of offences and penalties for infringements of Union restrictive measures and amending Directive (EU) 2018/1673"

mercial and marketing aspects, with a clear reference to the theme of so-called *"non preferential"* or *"made in"* origin, and with regards to a genuine cost saving (in the form of duty relief) in virtue of the numerous trade agreements – free trade agreements – entered into by the European Union with third countries, with relation to the concept of *"preferential"* origin, as well as with regard to the procedural simplifications (removal of non-tariff barriers) often contained in such so-called latest generation agreements.

6.1. Preferential and non-preferential origin

A clear distinction, well-marked also by the UCC, regarding the origin of goods is that concerning preferential or non-preferential origin. Every time a commercial relationship involves the transfer of goods between different States[31], it's necessary to establish the origin of the products involved in the transaction when crossing a customs border. In this way, the identification of the place of origin (of production of the goods) makes it possible to give and make recognizable an indication of origin universally linked to a "made in" denomination. This occurs when the intention is to point out that a product has undergone "substantial processing" in the country shown on the label[32]. The goods thus classified comply with the "non-preferential"[33] rules of origin and represent the general rule in the European Union context, being applicable to all products, regardless of the country of final destination. The impact of such indication is substantially commercial, without concessions on import customs tax. The certificate of non-preferential origin is issued, in Italy, by the competent Chamber of Commerce (CCIAA) for the territory[34] and under the direct responsibility of the company.

When, instead, the international transaction has as it two counterparties two enterprises respectively resident in countries that have entered into a bilateral preferential

[31] The passage of goods between European Union member States does not involve crossing customs borders.

[32] To establish whether the operations performed in a given country regarding non-original material are more or less sufficient to assign origin to that country, criteria have been drawn up for each category of product; for example, a change of customs heading, a maximum percentage, in value, of non-original semi-finished products, components and/or raw materials that can be used, or a specific production process that must be followed, or also a combination of these criteria.

[33] Specific rules on the theme of non-preferential origin are also contained in annex 22-01 of the UCC-RD.

[34] An electronic request for a certificate of origin can be forwarded to the Chamber of Commerce of the province of the registered address of the exporting party, of the province of one of its operating units or of the province to which the goods are to be exported, subject to the authorisation of the Chamber of Commerce of the province in which the exporter has its registered address. Printing of the certificate in the company can occur if the applying party is a holder of "AEO" (AUTHORISED ECONOMIC OPERATOR) certification or a holder of "Authorised Exporter" status or registered in the "REX" (Registered Exporters) system.

agreement[35], the origin of the product, in compliance with precise rules set out in the agreement, has a significant impact on the tax treatment of the importation. If an exporter, in fact, is able to certify that their products have undergone "sufficient processing"[36] to attribute preferential origin of the processing country, the exporter can obtain from its customer an import concession through the reduction or elimination of duties due. In all events, in an international transaction, the origin of each single product has to be determined. This indication, in fact, together with the classification and value, is one of the elements the determination of which is essential for arriving at a correct application of customs duties.

Preferential origin, by virtue of the duty benefits granted in the customs area, is certified with documentation issued by the customs authorities[37]. In determining the preferential origin of goods intended to be sold, it may be necessary to involve the relevant suppliers, asking them to issue the specific declaration[38] certifying the preferential origin of the goods transferred.

Community regulations regarding the origin of goods are set out in arts. 59 to 68 of the UCC and in arts. 57-126 of the IR and 31-70 of the DR.

6.2. Free trade agreements

Starting from the second half of the 1980s, there has been a proliferation of formal economic integration agreements created with the aim of liberalising trade between partner countries, to the reciprocal advantage of the signatories. There are three types of agreement at international level:

a. cooperation and partnership agreements that regulate economic relations between two countries;
b. free trade agreements that create free trade areas between signatory countries with the reduction or elimination of customs tariffs for goods that can be defined as "original" of one or other of the countries or area that has signed the agreement.

[35] As well as when the trade involves a counterparty established in a country falling within the so-called Generalised System of Preferences (GSP) or other country, generally developing, towards which the EU has unilaterally established the application of customs preferences.

[36] Sufficient processing must be understood as a work process that allows for a change in the customs heading or compliance with one of the other rules provided for by preferential agreements.

[37] For countries linked to the European Union by bilateral agreements, this is the Model EUR 1 movement certificate which is issued by the customs authorities of the country of exportation further to a written request of the exporter; Eur 2 is applicable for certain types and imports; declaration on the invoice for exports of a value not greater than Euro 6,000.00; ATR certificate in the case of exchanges between the EU and Turkey, and the REX system for other foreseen cases.

[38] Declaration of the supplier and long-term declaration (arts. 61 and 62 Reg. EU 2447/2015).

c. customs unions.

The above-described international treaties are of fundamental importance for both exporters and importers since they are created with the aim of supporting trade between partner countries and define the procedures for the related benefits to be recognised.

Free trade agreements entered into by the European Union[39] provide, in suitable protocols of origin, for reciprocal duty concessions and relative conditions for application: tariff concessions are provided on the condition of reciprocity so that exemptions or reductions relate to both products of European Union origin exported to the partner country and products originating in said countries intended to be imported into the European Union: he regulatory sources regarding preferential origin are therefore the protocols themselves and, secondarily, the regulations contained in the UCC.

More recent trade agreements and free trade agreements entered into by the European Union include:

- EU – Mercosur Interim Trade Agreement[40]
- EU – Chile interim trade agreement
- EU – New Zealand Free Trade Agreement
- EU – UK Trade and Cooperation Agreement
- EU – Vietnam Free Trade Agreement
- EU – Singapore Free Trade Agreement
- EU – Japan EPA Economic Partnership Agreement
- EU – Canada CETA Comprehensive Economic and Trade Agreement
- Multiparty EU Trade Agreement with Colombia, Peru and Ecuador
- EU – Central America Association Agreement
- EU – South Korea Free Trade Agreement

[39] From which companies established in Italy can also fully benefit.

[40] Entered into force on May 1, 2026.

6.3. The Italian customs reform

Enabling Act no. 111 of 9 August 2023 (*legge delega*), containing the delegation to the Government for an overall reform of the tax system, made significant modifications also to national rules aimed at regulating customs matters, previously substantially regulated by the Consolidated Act (*TULD*)[41].

Specifically, the principles contained in the enabling law gave rise to Legislative Decree 26 September 2024, no. 141 (customs reform) coming into force on 4 October 2024, which involved a total reorganization of the customs regulatory framework, so that national provisions on customs matters could finally be updated and become more aligned with European Union regulations, also providing for a reorganization of the procedures as per Leg. Dec. 8 November 1990 no. 374 regarding settlement, assessment, review of assessment and collection activities as well as a complete review of the sanctioning system also in criminal cases.

Besides a renewal of the sanctioning system, a further development worthy of note regarding international trade is the inclusion of import VAT among border duties[42], for the collection of which the principles and procedures of the customs system apply. The reform in question has further redefined the criteria by which to distinguish any non-fulfilment deriving from an omitted or unfaithful customs declaration between administrative offenses or those of a criminal nature, essentially providing a purely objective criterion in each case: whether the increased border fees owed (and separately identified) are for an amount of less or greater than 10,000 euros[43] with regard to duties and 100,000 euros for other rights.

The exclusion of VAT from the category of border duties, always on the basis of national legislation, is provided for in the event importation into EU countries is imme-

[41] Consolidated Act of Customs Legislation, Presidential Decree 23 January 1973, no. 43.

[42] Art. 27 Leg. Dec. of 26/09/2024 no. 141:
Customs duties and border duties
1. Customs duties are understood as all those duties that the Revenue Agency is required to collect by virtue of the obligations deriving from European Union law or legal provisions.
2. Customs duties as per paragraph 1 include border duties, besides import and export duties provided for by European Union regulations, levies and other import and export taxes, monopoly rights, excise duties, value added tax and any other consumption tax, due upon importation, payable to the State.

[43] Art. 96 leg. Dec. of 26/09/2024 no. 141:
Administrative sanctions
An administrative penalty of 100 per cent to 200 per cent of the border rights due or unduly received or unduly claimed for restitution, and together at a rate of not less than EUR 2,000, and, for the violations referred to in Article 79, at a rate of not less than EUR 1,000, shall be imposed on any person who, by failing to resort to the aggravating circumstances referred to in Article 88, commits the violations referred to in Articles 78 to 83, except that, alternatively:
a) the amount of border rights by way of customs duty due or unduly received or unduly requested in return is greater than 10,000 euros;
b) the total amount of border rights other than duty due or unduly received or unduly claimed in return is greater than EUR 100,000.

diately followed by placement of the goods in a VAT warehouse (so-called regime 45) or if the goods being imported are intended to continue towards an operator established in a different member state (so-called regime 42)[44].

[44] Art. 27 Leg. Dec. Of 26/09/2024 no. 141:
Customs duties and border duties – paragraph 3
3. Value added tax does not constitute a border duty in cases of:
a) the release of goods into free circulation without the payment of value added tax with subsequent release for consumption in another European Union Member State;
b) the release of goods into free circulation without the payment of value added tax and the obligation to use a warehousing arrangement other than customs warehousing.

SPANISH ECONOMIC SYSTEM

1. Country overview

The Kingdom of Spain is a country situated in south-western Europe; the Strait of Gibraltar separates it from the African continent, whilst it shares land borders to the north with France and to the west with Portugal.

Spain is the second-largest country in Europe by area, and its territory includes the Balearic and Canary Islands, as well as the cities of Ceuta and Melilla on the North African coast.

Spain is also one of the five largest national economies within the European Union and represents a very important market as, on the one hand, thanks to the Spanish language, it acts as a bridge to Latin American markets, whilst on the other it represents an important gateway to the North African market.

The country's capital is Madrid. The official language is Spanish (Castilian); Catalan, Basque and Galician are officially recognised, however, though only within their respective autonomous communities. The country is, in fact, made up of 17 autonomous communities (regions), which are independent both financially and administratively, as each has its own directly elected authorities.

1.1. The political system

The Kingdom of Spain is a parliamentary monarchy in which the King is the Head of State, entrusted with the role of arbiter and moderator of the proper functioning of government institutions in accordance with constitutional provisions. He is also responsible for ratifying the appointments of the most senior officials in the executive, legislative and judicial branches.

The Spanish Constitution (1978) establishes that legislative power is vested in Parliament (*Cortes Generales*), executive power is exercised by the Government of the nation, whilst judicial power is vested in judges and magistrates.

Parliament, whose members are elected every four years by universal suffrage, comprises the Congress of Deputies (Lower House) and the Senate (Upper House), which also includes regional representatives appointed by the autonomous communities.

The highest representative of the Government is the President, who is responsible for appointing and dismissing members of the Government.

Each autonomous community, on the other hand, exercises the powers conferred upon it by the Constitution and specified in the Statutes of Autonomy, which also contain all the institutional regulations of the community itself. Generally, the latter con-

sists of a Legislative Assembly, elected by universal suffrage, which is responsible for enacting legislation applicable to the community; a Government, which is entrusted with executive and administrative functions; and a High Court of Justice, which holds judicial power within the community.

Coordination between the administration of the State and that of the community is ensured by a delegate of the central government.

1.2. The Legal System

The Spanish legal system belongs to the family of civil law systems, or the continental model, according to which:

- written law is the primary source of law;
- the legal system provides for a separation between the public and private sectors;
- the judiciary is organised hierarchically through a system of courts of appeal.

Under the Spanish Constitution, there is a single jurisdiction in the country, comprising a single body of judges and magistrates who represent the ordinary courts; alongside them are other numerous courts, whose work is distributed according to criteria for the allocation of jurisdiction, such as territory, importance and function.

Specifically, the bodies to which legal disputes are assigned include:

- Civil Jurisdiction: or ordinary jurisdiction, dealing with cases not assigned to other orders;
- Criminal Jurisdiction: competent, precisely, in matters of criminal cases and proceedings. Particular characteristic: it acts jointly with the civil jurisdiction in matters concerning civil actions for damages;
- Administrative Litigation Jurisdiction: to which are assigned cases concerning the judicial review of administrative acts and disputes relating to the financial liability of public administrations;
- Employment Jurisdiction: competent in employment matters

Alongside these jurisdictions, the Military Jurisdiction operates separately, constituting an explicit exception to the principle of the unity of the Spanish judicial system.

In Spain, there is no extraordinary court system, but within the court systems mentioned above, specialised courts have been established according to subject matter,

such as courts dealing with violence against women. These courts form part of the ordinary court system but are specialised according to subject matter.

Finally, regarding the organisation of the institutions comprising the Spanish legal system, it should be noted that they are all composed of a single judge, with the exception of the Supreme Court (*Tribunal Supremo*), the National Court (*Audiencia Nacional*), the High Courts of Justice (*Tribunales Superiores de Justicia*) and the Provincial Courts (*Audiencias Provinciales*).

A special role is played, moreover, by the *Tribunales Superiores de Justicia* (TSJ), one for each of Spain's 17 Autonomous Communities. These collegial bodies exercise jurisdictional powers not directly administered by the Supreme Court

1.3. The Economic System

In the current economic climate, Spain is one of the continent's most dynamic economies, to the extent that it has been dubbed the 'locomotive of Europe', outpacing both Germany and France in terms of growth.

The success of the Spanish economic system is underpinned by a number of key factors, foremost among which is the diversification of the production model. Spain has, in fact, invested heavily in innovative sectors, to the extent that today the technology and alternative energy sectors stand alongside the traditional sectors of tourism and construction, in this way fostering the growth of stable employment, further supported by labour market reform.

Furthermore, thanks to the effective use of Next Generation EU funds, Spain has made significant investments in infrastructure, connectivity and research and development. By adopting favourable energy policies encouraging the use of low-cost renewable energy, moreover, the country has succeeded in attracting foreign capital, thereby stimulating industrial development. All this has, in fact, triggered a virtuous circle leading to increased investment and consumption. Savings on energy bills, for example, (due both to the so-called 'Iberian exception' on the price of gas agreed between Spain and the EU and to the production of alternative energy sources) has encouraged business investment and household consumption.

Finally, another significant factor in Spain's growth has been immigration, which has expanded the labour force, supported job creation and boosted consumer spending, further strengthening the national economy.

All these factors have indeed led to growth in the Spanish GDP, generating an increase in tax revenue and, consequently, an improvement in public finances and thus in the perception of credit rating agencies regarding country risk, which have recently recognised Spain's improved creditworthiness, upgrading its rating.

Thanks to the combination of these factors, the Spanish economy is consequently acting as a benchmark for other European countries.

1.4. The Banking System

The Bank of Spain (*Banco de España*), founded in 1782, is the country's national central bank, whose primary task is supervising the Spanish financial system in order to ensure stability and the proper functioning of the economy. In addition, the Bank of Spain acts as an advisor to the government on economic and financial matters, produces regular reports on the country's economic situation and publishes key statistics to support the decisions of businesses and investors.

The Bank of Spain is also responsible for the following tasks:

- supervising financial institutions to ensure compliance with national regulations, thereby guaranteeing solvency and protecting depositors;
- identifying and mitigating potential risks to the national financial system;
- managing the country's international reserves and conducting foreign exchange operations.

Together with other national banks, the Bank of Spain forms part of the Eurosystem led by the European Central Bank (ECB). In this regard, the Bank of Spain plays a role in implementing European policies aimed at controlling inflation and ensuring price stability, and participates in the distribution of the euro currency throughout the country.

The Bank of Spain is composed of four main bodies responsible for fulfilling the institution's obligations, comprising:

- the **Governor**: appointed by the King, serves a non-renewable six-year term. The Governor is responsible for managing the bank and representing it before national and international institutions. In addition, the Governor chairs the Governing Council and the Executive Committee.
- the **Deputy Governor**: acts as the Governor's deputy in the event of his/her absence. The Deputy Governor is appointed by the Government on the recommendation of the Governor, and his/her term of office is also six years.
- the **Governing Council**: composed of the Governor, the Deputy Governor, six directors with a six-year term renewable only once, the Secretary-General of the Treasury and International Finance, and the Vice-Chair of the National Securities Market Commission. The Board approves the central bank's general guidelines on monetary policy and proposals for sanctions to be

submitted to the Ministry of Economy and Finance, and ratifies the appointments of the General Directors of the Bank of Spain.

- the **Executive Committee**: comprises the Governor, the Deputy Governor, and two members appointed by the Governing Council on the proposal of the Governor, the General Directors and the Secretary-General of the Bank of Spain. The Committee is responsible for a range of tasks, including the implementation of monetary policy, the formulation of recommendations and requirements for banks, and the implementation of intervention measures and the replacement of directors.

Generally speaking, the Spanish banking system is highly concentrated, as the market is substantially controlled by a few large national banking groups, alongside regional banking groups with deep roots in their local areas.

1.5. The flag and the currency

The Spanish flag, known as the *Rojigualda* (red and gold), was adopted in its current form in 1981, although its origins date back to 1785. As defined by the Constitution, the flag consists of three horizontal stripes: two red stripes at the ends and a central yellow stripe. Specifically, the two red bands (*rojo carmesí*) symbolise the blood shed for the homeland, and the courage and determination of the Spanish people throughout the centuries, whilst the central yellow band (*gualda*), twice the width of the red bands, represents the riches acquired by the Crown of Spain. The yellow band also features the national coat of arms, divided into four quarters to symbolise the alliance between the kingdoms that led to the unification of Spain under a single crown, with symbols of specific meaning, namely:

- the golden castle on a red background represents the Kingdom of Castile, symbolising strength and protection;
- the rampant purple lion symbolises the Kingdom of León, embodying courage and nobility;
- the senyera – the shield with four red stripes on a yellow background, symbolising the Crown of Aragon;
- the golden chains on a red background represent the Kingdom of Navarre.

In addition, at the bottom centre there is a pomegranate, symbolising the Kingdom of Granada.

At the centre of the four quarters there is a blue circle with three lilies representing the current ruling royal house, the Bourbons.

To the right and left of the coat of arms there are two columns, reminiscent of the 'Pillars of Hercules', evoking the Strait of Gibraltar, a powerful geographical and mythological symbol. On the left-hand column there is the Crown of the Holy Roman Empire, whilst on the right-hand column there is the Spanish Crown, which also features prominently above the coat of arms. Finally, the two columns of the coat of arms are wrapped in a red band bearing the inscription *'Plus Ultra'* (Further Beyond).

Since 1 January 2002, the official currency of Spain has been the euro, which replaced the former peseta. Banknotes, as in all other European countries, do not feature a country-specific design; however, their Spanish origin can be recognised by the letter V printed on the serial number. In contrast to the banknotes, three different designs have been chosen for the coins, namely:

- the €1 and €2 coins bear the effigy of the King;
- the 10, 20 and 50 cent coins depict Miguel de Cervantes, the father of Spanish literature and a symbol of the universality and capabilities of man;
- the 1, 2 and 5 cent coins bear the image of the Cathedral of Santiago de Compostela. The monumental façade of the Obradoiro is also visible.

1.6. Spain and the European Union

Spain joined the European Union on 1 January 1986. Accession to the European Union came at the end of a long period of dictatorship; this transition therefore represented an opportunity for the country to consolidate its newly restored democracy and usher in a period of stability, growth and economic development. Indeed, since joining the Union, Spain has been able to benefit from substantial EU funding, which has enabled it to modernise local infrastructure, improve healthcare, raise the country's standard of living and develop trade agreements with international partners, thereby promoting its economic development.

Spain is one of the leading pro-European countries, supportive of political integration, the strengthening of common institutions and the implementation of shared policies on specific issues, such as immigration, the energy transition and so on.

At the same time, thanks to Spanish support, the European Union has strengthened its partnerships with many countries in Latin America and the Mediterranean region.

Today, it can be said that Spain is fully integrated into European structures, playing a leading role in shaping EU policy.

1.7. Economic relations with Italy

Economic relations between Spain and Italy have always been strong, given that the two countries are highly complementary in terms of their production systems; Spain is, in fact, one of Italy's main trading partners both at a global level and within the European Union.

As already mentioned, the complementarity of the two markets is the main factor driving sustained trade between Spain and Italy, leading both countries towards seamless and efficient production integration, enabling the attainment of high-quality finished products.

Examples include the Spanish automotive sector, which assembles vehicles using components produced in Italy, and Italian pipework, renowned worldwide for its efficiency and quality thanks to the use of plastic polymers and steel sourced from Spain.

Furthermore, aside from areas of integration between the two countries, Spain relies on Italy in the eyewear, furniture and pasta sectors, whilst Italy mainly imports products such as fish and shellfish, meat and fish preparations, olive oil, fruit and vegetables.

Another highly significant factor is the steady growth in Italian investment in Spain, driven primarily by allocations of the 'Next Generation EU' European funds, which open up numerous opportunities for growth and collaboration for companies in strategic sectors such as: digitalization, energy efficiency, renewable energy, sustainable mobility, e-commerce and water treatment and management.

1.8. Intellectual Property Protection

In general, Spanish legislation on intellectual property is consistent with that of all other European countries. As is normally the case, therefore, for intellectual property legislation to apply, prior registration must be made in the Intellectual Property Register held at the OEPM (Spanish Patent and Trademark Office) for what is to be protected. Naturally, registration with the OEPM guarantees protection throughout Spain; otherwise, if supranational protection is required, it is necessary to apply to the EUIPO (European Union Intellectual Property Office) located in Alicante.

Intellectual property protection naturally includes protection relating to patents, trademarks and copyright.

The registration process, as well as the duration of protection, varies depending on what is to be protected, as set out below:

- **Trademarks**: to be registered, a trademark must be distinctive and in use. Protection lasts for 10 years and is renewable indefinitely;
- **Designs**: to be registered, a design must be original. Protection lasts for 70 years;
- **Inventions**: to be registered, inventions must be new, useful and non-obvious. The duration of protection differs depending on whether they are patents or models; in the former case, the period is 20 years, renewable annually, and in the latter, 10 years, renewable annually;
- **Designs**: to be registered, designs must be new and 'unique'. Protection lasts for 5 years, renewable for up to 25 years.

The protection of *'trade secrets'* deserves a separate mention. This refers to any information relating to any area of business that meets three essential conditions, namely:

- it must be a secret, i.e., not generally known or, in any case, not readily accessible in the contexts in which it is intended to be used;
- it must have commercial value;
- reasonable protective measures must be taken to ensure its secrecy.

In this case, protection is a *de facto* right, in the sense that it may potentially be of indefinite duration as long as the information remains secret.

To protect all these intellectual property rights, in the event of discovering an infringement, the owner may take action through both civil and criminal proceedings against parties who have infringed their rights.

2. Starting a business in Spain

Spain is one of Europe's leading destinations for international businesses setting up operations, thanks to a combination of its membership of the European Union, its strategic location between Europe, Latin America and North Africa, and a regulatory framework geared towards investment freedom, with specific restrictions applying only to certain strategic sectors or to transactions involving high-risk jurisdictions.

The Spanish legal system is that of a federal state: in addition to the central government, which has exclusive powers in matters of commercial, corporate and basic tax legislation, there are 17 autonomous communities with significant powers in economic, industrial and business support matters.

For a foreign investor, the choice of location (e.g., the Community of Madrid, Catalonia, Andalusia, the Basque Country, the Valencian Community) affects not only logistical and market aspects, but also:

- regional incentive schemes;
- local taxation (municipal and regional taxes);
- administrative procedures and authorisation times.

The regulation of economic activities is based on a civil law system, with codified sources such as the *Código de Comercio* (Commercial Code) and the *Ley de Sociedades de Capital* (Companies Act), supplemented by tax and employment legislation and European Union directives/regulations.

ICEX Spain Trade and Investment (*España Exportación e Inversiones*) plays a central role in supporting foreign investment, and within it, Invest in Spain, through the investinspain.org portal and dedicated services, provides up-to-date information on establishment options, incentives, priority sectors, administrative procedures and public-private partnership opportunities.

2.1. The Representative Office and Branch

In the initial phase of entering the Spanish market, many companies opt for 'light' forms of presence, which allow them to establish a foothold in the territory and gather information without immediately setting up a company under Spanish law. The two main instruments are:

- Representative office: an auxiliary structure with no economic activity of its own;
- Branch: a permanent establishment of the parent company in Spain, with full economic activity but without independent legal personality.

The choice depends on the desired level of operational activity, the risk profile and the medium- to long-term strategy.

2.1.1. The Representative Office

The representative office is a purely auxiliary presence of the foreign company, lacking legal personality and, in principle, commercial activity in the strict sense.

Its typical functions include:

- commercial promotion, marketing and public relations;
- gathering information and conducting market research;
- operational liaison between the parent company and local customers or suppliers;
- ancillary logistical and administrative support.

A key feature is the absence of *commercial risk-taking* in Spain and of the usual powers to conclude contracts on behalf of the foreign company, so as to avoid the creation of a "permanent establishment" for tax purposes.

The formal requirements are limited; the following, however, remain applicable:

- employment and social security obligations for any staff employed;
- administrative regulations regarding premises, safety, advertising and privacy.

The representative office is particularly suited to an exploratory phase of the market, in which the company intends to acquire knowledge, build relationships and assess the viability of a more structured establishment.

2.1.2. The Branch of a foreign company

The branch is a permanent establishment of a foreign company in Spain, lacking separate legal personality but possessing its own organisation of resources and staff, capable of carrying out economic activities on a continuous basis.

Key features:

- it has no share capital of its own;

- the legal relationships established by the branch are directly attributed to the parent company;
- liability for obligations incurred in Spain rests entirely with the foreign company.

Opening a branch requires a formal procedure comprising several stages:

1) Resolution by the parent company

A decision by the competent body (general meeting or board of directors) to establish a branch in Spain, specifying: the branch's registered office, the nature of its business, powers of representation (*apoderado*) and any restrictions on those powers.

2) Preparation of the foreign company's documentation

Articles of association, certificate of registration in the commercial register of the country of origin, certificate of share capital and powers of the governing bodies, to be translated into Spanish and certified, depending on the country of origin.

3) Notarial deed in Spain

Formalisation before a Spanish notary of the establishment resolution and the essential details of the foreign company and the branch (registered office, business purpose, representative).

4) Registration in the Commercial Register

Registration of the branch with the Commercial Register competent for the territory, stating the details of the parent company and the powers of the representative, which become enforceable against third parties.

5) Obtaining the Tax Identification Number (NIF)

Application for the NIF for the branch at the Tax Agency, required for invoicing, tax returns and withholding tax.

6) Further formalities

Registration for IAE (Economic Activities Tax) where applicable, Social Security registration for employees, and obtaining sector-specific licences and authorisations (trade, regulated activities, etc.).

Governance remains centralised in the parent company, which exercises decision-making powers through its representative in Spain. A clear definition of the powers of the authorised representative, both in the founding resolution and in the notarial deed, is crucial for operational risk and compliance control.

For tax purposes, the branch constitutes a *permanent establishment* of the foreign company in Spain:

- it is subject to corporation tax on the income attributable to it, at the standard rate, unless special regimes apply;
- it must maintain separate accounts for the activities carried out in Spain, in accordance with Spanish GAAP;
- transfer pricing rules apply to internal transactions between the parent company and the branch (services, royalties, loans);
- the treatment of income in the country of origin depends on the applicable double taxation agreement.

Main advantages:

- a simpler structure compared to setting up a limited company;
- legal and managerial continuity with the parent company;
- no requirement for a minimum independent capital.

Limitations:

- no separation of assets: the parent company bears full liability for the branch's debts;
- greater complexity in tax management (allocation of profits and costs, transfer pricing);
- in some cases, a perception of being less 'rooted' than a company incorporated under Spanish law, with possible implications for banking relationships, dealings with the public administration and local partners.

2.2. Setting up a company

2.2.1. The limited company

When the investment project is structured or requires a stable foothold, the standard solution is to incorporate a company under Spanish law, specifically:

1. Sociedad de Responsabilidad Limitada (S.L. – private limited company);
2. Sociedad Anónima (S.A. – public limited company).

2.2.1.1. Sociedad de Responsabilidad Limitada (S.L. – private limited company)

The S.L. is the most common form of company in Spain, particularly for SMEs and subsidiaries of foreign groups.

Key features:

- *Minimum capital*: €3,000.00, to be paid in full upon incorporation;

- *Shares (partecipaciones sociales)*: not represented by share certificates; their transfer is subject to restrictions and pre-emption rights, giving the S.L. a generally 'closed' nature;
- *Liability*: limited to the capital contribution; shareholders are not personally liable for the company's debts, save for exceptional circumstances (e.g., directors' liability);
- *Governance*: flexible; management may be entrusted to a sole director, to several joint and several directors, or to a board of directors.

The S.L. entails lower incorporation and management costs than the S.A., fewer statutory audit requirements (unless certain size thresholds are exceeded) and may benefit from the CIRCE fast-track electronic procedures.

2.2.1.1. Sociedad Anónima (S.A. – public limited company)

The S.A. is the most common form for large enterprises, for companies intending to list on the stock exchange or to raise capital from a variety of investors.

Key features:

- *Minimum capital*: €60,000.00, with an initial payment of at least 25%;
- *Shares*: freely transferable, subject to statutory restrictions; may be admitted to trading on regulated markets or multilateral trading facilities;
- *Governance*: requires a board of directors with at least three members; operational, control and transparency requirements are more stringent than for an S.L.;
- *Statutory audit*: more frequently mandatory, given the company's size and structure.

The S.A. is recommended when the Spanish entity is to act as a holding company, issue complex financial instruments, attract institutional investors or operate in sectors requiring high capital and governance standards.

2.3. Steps for setting up a company and the CIRCE system

2.3.1. The "traditional" phases of incorporation

For the incorporation of an S.L. or an S.A., the main operational stages are:

- *Negative Certificate of Company Name*: application to *the Central Commercial Register* to verify availability and reserve the chosen company name;

- *Opening a bank account and paying in the capital*: depositing the minimum capital (€3,000.00 for an S.L.; €60,000.00 for an S.A., with 25% paid-up on incorporation) into a bank account in Spain;
- *Drafting of the articles of association (estatutos sociales) and of the memorandum of association (escritura de constitución)*: definition of the company's purpose, capital, structure of corporate bodies, operating rules, transferability of shares, and any clauses regarding special rights;
- *Execution of the public deed*: signing of the memorandum of association before a Spanish notary, in the presence of the shareholders or their representatives holding power of attorney;
- *Application for a provisional Tax Identification Number (NIF)*: submission of the application to the Spanish Tax Agency, necessary for initial tax compliance;
- *Registration with the provincial Commercial Register*: registration of the company with the Commercial Register competent for the territory, which confers legal personality and makes the essential elements of the company enforceable against third parties;
- *Obtaining the definitive NIF and post-incorporation formalities*:
  - Confirmation of the definitive NIF;
  - registration with the IAE (Economic Activities Tax) where applicable;
  - Social Security registration for employees;
  - acquisition of specific licences and authorisations (planning, environmental, health, financial, etc.).

2.3.2. Online incorporation via CIRCE (Centre for Information and Business Creation Network)

For certain company forms – in particular the *Sociedad de Responsabilidad Limitada (S.L.)* and certain types of sole traders – an accelerated online procedure is available via the *CIRCE* system (*Centro de Información y Red de Creación de Empresas*).

Key features of the CIRCE system:

1. Use of the *Documento Único Electrónico (DUE)* (Single Electronic Document), which brings together in a single form the information required for all formalities (Tax Authority, Commercial Register, Social Security, local authorities);
2. Support from the *Puntos de Atención al Emprendedor (PAE)* (Entrepreneur Support Centres), which assist investors in completing the DUE and managing the procedure online;
3. Integration of the various steps into a digital procedure, significantly reducing incorporation times (in standard conditions, a few working days for an S.L. with a 'standardised' structure).

For a foreign investor, using CIRCE is particularly useful when:

- they opt for an S.L. with a relatively simple structure;
- they wish to reduce *time-to-market*;
- governance and group positioning choices have already been defined, thereby avoiding subsequent complex amendments to the articles of association

2.4. Sole Proprietorships (empresario individual) and Partnerships

2.4.1. Individual entrepreneur (self-employed – sole trader)

An individual entrepreneur (self-employed person) is an individual who carries out an economic activity on their own account, without forming a company.

Characteristics:

- no separation of assets between the entrepreneur and the business;
- unlimited liability for obligations arising from the business;
- simpler formal and tax compliance requirements compared to limited companies.

For foreign corporate operators, this form is generally marginal, but it may be relevant for professionals or small business owners who establish themselves personally in Spain.

2.4.2. Partnerships

Spanish law provides for various forms of partnerships, including:

- *Sociedad Colectiva* (similar to a general partnership): all partners are jointly and severally liable without limit for the partnership's obligations;
- *Sociedad Comanditaria Simple* (limited partnership): a combination of general partners, with unlimited liability, and limited partners, liable only to the extent of their capital contribution;
- *Sociedad Comanditaria por Acciones* (partnership limited by shares): a hybrid form with capital represented by shares and the presence of general partners with unlimited liability.

These structures are today less commonly used than limited companies, particularly in the context of foreign investment, where limited liability and the standardisation of corporate models (S.L. and S.A.) are the norm.

2.5. Joint ventures and agreements with local partners

To access the Spanish market, particularly in regulated sectors or those with strong local roots, joint ventures with local partners may be advisable.

Joint ventures may take:

- a contractual form (collaboration, distribution, franchising or consortium agreements), without the creation of a new legal entity;
- a corporate form, through the incorporation of an S.L. or S.A. jointly owned by a foreign partner and a Spanish partner.

In corporate joint ventures, it is essential to regulate, through articles of association and shareholders' agreements:

- governance (voting rights, enhanced quorums, appointment of directors);
- mechanisms for the transfer of shareholdings (pre-emption rights, lock-up periods, call/put options, drag/tag-along clauses);
- the management of intellectual property and know-how;
- dispute resolution mechanisms.

2.6. Public-private partnerships (PPP) and collaboration with the public sector

Under Spanish law, collaboration between the public sector and private operators takes various forms, falling within the scope of public-private partnerships (PPPs): works and services concessions, public-private partnership contracts, and project finance schemes for infrastructure and services of general interest.

For a foreign company, a PPP can represent a privileged channel for accessing projects in the following sectors:

- transport infrastructures;

- energy and networks;
- water and environmental management;
- healthcare, education and social services.

In general terms:

- a PPP is based on long-term contracts between a public body (the State, an Autonomous Community, a local authority or an instrumental body) and a private operator or a consortium of companies;
- the private party assumes obligations relating to the design, financing, construction and/or management of a project or service, in exchange for the right to receive payments (tariffs, fees, public payments linked to performance standards);
- the risks (construction, availability, demand, financing) are shared between the public and private sectors according to predefined contractual arrangements, in line with European principles on PPPs and public procurement;
- the operating vehicle is often a *dedicated company* (typically a *Sociedad Anónima* or a *Sociedad de Responsabilidad Limitada* - Public Limited Company or a Private Limited Company) owned by the private sponsors and, at times, by public entities or financial institutions.

For foreign companies interested in PPPs in Spain, the following are essential:

- familiarity with tender procedures and the rules governing the selection of public contractors;
- a thorough assessment of the project's risk-return profile (including regulatory and political risks);
- coordination with local partners and financial institutions to structure the financing (project finance, guarantees, European funding).

3. The tax system

Understanding the Spanish tax system is essential for anyone wishing to live, work or invest in Spain with a full understanding of their tax obligations. The system is complex, in some respects surprising in its regional diversity, yet at the same time offers a wealth of opportunities for those who can navigate the regulations in force.

This chapter systematically outlines all the main taxes encountered when operating in Spain: from personal income tax to corporation tax, from VAT to taxes on property and inheritance, right through to special territorial regimes and investment incentives. For each area, precise regulatory references and essential practical guidance are provided.

3.1. Regulatory framework

3.1.1. The three-tier tax system

The Spanish tax system is governed, in its basic structure, by Law 58/2003 of 17 December, the General Tax Law (LGT), which establishes tax obligations, the powers of the tax authorities, and the rules for assessment, collection and penalties. The implementing regulation is Royal Decree 1065/2007.

The institutional framework is based on three structured levels, each with its own regulatory and administrative powers. This quasi-federal structure is one of the most distinctive features of the Spanish system and results in significant differences in the tax burden between regions:

- *Central Government*: establishes and regulates the main national taxes (IRPF (Personal Income Tax), *Impuesto sobre Sociedades* (Corporation Tax), IRNR (Non-resident income tax) and VAT) and sets the general regulatory framework.
- *Autonomous Communities*: these have significant regulatory powers over the regional portion of personal income tax (IRPF), wealth tax (*Impuesto sobre el Patrimonio*) and inheritance and gift tax (*Impuesto sobre Sucesiones y Donaciones*), pursuant to Law 22/2009. The Basque Country and Navarre, instead, have an autonomous tax regime, with almost complete control over their own tax systems.
- *Local authorities*: levy their own taxes on assets, activities and operations within their territory (IBI (Property Tax), IAE (Business Tax) and municipal

capital gains tax) governed by Royal Legislative Decree 2/2004 (Law Regulating Local Finances). Rates vary significantly from one municipality to another.

3.1.2. Complete overview of regulatory sources

The table below provides a summary of all the main provisions of the Spanish tax system. It is a quick reference tool, useful for identifying the law and regulations applicable to each specific tax case.

Tax / Area	Main legislative source	Implementing regulation
IRPF (residents)	*Law 35/2006 of 28 November*	Royal Decree 439/2007
IRNR (non-residents)	*Royal Legislative Decree 5/2004*	Royal Decree 1776/2004
Corporation Tax	*Act 27/2014 of 27 November*	Royal Decree 634/2015
VAT	*Act 37/1992 of 28 December*	Royal Decree 1624/1992
Wealth Tax	*Law 19/1991, of 6 June*	Competence of the Autonomous C. Communities
Solidarity Tax on L. Fortunes Solidarity Tax on Large Fortunes	*Law 38/2022, of 27 December*	—
Inheritance and Gift Tax (ISD)	*Law 29/1987, of 18 December*	Royal Decree 1629/1991
IBI / IAE / Municipal CGT Gains Tax	*Royal Legislative Decree 2/2004 – Local Finance*	Municipal By-laws
Basque Country tax regime	*Economic Agreement – Law 12/2002*	Own territorial legislation
Navarre tax regime	*Economic Agreement – Law 28/1990*	Own territorial legislation
Canary Islands SZ and GIT ZEC / IGIC Canary Islands	*Law 19/1994; Law 20/1991*	Regional legislation
Italy–Spain Double Taxation Agreement	*Conv. of 8.9. 1977 (in force since 1980)*	Takes precedence over domestic l. legislation

3.1.3. The Italy-Spain Double-taxation Agreement

The Agreement, signed on 8 September 1977, in force since 1980 and ratified in Italy by Law No. 703/1980, constitutes the fundamental bilateral instrument governing tax relations between the two countries. The Agreement takes precedence over the domestic legislation of both States and governs the allocation of taxing rights on dividends, interest, royalties, property income, employment income and pensions.

It is worth noting a practical aspect of great importance: there is no bilateral Agreement between Italy and Spain on inheritance and gifts. Anyone facing a cross-border inheritance situation must therefore rely exclusively on the unilateral tax credit mechanisms provided for by the respective legal systems, with a real risk of double taxation.

Type of income	Non-resident rate	Italy–Spain DTA	Notes
General income – non-EU/EEA	24%	According to DTA	*Withholding tax*
General income – EU/EEA residents	19%	19% or DTA	*EU reduced rate*
Dividends	19%	Max 15% (10% if ≥ 25%)	*Art. 10 DTA*
Interest	19%	Max 12%	*Art. 12 DTA*
Royalties	24%	Max 8%	*Art. 12 DTA*
Capital gains	19%	19% or DTA	*Art. 13 DTA*
Private pensions	Progressive rates	In Spain only	*Tax residents in Spain*
State pensions (ITA civil servants)	—	Only in Italy	*Art. 19 DTA*
Permanent establishments	25% (as IS)	—	*Corporation tax rules*

3.1.4. Tax residence: The key criterion

Tax residence is the prerequisite that determines the entire applicable tax regime. For individuals, Article 9 of Law 35/2006 considers a person to be resident in Spain if they meet at least one of the following conditions:

- *Residence criterion*: the taxpayer spends more than 183 days in Spanish territory during the calendar year. Temporary absences do not interrupt this calculation, unless the taxpayer can prove they are tax residents in another country.
- *Economic interests criterion*: the main centre of the individual's economic activities or financial interests is located in Spain. This criterion is independent of physical presence and may apply to taxpayers who are formally resident elsewhere.
- *Family presumption (relative)*: if the spouse (not legally separated) and dependent minor children habitually reside in Spain, a rebuttable presumption

of tax residence applies, which may be overcome by evidence to the contrary.

For legal persons (Art. 8 of the Corporate Income Tax Law), companies incorporated under Spanish law, or those having their registered office or place of effective management in Spain, regardless of the country in which they were formally incorporated, are considered resident.

3.2. Nature and structure of personal income tax (IRPF)

The *Impuesto sobre la Renta de las Personas Físicas (IRPF)* is the main income tax for individuals resident in Spain. It is a personal, direct and progressive tax, designed to take into account not only the amount of income received, but also the taxpayer's personal and family circumstances.

Its structural peculiarity compared to the Italian system lies in the dual nature of the tax rate: the tax due is the sum of a state component, uniform across the whole country, and a regional component, determined independently by each Autonomous Community. This mechanism generates significant differences in the overall tax burden: a taxpayer resident in Madrid with an income of €80,000.00, for example, will pay considerably less than one with the same income residing in Barcelona or Valencia.

3.2.1. Categories of taxable income

Article 6 of Law 35/2006 lists the categories of income relevant for personal income tax purposes:

- *Income from employment (rendimientos del trabajo)*: salaries, wages, bonuses, National Social Security Institute pensions, remuneration for positions held, allowances and any other remuneration arising from an employment relationship. This category also includes fringe benefits, valued according to specific criteria (company car: percentage of the cost; accommodation: cadastral or market value).
- *Income from economic activities (rendimientos de actividades económicas)*: income of sole proprietors, freelancers, and self-employed artists/professionals.
- *Investment income (rendimientos del capital mobiliario)*: dividends, interest, proceeds from life insurance, income from financial instruments.

- *Real estate income (rendimientos del capital inmobiliario)*: rental income from property. For unlet properties, a notional allocation of 1.1% (or 2% in areas without a recent cadastral review) of the cadastral value is applied (Art. 85 of Law 35/2006).
- *Capital gains and losses (ganancias y pérdidas patrimoniales)*: positive or negative differences arising from the disposal of assets, rights or shareholdings.
- *Income attributed by law*: income attributed under tax transparency rules and special schemes.

Article 7 of the same Law lists exemptions: among the most relevant for international workers are severance pay (within legal limits), relocation allowances within regulatory thresholds, company training, health insurance up to €500.00 per person (€1,500 for family members with disabilities) and meal vouchers up to €11 per day.

3.2.2. Taxable base and tax exemption

The personal income tax (IRPF) system distinguishes between two tax bases with different regimes:

- *General tax base*: this includes income from employment, economic activities and property. It is subject to progressive rates that increase as income rises.
- *Savings tax base (base del ahorro)*: this includes dividends, interest, and capital gains from the sale of financial assets and property. It is taxed at proportional rates, which are lower than the general rates.

Before applying the rates, the personal and family allowance (Articles 56–61 of Law 35/2006) is calculated: an allowance that reduces taxable income based on personal circumstances (age, disability) and family (dependent children, ascendants). This allowance is applied during the tax calculation stage and not directly to the tax base.

3.2.3. IRPF brackets and rates for 2025

The table below shows the brackets for the general tax base and the indicative rates, resulting from the sum of the state rate and an average regional rate. Regional rates vary: reference should be made to the specific regulations of the Autonomous Community of residence.

Income bracket	State rate	Regional rate	Indicative total	Notes
Up to 12,450 €	10%	9.50%	19.00%	Minimum bracket
12,451 – 20,200 €	12%	12.00%	24.00%	Low incomes
20,201 – 35,200 €	15%	15.00%	30.00%	Medium incomes
35,201 – 60,000 €	19%	18.50%	37.00%	Medium-high incomes
60,001 – 300,000 €	23%	22.50%	45.00%	High incomes
Over 300,000 €	25%	22.50%–26%+	47%–50%+	Very high incomes

For the savings base, however, the rates are identical throughout the country:

Taxable savings base (ahorro)	Rate
Up to 6,000 €	19%
6,001 – 50,000 €	21%
50,001 – 200,000 €	23%
200,001 – 300,000 €	27%
Over 300,000 €	28%

3.2.4. Regional differences: a highly varied picture

One of the most significant, and often surprising, features of the Spanish personal income tax system is the marked variation in the overall tax burden from region to region. The table below compares the main Autonomous Communities, showing the marginal rates and the treatment of wealth tax for each.

Autonomous Community	Min. personal income tax rate	Max. personal income tax rate	Wealth tax	Key notes
Madrid	19%	47.00%	0% (100% bonus)	More favourable tax regime; attracts high earners
Canary Islands	19%	~46%	Reduced	IGIC instead of VAT; SZ regime at 4%
Andalusia	19%	~45%	Standard	2021 reform: reduction in tax rates for middle-income earners
Murcia	19%	~46%	Almost zero (99%)	Very favourable for families and inheritance tax
Catalonia	19%	47%–50%	0.21%–2.75%	14 local taxes; heavier for middle-income earners
Valencia	19%	55.20%	Standard	Highest top rate; medium-low Inheritance and Gift tax from 2023
Extremadura	19%	~49%	Standard	Among the least favourable for high earners
Basque Country	Foral	Foral	Foral	Autonomous system; own corporate and personal income tax rates
Navarre	Foral	Foral	Foral	Maximum testamentary freedom; own taxation
Ceuta / Melilla	–50%	–50%	Reduced	IPSI (special indirect tax) instead of VAT; flat-rate reduction of 50%

3.2.5. IRPF deductions and reliefs

The system provides for a wide range of deductions and reliefs:

- *Pension schemes*: contributions paid into supplementary pension schemes are fully deductible from the general tax base, within the annual limits set by law (generally the lower of €1,500.00 and 30% of net yields).
- *Donations to non-profit organisations*: deductible from tax liability under Law 49/2002 (75% on the first €250.00; 40% on the excess).
- *Income from work abroad*: exemption up to €60,100.00 (Article 7.p of Law 35/2006) for income received by resident employees working outside Spain, provided the foreign country is not a tax haven.
- *Regional tax relief*: each Autonomous Community may introduce additional relief on education, rent, childbirth, disability, first-time home purchase and renewable energy. Madrid and Catalonia offer the most comprehensive packages

3.2.6. Filing obligations

Resident taxpayers must submit their annual tax return using Form 100 by 30 June of the year following the tax year in question. Taxpayers who receive only income from employment below certain thresholds are exempt from this obligation (Article 96 of Law 35/2006). Self-employed workers operating under the direct assessment scheme must make quarterly payments using Form 130.

3.3. The special regime for Impatriates – formerly the «BECKHAM LAW»

What is the Beckham Regime?

The so-called Beckham Scheme, which takes its popular name from the former English footballer who was among the first to benefit from it, is a preferential tax regime aimed at those who move to Spain for work reasons. Governed by Article 93 of Law 35/2006 and updated by Law 11/2021 and Law 28/2022 (Start-up Law), it allows beneficiaries to opt for a substitute tax regime, similar to that for non-residents, for a maximum period of six years.

The mechanism is simple in its effect: instead of being taxed on worldwide income at the standard progressive personal income tax rates, beneficiaries pay a flat rate of 24% on income from employment of Spanish origin up to €600,000.00 (and 47% on the excess), with income from foreign sources excluded from the tax base. For those coming from a high-tax country such as Italy, the savings can be very significant.

Eligibility requirements

- *No prior residence*: the individual must not have been a tax resident in Spain in the five years prior to the move (the period was reduced from ten to five years by Law 28/2022).
- *Reason for relocation*: the move must be due to an employment contract with a Spanish employer or with a permanent establishment of a foreign company in Spain; or due to appointment as a director (with a stake of less than 25%); or to carry out remote work (digital nomads); or for professional sporting activities.
- *Start-ups and innovative entrepreneurs*: from 2023, thanks to Law 28/2022, the scheme is also available to entrepreneurs founding certified innovative start-ups and to qualified self-employed workers.
- *Formal notification*: the taxpayer must notify the AEAT (Spanish Tax Agency) of their choice within six months of commencing their activity in Spain.

Benefits and operational limitations

The scheme offers concrete benefits: preferential taxation at 24% on employment income up to €600,000.00, exclusion of foreign income from the Spanish tax base, and simplified filing obligations. However, it has significant limitations: losses from previous financial years cannot be offset; income from economic activities is not included in the relief; the scheme lapses in the event of a breach of any of the eligibility requirements; the taxpayer remains subject to the *Impuesto sobre el Patrimonio* (Wealth Tax) on assets held in Spain.

3.4. Non-Resident Income Tax

Anyone who generates income in Spain without being a tax resident there is subject to the *Impuesto sobre la Renta de No Residentes (IRNR)* – Non-Resident Income Tax, governed by Royal Legislative Decree 5/2004 of 5 March and its Regulations (Royal Decree 1776/2004). Unlike IRPF (Personal Income Tax), IRNR Non-Resident Income Tax applies only to income of Spanish origin (source principle), not to the taxpayer's entire worldwide income.

It is essential to distinguish between two very different situations in terms of obligations and the applicable regime:

- *Without a permanent establishment*: the non-resident is taxed on a transaction-by-transaction basis, with a fixed rate applied to gross income. The Spanish withholding agent generally deducts tax at source, thereby discharging the tax liability.
- *With a permanent establishment*: income attributable to the permanent establishment is taxed under the same rules as resident companies (corporate tax at 25%), with an obligation to file an annual tax return (Form 200).

3.4.1. Income taxable in Spain for non-residents

Pursuant to Article 13 of Royal Decree Law 5/2004, the following income is taxable in Spain: income from property situated in Spanish territory (including imputed income for unlet property); economic activities carried out in Spain; work physically performed on Spanish territory; dividends, interest and royalties paid by resident entities; capital gains on assets situated in Spain or on shareholdings in resident companies.

3.4.2. Tax rates and the Italy-Spain Double Taxation Agreement

The table below shows the IRNR (Non-resident income tax) rates for the main types of income, comparing them with the limits set out in the 1977 Italy–Spain Tax Treaty:

Type of income	IRNR rate	Italy–Spain DTA	Notes
General income – non-EU/EEA	24%	According to DTA	*Withholding tax*
General income – EU/EEA residents	19%	19% or DTA	*EU reduced rate*
Dividends	19%	Max 15% (10% if ≥ 25%)	*Art. 10 DTA*
Interest	19%	Max 12%	*Art. 12 DTA*
Royalties	24%	Max 8%	*Art. 12 DTA*
Capital gains	19%	19% or DTA	*Art. 13 DTA*
Private pensions	Progressive rates	Only in Spain	*Tax residents in Spain*
State pensions (ITA civil servants)	—	Only in Italy	*Art. 19 DTA*
Permanent establishments	25% (as IS)	—	*Corporation tax rules*

3.4.3. Filing obligations

Non-residents without a permanent establishment must submit Form 210 for income not subject to withholding tax (e.g., unlet property: by 31 December of the following year). Withholding tax deducted by the Spanish withholding agent is, however, paid directly by the paying entity. For income from a permanent establishment, Form 200 is used (same deadlines as for Corporation tax (*IS*)).

3.5. Struttura e soggetti passivi

The *Impuesto sobre Sociedades* (IS), governed by Law 27/2014 of 27 November, is the Spanish equivalent of Italian Corporate Income tax (IRES). It applies to profits generated by limited companies (SA, SL), cooperatives, foundations engaged in economic activities and permanent establishments of non-residents. A company is considered resident in Spain if it has been incorporated under Spanish law, or if it has its registered office or place of effective management in Spain (Art. 8 LIS (Corporate Income Tax Law)).

The system uses the accounting profit for the financial year, determined in accordance with Spanish GAAP (Royal Decree 1514/2007), with subsequent tax adjustments, as the starting point for calculating the tax base. This approach, known as the income statement method, reduces the discrepancies between statutory income and taxable income.

3.5.1. Tax rates

The main rates applicabile for 2025 area as follows:

Taxpayer category	Corporate Income Tax rate	Legal reference
Ordinary regime	25%	*Art. 29.1 LIS*
New businesses (first two financial years with a profit)	15%	*Art. 29.1 LIS*
Small businesses (turnover < €1 million)	23%	*Art. 29.1 LIS (amended 2023)*
Tax-protected cooperatives	20%	*Law 20/1990*
Non-profit organisations (Law 49/2002)	10%	*Law 49/2002*
Open-ended investment companies and investment funds	1%	*Art. 29.4 LIS*
Pension funds	0%	*Art. 29.5 LIS*
Canary Islands Special Zone	4%	*Section 43 of Law 19/1994*

3.5.2. The main methods for calculating the tax base

Interest expense (art. 16 LIS)

Interest expense is deductible up to a limit of 30% of taxable EBITDA (net operating profit), with a tax-free allowance of €1 million allowing for full deductibility of interest up to that threshold. Non-deducted excess amounts may be carried forward indefinitely. The rule aims to discourage excessive intra-group financial debt and undercapitalisation.

Participation exemption – exemption on dividends and capital gains (art. 21 LIS (Corporation Income Tax Law))

Article 21 of the Law provides for a 95% exemption on dividends and capital gains from the disposal of shareholdings, both domestic and foreign, subject to certain conditions: a shareholding of ≥ 5% or a value of ≥ €20 million, held for at least one year. The remaining 5% is taxed at the standard rate, making the effective tax rate on intra-group distributions extremely low. This mechanism is similar to the Italian Participation Exemption (PEX) regime, but with some differences in application.

Transfer pricing (arts. 17–18 LIS)

Transactions between related parties must be valued at market price (arm's length principle), in accordance with the OECD Transfer Pricing Guidelines. Article 18 of the LIS imposes documentation requirements proportional to the size of the enterprise: large enterprises must prepare a master file and a local file; SMEs have simplified obligations. Breaches result in specific penalties, independent of any adjustment to the tax base.

Offsetting tax losses (art. 26 LIS)

Past tax losses may be carried forward without any time limit, but annual utilisation is limited to 70% of the positive tax base for the financial year, with a minimum amount of €1 million always available for offset. Large enterprises (turnover > €20 million and > €60 million) have further reduced limits (50% and 25% of the positive tax base, respectively).

3.5.3. The ETVE regime: the Spanish holding company for international investments

The *Entidades de Tenencia de Valores Extranjeros* (ETVE) regime, governed by Articles 107–108 of Law 27/2014, is one of the most attractive tools for structuring multinational groups with operations in Spain. The ETVE is a Spanish holding company that manages shareholdings in non-resident entities and benefits from preferential tax treatment.

The following conditions must be met to qualify for the regime: holding a stake of ≥ 5% of the investee's share capital (or an acquisition cost of ≥ €20 million); the in-

vestee must be subject to a tax similar to corporation tax in its country; the company must carry out effective management of the shareholdings; the regime must be notified to the Commercial Register.

The benefits are considerable: total exemption on dividends and capital gains from qualifying foreign shareholdings; exemption on dividends distributed to non-resident shareholders (excluding non-cooperative jurisdictions); no prior authorisation required. The most significant restrictions concern the exclusion of shareholdings in entities resident in Spain and the inability to operate with non-cooperative jurisdictions.

3.5.4. Deductions from the tax liability

- *R&D and technological innovation* (*Articles 35–36 LIS* (Spanish Corporate Income Tax Law)): deduction of 25%–42% for research and development activities; 12% for technological innovation. Companies with insufficient tax liability may request a cash refund of accrued credits up to 25% of the amount.
- *Film and audiovisual production (Article 36 LIS)*: 30% deduction on the first €10 million of costs and 25% on the excess for Spanish productions; 30% for foreign productions filmed in Spain.
- *Patent Box (Art. 23 LIS)*: 60% reduction on the corporate tax base for income from the licensing of patents, know-how and other qualifying intangible assets developed in Spain. With the standard corporate tax rate at 25%, the effective tax rate is 10%.
- *Job creation for people with disabilities (Art. 38 LIS)*: deduction of €9,000.00 per worker/year with a disability of ≥33%; €12,000.00 for a disability of ≥65%.

3.5.5. Corporation tax filing obligations

The annual corporate tax return is filed using Form 200, within 25 days following the six-month period after the end of the financial year (for financial years ending on 31 December: deadline 25 July of the following year). Quarterly instalment payments are made using Form 202, with deadlines in April, October and December.

3.6. Permanent establishment in Spain

Permanent establishments of entities not resident in Spain are subject to the same rules as resident companies (corporate tax rate of 25%) on the income attributable to them (Article 18 of Royal Decree-Law 5/2004). The concept of a permanent establishment follows that set out in Article 5 of the OECD Model and Article 5 of the Italy-Spain DTA: a fixed place of business through which the business of the enterprise is wholly or partly carried on. Activities that are merely preparatory or auxiliary are excluded.

For Italian companies operating in Spain through a sales network or employed staff, the risk of constituting a permanent establishment is a tax planning issue that must be addressed in advance, particularly in the light of the new OECD/BEPS provisions on dependent agents.

Withholding tax on Spanish-source income

Standard withholding taxes on income paid to non-residents without a permanent establishment in Spain are set at 19% for dividends, interest and professional fees. However, these rates may be reduced or eliminated in the presence of: the Italy-Spain Double Taxation Agreement (Articles 10–12); the Parent-Subsidiary Directive (2011/96/EU) for dividends between related companies; the Interest and Royalties Directive (2003/49/EC). The application of exemptions under EU directives requires compliance with economic substance requirements and general anti-abuse rules (GAAR).

3.7. Inheritance and Gift Tax

The Inheritance and Gift Tax (*ISD - Impuesto sobre Sucesiones y Donaciones*), governed by Law 29/1987 of 18 December, applies to the gratuitous acquisition of assets and rights both *mortis causa* (inheritance) and *inter vivos* (gifts), as well as sums received by beneficiaries of life insurance policies in the event of the insured's death. Although formally a state tax, the management, collection and regulatory authority regarding rates, reductions and exemptions are devolved to the Autonomous Communities under Law 22/2009.

This results in an extraordinarily varied landscape: the tax burden can range from almost zero to very significant amounts depending on the region where the assets are located or where the beneficiary resides. This aspect makes tax residence planning a strategic consideration also for inheritance decisions.

By way of example: on a gift of €800,000, the tax due is approximately €200 in the Canary Islands, approximately €2,000 in Madrid, approximately €56,000 in Catalonia and approximately €200,000 in Andalusia (prior to the 2021 reform).

3.7.1. Spanish inheritance law: the seven legal systems

A little-known but fundamental aspect is that Spanish inheritance law is not uniform across the whole territory. Seven distinct legal systems coexist: the general law of the Civil Code and the autonomous legislations of Aragon, Catalonia, the Balearic Islands, Navarre, the Basque Country and Galicia. Each has its own rules on wills, rules on wills, legitimate shares, inheritance agreements and forms of donation. Under the Civil Code, legitimate shares are structured as follows: descendants inherit two-thirds of the estate (of which one-third is divided equally among the children and one-third may be freely allocated among them by the testator); ascendants receive half of the estate in the absence of descendants; the surviving spouse enjoys usufruct over 1/3 where there are children, over 1/2 where there are ascendants, and up to 2/3 where there are neither. In Catalonia, the legitimate share is reduced to just 1/4 of the estate; in Navarre and the Basque Country, testamentary freedom is considerably greater.

3.7.2. Territoriality and taxable persons

Tax residents in Spain are taxed on their estate wherever it is located in the world (personal obligation). Non-residents are taxed only on assets located in Spain (real obligation) but, following the judgment of the Court of Justice of the European Union in Case C-127/12, they are entitled to apply the most favourable regional legislation based on the location of the assets, thereby eliminating the previous discrimination between residents and non-residents.

3.7.3. Acceptance of inheritance and filing obligations

Heirs may accept the inheritance outright (with unlimited liability, including for debts), with the benefit of inventory (liability limited to the assets received), or renounce it entirely. The declaration must be made before a notary and takes effect retroactively from the date of death.

Inheritance and Gift Tax (ISD) must be declared within six months of death, with the possibility of a six-month extension (application to be made within five months). There is no single national declaration form: each Autonomous Community uses its own forms. An apostille (1961 Hague Convention) and a sworn translation into Spanish are mandatory for Italian documents to be used in Spain.

3.7.4. The regional tax burden: comparison between Autonomous Communities

The table below compares the treatment of Inheritance and Gift Tax in the main regions for direct relatives (Groups I and II):

Autonomous Community	Direct family benefits	Effective burden	Notes
Madrid	99% bonus on the regional share	Almost zero	Most favourable tax policy in Europe
Canary Islands	Reduction of up to 99.9%	Minimum	Residential incentive scheme
Andalusia	Exemption of up to €1 million per heir	Very low	Significant reform 2019–2021
Murcia	99% reduction for Groups I and II	Almost zero	Among the most advantageous
Valencia	Significant reductions for Groups I and II	Medium-low	Extensive concessions from 2023
Catalonia	99% tax relief for spouse; 50% for children	Medium	Stricter for relatives
Basque Country	Autonomous foral regime	Variable	Own system; independent rates
Navarre	Autonomous foral regime	Variable	Wide freedom of testamentary disposition
Extremadura	Few concessions	High	Among the least favourable

3.7.5. Italy-Spain international inheritances

Under private international law, cross-border successions are governed by Regulation (EU) No 650/2012 (applicable from 17 August 2015): the applicable civil law is that of the State of the deceased's habitual residence at the time of death. The Regulation recognises the right to choose the applicable law: the deceased may choose the law of their nationality in their will. An Italian resident in Spain may therefore opt for Italian law, thereby retaining, for example, the Italian rules on the legitimate share.

3.8. Wealth tax

The Wealth Tax (*Impuesto sobre el Patrimonio*), governed by Law 19/1991 of 6 June, is levied on the net assets of natural persons as at 31 December of each year. It is a personal and direct tax which, although formally a state tax, is almost entirely delegated to the Autonomous Communities with regard to rates, tax-free allowances and exemptions.

Tax residents are taxed on their worldwide assets (personal liability). Non-residents are taxed only on assets located in Spain (real obligation), with the requirement to appoint a tax representative. The taxable base comprises the total value of assets net of deductible debts: property valued at the cadastral value (or at the purchase price if higher); deposits at face value; securities at market value; shareholdings at book value.

The main exemptions apply to: the main residence up to €300,000.00; shareholdings in family businesses that meet specific requirements (effective business activity, adequate remuneration of the director, shareholding ≥ 5% individually or 20% with family members).

3.8.1. Rates by community

A regional comparison is essential for understanding the effective tax burden:

Autonomous Community	Tax-exempt threshold	Rate	Notes
Madrid	€1,000,000	Zero (100% allowance)	No tax is actually payable
Catalonia	€500,000	0.21%–2.75%	Reduced tax-exempt threshold; higher tax rate
Andalusia	€700,000	0.24%–3.03%	Own rates from 2022
Valencia	€700,000	0.25%–3.12%	Own progressive rates
Canary Islands	€700,000	0.24%–2.5%	Concessions for new residents
Basque Country	Special tax regime	Foral	Own autonomous legislation
Navarre	Special tax regime	Foral	Own autonomous legislation
Other autonomous communities	€700,000	0.2%–3.5%	State scale as a basis
Extremadura	Poche agevolazioni	Elevato	Tra le meno favorevoli

3.8.2. The Temporary Solidarity Tax on Large Fortunes (Impuesto Temporal de Solidaridad de las Grandes Fortunas)

Law 38/2022 of 27 December introduced the Solidarity Tax on Large Fortunes, a state tax designed to counteract the phenomenon of 'tax dumping' between regions. Its rationale is to ensure that the largest estates, exceeding €3 million, contribute regardless of the region of residence, even in those (such as Madrid) that had abolished the Wealth Tax.

- Rate of 1.7%: on net assets between €3 million and €5.3 million.
- Rate of 2.1%: on assets between €5.3 million and €10.6 million.
- Rate of 3.5%: on assets exceeding €10.6 million.

The tax is deductible from any Wealth Tax (*Impuesto sobre el Patrimonio*) paid, thereby avoiding double taxation on the same assets.

3.9. Structure and scope of application of VAT

Spanish VAT is governed by Law 37/1992 of 28 December ("LIVA") and Royal Decree 1624/1992 (RIVA), and is harmonised with EU Directive 2006/112/EC; it operates under the standard charge-deduction mechanism.

VAT applies on the Spanish mainland and in the Balearic Islands. It does not apply in the Canary Islands, where the Canary Islands General Indirect Tax (*Impuesto General Indirecto Canario*, Law 20/1991) applies at a standard rate of 7%, nor in Ceuta and Melilla, where the local indirect tax (IPSI) applies.

3.9.1. Current rates

The rates in force in 2025 are as follows:

Rate type	Rate	Main applications	Legal reference
Ordinary	21%	General goods and services, cars, professional services	Art. 90 VAT Law
Reduced	10%	Non-essential food, transport, hotels, restaurants, new homes	Art. 91.1 VAT Law
Super-reduced	4%	Bread, milk, cheese, eggs, fruit, vegetables, medicines, books, prosthetics	Art. 91.2 VAT Law
Canary Islands General Indirect Tax (IPSI)	7%	Local tax replacing VAT; reduced rates of 3% and 0%	Law 20/1991
Local Indirect Tax (Ceuta/Melilla)	0.5%–10%	Tax on production, services and imports	Royal Decree Law 1993/ Local regulations

Update 2025–2026: Royal Decree-Law 16/2025 has extended the super-reduced rate of 4% on plant-based milk and gluten-free products into 2026.

3.9.2. Exemptions and the pro rata rule

VAT exemptions may be objective (banking, insurance, medical, educational, residential lettings, certain property transactions) or subjective. Entities carrying out both taxable and exempt transactions must apply the pro rata rule (Articles 102–106 of the VAT Law): only the proportion of input VAT corresponding to taxable transactions is deductible. The coefficient must be reported to the National Tax Agency and adjusted in the annual return.

3.9.3. Reverse charge and intra-Community transactions

The reverse charge mechanism (Article 84 of the VAT Act) applies in particular to: services received from entities not established in Spain (general B2B rule); disposals of immovable property in insolvency proceedings; supplies of scrap and certain metals; construction and renovation services.

Intra-Community supplies (Article 25 of the VAT Act) are not taxable if the goods are dispatched to another Member State, the recipient is registered with VIES/ROI (Form 036) and the supplier has proof of transport. Intra-Community purchases are taxable in the country of destination under the reverse charge mechanism. Form 349 summarises intra-Community transactions and is submitted monthly (if the turnover exceeds €50,000.00) or quarterly.

3.9.4. E-commerce and the OSS system

From 1 July 2021, cross-border B2C sales exceeding a total of €10,000 per year in other EU countries are subject to VAT in the country of destination. To simplify compliance, the seller may opt into the OSS (One Stop Shop) system, submitting a single quarterly return and payment (Form 369) for all EU countries. The storage of goods in Spain, for example via Amazon FBA logistics, entails the obligation to register for Spanish VAT regardless of volumes

3.9.5. The Immediate Supply of Information (SII) system and electronic invoicing

The SII (Immediate Supply of Information, Royal Decree 596/2016) has been in operation since 1 July 2017: it's a system requiring the electronic transmission of VAT records to the National tax Agency within four calendar days of the invoice being issued or recorded. The SII is mandatory for taxpayers with an annual turnover exceeding €6,010,121, for VAT groups and for those registered with the "REDEME" scheme (entailing monthly VAT returns). Other entities may opt-in voluntarily.

From 1 January 2027 (for entities subject to corporation tax) and from 1 July 2027 (for all others), the general obligation for certified electronic invoicing via the VERI*-FACTU system (Royal Decree 1007/2023) will come into force, requiring the use of certified software with digital signatures and real-time transmission to the National Tax Agency.

3.10. Local taxes

Spanish local taxes are governed by Royal Legislative Decree 2/2004 of 5 March (Consolidated Text of the Law Regulating Local Finances). Local authorities have autonomy in applying rates, exemptions and adjustment coefficients, resulting in significant differences between local authorities. The local tax burden varies considerably: Madrid and La Rioja levy four local taxes; Catalonia levies fourteen, with the highest tax burden in the whole of Spain.

3.10.1. The main local taxes

Tax	Basis	Rate / Base	Frequency / Due date
IBI	Ownership or possession of urban or rural property	0.4%–1.3% of the cadastral value	Annual – payment to the local council
IAE	Carrying out economic activities (exemption < €1 million)	Rates by category + municipal coefficient	Annual – Form 840
IIVTNU (Capital gains tax)	Increase in the value of urban land upon transfer	Varies by municipality	Upon transfer (30/60 days)
ITP	Purchase of second-hand properties (not subject to VAT)	6%–10% (for Aut. Communities)	Upon sale (30 days)
IAJD	Notarial and legal deeds	0.5%–1.5% (for Aut. Communities) authorities)	Upon signing the deed
ICIO	Construction and building works	Up to 4% of the actual cost of the works	Upon issue of the permit

3.10.2. Municipal capital gains tax and constitutional reform

The IIVTNU (*Impuesto sobre el Incremento de Valor de los Terrenos de Naturaleza Urbana*), commonly known as the municipal capital gains tax, has undergone a radical transformation in recent years. Constitutional Court Ruling No. 182/2021 declared the previous objective calculation method unconstitutional, as it could result in taxation even in the absence of an actual increase in the value of the land.

Royal Decree-Law 26/2021 reformed the legislation by introducing an alternative system: taxpayers can now choose between the objective method (based on the cadastral value and coefficients updated annually by the Ministry of Finance) and the actual method (based on the difference between the sale price and the purchase price). The method most favourable to the taxpayer applies. In the event of a loss (where the sale price is lower than the purchase price), no tax is due.

Property Transfer Tax (*ITP - Impuesto sobre Transmisiones Patrimoniales*), on the other hand, applies to the purchase of second-hand properties not subject to VAT, with rates varying between 6% and 10% depending on the Autonomous Community (reference legislation: Royal Legislative Decree 1/1993). It is administered by the Autonomous Communities, which set their own rates within the national framework

3.11. The Canary Islands – Spain's most advantageous tax regime

The Canary Islands benefit from a special economic and tax regime based on Law 19/1994 and, in part, on Law 20/1991 (IGIC). The system comprises three main instruments, which can be combined to create particularly efficient structures:

- Canary Islands General Indirect Tax (*IGIC*): instead of the standard 21% VAT, the Canary Islands apply the *Impuesto General Indirecto Canario (IGIC)* with a standard rate of 7%, reduced to 3% and zero for essential goods. This advantage significantly reduces the cost of all commercial transactions in the archipelago.
- Canary Islands Special Zone (*ZEC - Zona Especial Canaria*): a scheme authorised by the European Commission as compatible state aid. ZEC companies pay corporation tax at 4% (compared to the standard 25%) on income derived from eligible activities. Requirements: minimum investment of €50,000.00 (main islands) or €100,000.00 (smaller islands); creation of at least 3 (main islands) or 1 (smaller islands) jobs within six months. The scheme is valid until 2027, with a view to extension.
- Canary Islands Investment Reserve (*RIC - Reserva para Inversiones en Canarias*): companies operating in the Canary Islands may deduct up to 90% of undistributed profits set aside in the RIC reserve from their corporate tax base (Article 27 of Law 19/1994), provided that such profits are reinvested in qualifying assets within the archipelago within three years. It is one of the most powerful tax base reduction tools available in the Spanish tax system

Ceuta and Melilla – the flat-rate 50% reduction

The Autonomous Cities of Ceuta and Melilla, situated in North Africa, benefit from a special tax regime providing for a 50% reduction in personal income tax (IRPF) on income derived from economic activities carried out on a permanent basis within the territory (Law 35/2006) and a similar 50% reduction in corporation tax (IS) for companies with a permanent establishment (Law 27/2014). Instead of VAT, the Tax on Production, Services and Imports (*IPSI - Impuesto sobre la Producción, los Servicios y la Importación*) applies, with lower rates (0.5%–10%).

Special tax regimes: the Basque Country and Navarra

The Historical Territories of the Basque Country (Álava, Guipúzcoa and Vizcaya) and the Foral Community of Navarre have their own tax systems, recognised by the Spanish Constitution and governed respectively by the *Concierto Económico* (Law 12/2002) and the *Convenio Económico* (Law 28/1990). These regimes allow local authorities to manage all major taxes – personal income tax (IRPF), corporation tax (IS), VAT within

EU limits, wealth tax and inheritance tax – autonomously with their own rates, deductions and incentives.

Corporate tax rates in the Basque Country have historically been around 24%–28%, with specific deductions for R&D and investment. In Navarre, testamentary freedom is considerably broader than under common law, with the possibility of disinheriting legitimate heirs. The chartered (or "Foral") systems provide for the payment of a contribution to the State (known as *cupo or aportación*) for services not transferred to the regions.

Summary comparison: tax burden by region

The table below provides and overview of the comparative tax advantages of the main Spanish regions:

Territory	Max. personal income tax	Corporation tax	Wealth tax	Direct inheritance tax	Convenience
Madrid	47%	25%	Zero	Almost zero	★★★★★
Canary Islands	~46%	25% (4% ZEC)	Reduced	Almost zero	★★★★☆
Andalusia	~45%	25%	Standard	Very low	★★★★☆
Murcia	~46%	25%	Standard	Almost zero	★★★★☆
Catalonia	~50%	25%	0.21%–2.75%	Average	★★☆☆☆
Valencia Region	55.20%	25%	Standard	Lower-middle	★★☆☆☆
Extremadura	~49%	25%	Standard	High	★☆☆☆☆
Basque Country	Foral	~24%–28%	Foral	Foral	★★★☆☆
Navarre	Foral	Foral	Foral	Foral	★★★☆☆
Ceuta / Melilla	–50%	–50%	Reduced	Reduced	★★★★☆

3.12. Investment incentives and tax breaks

R&D and technological innovation (R+D+I)

The Spanish system provides for a comprehensive set of direct corporate tax deductions for investments in research, development and technological innovation (Articles 35–36 of the Corporate Tax Law):

- *Research and development (R&D)*: deduction of 25% of expenditure incurred (42% for expenditure exceeding the average of the last two financial years). There is a 17% increase for expenditure on research staff on permanent contracts.
- *Technological innovation*: deduction of 12% of expenditure on industrial design, technological diagnosis, acquisition of advanced technology and quality certifications.
- *Monetisation (Art. 39 LIS)*: companies with insufficient corporation tax capacity to use accrued tax credits may request a cash refund of up to 25% of the amount, subject to agreement with the National Tax Agency.

Patent Box – intellectual property regime (art. 23 LIS)

Income derived from the transfer of the right to use or exploit patents, utility models, formulas, know-how, protected software and other qualifying intangibles benefits from a 60% reduction on the corporate tax base, provided that the intangible asset was developed internally in Spain. With the standard corporate tax rate at 25%, the effective tax rate is 10%. The scheme complies with the OECD Nexus Approach (BEPS Action 5) and also applies to income from the disposal of intangible assets if reinvested in R&D.

Investments in the Canary Islands (ZEC and RIC)

As described in the section on special territorial regimes, the ZEC (Canary Islands Special Zone) and RIC (Canary Islands Investment Reserve) represent the most powerful corporate tax relief instruments in the entire Spanish system. The ZEC guarantees a corporate tax rate of 4%; the RIC allows for the deduction of up to 90% of profits reinvested in the archipelago. For Italian companies undergoing international expansion, Spain, and the Canary Islands in particular, are well worth serious consideration as a base for operations in the Iberian and Latin American regions.

Incentives for new businesses and start-ups (Law 28/2022)

- *Reduced corporate tax rate of 15%*: for the first two financial years in which the taxable income is positive (Article 29.1 of the Corporate Tax Law).
- *Beckham scheme for digital nomads and entrepreneurs*: access to the expat tax regime (Art. 93 of Law 35/2006) with a 24% tax rate for remote workers and founders of innovative start-ups.
- *Personal income tax incentives for investors in start-ups*: 50% deduction (up to €100,000) on investment in unlisted innovative start-ups; exemption from capital gains tax on divestment if reinvested in another qualifying start-up within one year.

Accelerated depreciation and other deductions

- *SMEs (Art. 103 LIS)*: accelerated depreciation for new tangible and intangible assets (multiplier coefficient of up to 2 compared to the standard maximum rates).
- *Unrestricted depreciation for R&D (Art. 11 LIS)*: tangible and intangible assets relating to research and development activities may be depreciated freely, with no time limit.
- *Film and audiovisual production (Art. 36 LIS)*: a 30% deduction on the first €10 million of Spanish production costs (25% on the excess) and 30%-35% for foreign productions filmed in Spain.

3.12.1. Anti-fraud legislation and tax digitalisation

In recent years, Spain has significantly accelerated the process of tax digitalisation, with the aim of reducing the compliance gap and combating tax evasion. The main measures in this area are:

- *Law 7/2012*: limits cash payments between private individuals to €2,500; to €1,000 between professionals and businesses. The penalty is 25% of the amount paid in cash above the threshold.
- *Law 11/2021 (Anti-Fraud Law)*: implemented the DAC6 Directive on the automatic exchange of information regarding aggressive cross-border tax planning schemes; introduced Form 721 for the declaration of crypto-assets held abroad (mandatory from 2024 for amounts exceeding €50,000); strengthened the SII (real-time VAT reporting) and tightened penalties for omissions.
- *Law 18/2022 (Crea y Crece)*: made electronic invoicing mandatory for all B2B transactions between businesses and professionals established in Spain.
- *VERI*FACTU (Royal Decree 1007/2023; Order HFP/1172/2024)*: regulates the technical requirements for certified invoicing software. It provides for the generation of XML files for each transaction, sequential linking of invoices, electronic signatures and the option of direct submission to the National Tax Agency. Mandatory from 1 January 2027 for corporation tax entities and from 1 July 2027 for all others.

The Spanish tax system is characterised by marked regional diversity and a high degree of regulatory complexity. This necessitates a prior, structured assessment of choices regarding residence, the location of economic activities, and wealth and succession planning

4. Employment and Human Resources in Spain

Labour legislation in Spain is very strict. A cornerstone is the Spanish Workers' Statute, which defines the fundamental rights and duties of employees, regulating contracts, working hours, holidays, dismissals and collective bargaining, and is supplemented by specific regulations for self-employment and economically dependent work.

4.1. The Workers' Statute

The Workers' Statute was formally established in Spain by Law 10 March 1980, implementing the Spanish Constitution of 1978, which provided, in Article 35.2, for the regulation of workers' rights by ordinary law.

It strikes a balance between workers' collective rights, the need for work flexibility and moving beyond the provisions of the Franco era. The main text was reformed by Royal Legislative Decree No. 1/1995, integrated by subsequent legislative amendments.

The Statute consists of three main titles:

- *individual employment relationships* – containing around 60 articles on rights, duties and the regulation of the employment contract;
- *rights of collective representation and assembly* – governing internal representative bodies and the right of assembly;
- *collective bargaining and collective agreements* – governs negotiations between employers and trade unions and the implementation of sectoral agreements.

Its scope is limited to employees who perform services under the direction and organisation of an employer, with specific obligations regarding pay and social security contributions.

Fundamental rights of workers

The Statute guarantees:

- freedom of association and the right to strike (Art. 28 EC);

- equality and non-discrimination on grounds of sex, origin, religion or disability;
- a minimum wage and remuneration in accordance with collective agreements. The national minimum wage in Spain is currently €17,094.00 gross per annum, paid in 14 monthly instalments.

Social security contributions

Employers are obliged to pay social security contributions on behalf of their employees; these amount to approximately 33.4% of gross pay

Written Contracts

Written employment contracts are mandatory and must clearly set out the terms, such as the job description, remuneration and working conditions.

Maximum working hours, overtime and mandatory breaks.

Employee participation in company management through works councils.

Health and safety at work.

4.2. Types of contracts

The main types of contracts are:

- *Permanent (open-ended)* – provides stability, legal protection and compensation in the event of unfair dismissal.
- *Fixed-term* – limited to one year, with the possibility of automatic conversion to a permanent contract if certain thresholds are exceeded. The following types of contracts exist: 1) for production-related reasons, with a maximum duration of 6 months or one year depending on the sector; 2) contract to replace another employee.
- *Fixed-term intermittent*. Under a fixed-term intermittent contract, the worker is not paid and is not entitled to any compensation during periods of inactivity.
- *Training and apprenticeships* – intended for young people and recent graduates, with a minimum duration of six months and a maximum of two years.

Self-employment and special categories

Spain has introduced a specific statute for economically dependent self-employment (TRADE), in which the worker receives at least 75% of their income from a single client. This category is distinct from employment and traditional self-employment, whilst requiring forms of protection regarding economic rights, social security and participation in specific professional agreements. In addition, there is a Statute for

self-employment containing regulations on social security and health and safety at work.

Reforms and current developments

In recent years, Spain has introduced significant reforms to:

Reduce precariousness and critical issues associated with fixed-term contracts, with automatic conversion to permanent contracts for durations exceeding 18 months.

Strengthen sector-level collective bargaining, taking precedence over company-level bargaining.

Revise work-training contracts, with minimum wages and a requirement for training to account for at least 25% of working hours.

Protect platform work and remote work, in response to the COVID-19 emergency.

A new 21st-century Workers' Charter is currently under discussion, aimed at extending protections to all workers, including new forms of digital and flexible work, with active trade union participation in the review of legislative proposals

4.3. Human Resources Sector

The labour market in Spain within the Human Resources (HR) sector is dynamic, with strong demand for specialised roles (HRBP and Talent Acquisition), especially in Madrid and Barcelona. Attention is focused on a satisfactory work-life balance, with 40-hour working weeks.

Key points regarding employment and human resources in Spain

Most in-demand HR roles: HR Business Partner, Talent Acquisition Specialist, Payroll Specialist, and HR Generalist.

Key sectors: Technology, hospitality, pharmaceuticals and e-commerce offer numerous HR positions.

Recruitment and Skills: Great importance is placed on networking, interpersonal skills and knowledge of Spanish. There is a strong presence of multinational companies requiring bilingual candidates (English and Spanish).

Main platforms: LinkedIn, Hosco (for hospitality), InfoJobs, and Indeed are the most commonly used sites for searching for HR roles.

Legal and social security aspects (human resources)

Social Security: Both employers and employees contribute to the Social Security system.

Dismissal: The law provides for specific severance payments, often based on 20 days' salary per year worked.

Working in Spain, particularly in the Human Resources (HR) sector, offers a range of opportunities thanks to the presence of multinational companies and growing technology hubs.

1. The job market for Italians

Italians have excellent prospects in Spain, thanks to cultural and linguistic similarities. The sectors with the highest demand include:

- Key sectors: Tourism, IT, education and professional services (such as consultancy and recruitment).
- Major cities: Madrid and Barcelona are the main economic hubs where most HR vacancies and skilled roles are concentrated.
- Technology hubs: Cities such as Valencia and Seville are emerging as major centres for shared services and technology.

2. Human Resources (HR) Sector

The role of HR in Spain is becoming increasingly strategic, with a focus on talent acquisition and regulatory compliance.

Salaries: For an HR Manager in Barcelona, the average base salary ranges from €35,000 to €52,688 per year. However, for junior or entry-level roles, salaries can be significantly lower (around €19,000 for candidates with a few years' experience in specific sectors).

Training and Internships: There are numerous internship programmes and Master's degrees specifically in Human Resources, making it easier for recent graduates to enter the sector.

3. Requirements and bureaucracy

For an EU citizen, working in Spain is straightforward, but requires a few essential administrative steps:

Documentation: You need to obtain a NIE (Número de Identidad de Extranjero – Foreign Identity Number), which is essential for signing an employment contract and opening a bank account.

Job Search Platforms: In addition to the usual LinkedIn and Indeed, InfoJobs and the SEPE portal (the public employment service) are widely used.

4. Useful Portals and Resources

Portal	Description
Glassdoor	Excellent for checking salaries and company reviews in the HR sector.
Experteer	Focused on senior roles and specialist recruitment.
Piktalent	Useful for information on visas, internships and relocations.
EURES	European portal for labour mobility with specific support for Spain.
EURES	European Job Mobility Portal with specific support for Spain.

5. Industrial and Commercial Sector

Spain is one of the leading economies in the European Union and has a complex and well-structured production system, characterised by a constant and progressive transition towards advanced models of production and distribution.

After joining the European Economic Community in 1986, the country embarked on a process of modernisation that has profoundly transformed its industrial and commercial sectors.

Spain can today be classified as an advanced economy with a strong service sector and a solid, competitive industrial base across numerous sectors.

The Spanish economy is divided into three main sectors: primary (agricultural production), secondary (industrial) and tertiary (commerce and services).

Although the industrial sector makes a significant contribution to Spain's GDP, it is the commercial sector - part of the broader tertiary sector - that is the dominant component of the national economy.

5.1. The primary sector: Spanish agriculture

In Spain, the primary sector accounts for a limited share of GDP (around 2.5% of value added and just over 3.5% of employment), but remains strategic for exports, rural employment and territorial cohesion. The country is one of the European Union's leading agricultural producers and is often referred to as 'the garden of Europe': fruit and vegetables alone account for a very significant share of the value of agricultural production, alongside cereals, olive oil, wine, citrus fruits and livestock farming.

Production is concentrated in the large inland cereal-growing areas (Castile, Andalusia), in the Mediterranean and Andalusian regions with a strong focus on fruit and vegetables, and in the olive-growing and wine-producing districts, making Spain one of the world leaders in olive oil, citrus fruits and fresh fruit and vegetables. An increasing proportion of land is farmed organically, especially in Andalusia, Castile-La Mancha and Catalonia, strengthening the country's position in higher value-added markets.

Agriculture is strongly supported by the Common Agricultural Policy (CAP): the CAP Strategic Plan 2023–2027 (PEPAC) integrates national and regional measures and mobilises significant resources through direct payments, market measures and rural de-

velopment, with the aim of maintaining a competitive, sustainable sector that keeps rural areas alive. For an Italian business, the Spanish primary sector therefore represents a mature and well-regulated environment, but also a natural partner along agri-food supply chains, particularly in fruit and vegetables, olive oil and wine.

5.2. Industrial sector

5.2.1. Structure and characteristics

The Spanish industrial sector – comprising manufacturing, energy and construction – accounts for approximately 21–24% of national GDP. The manufacturing sector forms the core of the industrial system and plays a significant role in terms of employment and value added.

Spanish industry is characterised by a dual structure:

- on the one hand, large, highly competitive multinational companies;
- on the other, a vast network of small and medium-sized enterprises (SMEs), often family-run.

This structure has a positive impact on the innovative capacity and resilience of the entire production system, insomuch that Spanish industry is characterised by strong production diversification, the presence of regional industrial clusters and growing technological innovation.

The most important sector, manufacturing, accounts for around 82% of total industrial production.

Spanish industrial specialisation is generally oriented towards medium- to high-tech sectors. The main industrial sectors include:

- the automotive industry, making Spain one of Europe's leading car manufacturers;
- the agri-food industry, which is very closely integrated with the primary sector;
- the chemical and pharmaceutical industry;
- the energy and renewable energy industry, which is playing an increasingly significant role in the European landscape;
- the aerospace industry, which is highly technology-intensive.

According to OECD data, Spain's industrial competitiveness is underpinned by its integration into global value chains, particularly within Europe.

5.2.2. Geographical distribution

Spanish industry does not have a uniform geographical distribution. Instead, it is highly concentrated in certain areas, characterised by the presence of specialised regional clusters:

- in Catalonia: diversified manufacturing, chemicals and textiles;
- in the Basque Country: steel, advanced engineering and industrial technologies;
- in the Valencian Community: ceramics, agri-food and light manufacturing;
- in Madrid: high-tech industry and advanced services.

This distribution is attributable to historical factors, the availability of resources, and the presence of infrastructure and investment. All the various hubs mentioned, however, benefit from well-developed infrastructures, a skilled workforce and regional innovation policies.

5.2.3. Recent trends in industrial production

In recent years, Spanish industry has shown significant signs of growth and resilience.

In 2025, industrial production increased by 4.5% year-on-year, driven in particular by energy, intermediate goods and non-durable consumer goods.

In general, industrial growth has been driven by:

- technological innovation;
- integration into international markets;
- European investment.

However, certain challenges remain, such as energy dependence and global competition.

In the post-pandemic period, Spanish industrial production has seen moderate growth, but this has been subject to volatility due to:

- energy shocks;
- disruptions to supply chains;
- inflation.

Among the main structural challenges, the following stand out:

- dependence on foreign energy;

- low productivity in certain sectors;
- fragmentation of the business landscape.

5.2.4. Innovation and Industry 4.0

Again, in recent years, Spain has promoted policies aimed at the digital transformation of industry, in line with the Industry 4.0 paradigm. The 2021 Recovery, Transformation and Resilience Plan, funded in part by the European Next Generation EU funds, has incentivised:

- the digitalisation of production processes;
- automation and robotisation;
- the development of artificial intelligence;
- the energy transition.

This transformation has been particularly evident in high-tech sectors, such as aerospace and electronics. However, according to the European Commission, critical issues remain regarding the low level of investment in R&D compared to the EU average.

5.3. Commercial Sector

5.3.1. Commerce in the tertiary sector

Commerce is an essential component of the service sector, which accounts for over 65% of Spain's GDP and is therefore its most important.

The commercial sector comprises:

- domestic trade (retail and wholesale);
- international trade (imports and exports);
- services related to distribution.

The sector is highly dynamic and closely linked to globalisation and digitalisation processes.

5.3.2. Domestic trade

The Spanish domestic trade sector is characterised by a modern and diversified structure, with the coexistence of:

- large organised retail groups;
- small traditional retail businesses;
- e-commerce platforms.

Recent years have also seen significant growth in e-commerce, accelerated by the COVID-19 pandemic. According to data from the Spanish National Statistics Institute, e-commerce is recording annual growth rates of over 20%.

5.3.3. Foreign trade

Spain is currently a major player in international trade. Its main exports include industrial goods, automotive products and agri-food products.

According to data from the World Trade Organisation, Spain is among the world's leading exporters of agricultural and food products.

This is no coincidence; the country, in fact, benefits from a strategic geographical position, facilitating trade and exports that account for a significant share of GDP.

Integration into the European Union has also fostered the growth of trade and the opening up of markets.

Spanish exports are mainly directed towards European Union countries, the United States, Latin America and Africa.

5.3.4. Innovation in trade

The retail sector has undergone a profound transformation driven by digitalisation, with the introduction of online platforms, digital payment systems and advanced logistics. Today, Spain is one of Europe's leading technology hubs.

E-commerce is booming in Spain, positioning the country among the European leaders. 77% of Spaniards shop online, with a significant average monthly spend, driven by sectors such as clothing, electronics and food.

There are a great many start-ups driving innovation, thanks in part to a favourable ecosystem (low tax rates and incentives for investors).

All these changes have improved the efficiency of the Spanish distribution system, boosting its competitiveness, particularly among small businesses.

5.4. Interrelationships between industry and commerce, challenges and future prospects

The industrial and commercial sectors in Spain are interdependent and integrated within global value chains. Industry produces goods that are distributed through complex commercial networks, whilst the commercial sector in turn provides market information that influences and guides industrial production. The efficiency of the commercial system therefore contributes to the continuous improvement of the competitiveness of domestic industry.

This interdependence manifests itself in integrated production networks, global distribution chains and a resulting growth in exports. These interrelationships are particularly evident in the automotive, agri-food and manufacturing sectors.

The industrial and commercial sectors together form a solid and constantly evolving structure: although industry faces certain structural weaknesses, it is becoming increasingly integrated into global markets and is innovation-driven; commerce, underpinned by digitalisation and internationalisation, is the main driver of the economy.

The strengths of this combined system of the Spanish economy are:

- the diversified economy;
- the strong development of the service sector;
- export growth;
- technological innovation.

On the other hand, the following weaknesses still need to be addressed:

- unemployment, which still remains high in some areas;
- energy dependence on foreign countries;
- regional disparities;
- international competition.

Against this backdrop, the outlook for industry and commerce appears to depend on the country's ability to tackle the challenges linked to sustainability, digital transformation and global competition. The green transition and the need to reduce emissions and promote a sustainable economic model are the key challenge today for both the industrial and commercial sectors.

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