ITALY-JAPAN BUSINESS GUIDE

Consiglio Nazionale
dei Dottori Commercialisti
e degli Esperti Contabili

ITALIA
2025 年大阪・関西万博
EXPO 2025 OSAKA

A.I.C.E.C.

Fondazione
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RICERCA

Partner of Italy at Expo 2025 Osaka

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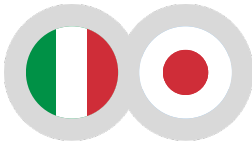

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Dear colleagues and visitors,

I am really proud to present the volume '**Sistema Paese Giappone**', published as part of a well-established tradition of in-depth analysis dedicated to the internationalization of the Italian enterprises and the promotion of the country system. This year we can take advantage of a golden opportunity, since the publication is among the initiatives planned for the launching of the Italian Pavillion at Expo Osaka 2025, and it is the result of our commitment as institutional partner of the Italy Expo 2025 Osaka, aimed at promoting the growth and competitiveness of the Italian enterprises in international markets.

Japan, a country that combines ancient traditions with a dynamic economy, taking up the challenges to be at the forefront in innovation, is one of Italy's major strategic partners. I am sure that the work we are carrying out, with the collaboration of AICEC and of the other institutions supporting the foreign trade sector, is of particular relevance for the Italian "commercialisti", since it will help in consolidating professional skills and in spreading a solid culture of internationalization. It will also provide Italian enterprises with the necessary tools to face global challenges and seize the opportunities offered by the foreign markets.

Public entities, institutions, professionals and companies need to work in close collaboration to lay the foundations for a sustainable, international, economic growth. With the publication 'Sistema Paese Giappone' we intend to provide a helpful guidance to better understand this attracting market and promote 'Made in Italy' in a global context.

It is precisely in this direction that are channeled both the efforts of the *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* to consolidate the collaboration with the various international bodies – in particular the International Federation of Accountants (IFAC), Accountancy Europe (AcE) and Tax Advisors Europe (CFE) – and the contribution of the Italian profession in terms of practices and approach to professional regulations, in the light of the experience gained at national level.

Special thanks go to Minister Antonio Tajani for giving stimulus and proactivity to the requests of the profession, in the Steering Committee for Internationalization, to Ambassador Mario Andrea Vattani, General Commissioner for Expo Italia and his team, as well as to all those who have contributed to the realization of this project and to all the professionals who, every day, accompany our enterprises along the road of internationalization.

I wish you a good reading and a pleasant journey towards new opportunities.

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

ISBN 978-88-99517-39-7

Edited by Fondazione Nazionale di Ricerca dei Commercialisti.

Thanks for the collaboration and support

March 2025

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Introduction

'Art regenerates life' is the theme chosen, for Italy Pavilion at the Expo 2025 Osaka, designed by architect Mario Cucinella, MCA - Mario Cucinella Architects, as a modern interpretation of the Renaissance Ideal City, that included the theatre, the porch, the square and the garden, namely all those places that typically characterized the urban and social identity of our cities.

The term 'Art' is intended, in this case, in its original and wider sense as the 'techne', synonym of beauty, creativity, culture and 'savoir faire', a quality for which Italy is renowned all over the world.

At the Expo 2025 Osaka we want to widen and update the image of our Nation, presenting it with an eye to the future, combining tradition and high technology, excellence, and innovation. In this wider context, the internationalization of the enterprises plays a key role: Expo 2025 Osaka represents an extraordinary opportunity for our enterprises to get into the Asian markets, definitely among the most active worldwide.

The sectors of our economy we are going to promote at Expo 2025 Osaka include also those listed in the 'Japan-Italy Action Plan 2024-2027', adopted within the Strategic Partnership Italy-Japan, launched in January 2023 by the President of the Italian Council of Ministers, Giorgia Meloni, and the Japan Prime Minister at the time, Fumio Kishida. This Action Plan is a framework of collaboration between the two countries in key sectors such as high technology, energy transition, advanced manufacturing, life sciences, artificial intelligence, space, sustainable infrastructure and agrifood. The presence of Italy at Expo 2025 Osaka will offer the opportunity to enhance these strategic areas, strengthening the dialogue with Japan and the entire Asian-Pacific region, in a context of shared innovation and growth.

Thanks to a large network of partnerships entered into with 18 regions, institutions and trade associations, we will be able to welcome the Italian production system in Japan, in an institutional context providing support and enhancement. At Expo 2025 Osaka, the Italy Pavilion will be conceived not only as a physical location, but also as an extraordinary instrument of Diplomacy for Growth, creating new opportunities for our entrepreneurs to make themselves known and stimulate collaborations. The system 'Country' in its unity will become a driver for innovation, and reinforcement of the competitiveness of the Italian production system at international level.

The network of partnerships includes also the one entered into with CNDCEC (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili). The advice of skilled professionals in the field of international taxation and growth strategies represents a strategic asset for the Italian companies willing to expand abroad, especially in the Asian-Pacific region. Taking advantage of CNDCEC network, made up of 132

local Orders of Certified Public Accountants, and of the dialogue opened with JICPA (the Japanese Institute of Certified Public Accountants), at the Expo 2025 Osaka we will be able to present projects, best practices and concrete tools to support our entrepreneurial fabric.

About 130 countries and 30 million visitors are expected to join Expo 2025 Osaka, that will be held from 13 April to 13 October 2025. It will be a global showcase and a breeding ground of ideas to strengthen our presence in the Asian-Pacific region, a key area for the growth of our exports, keeping a high focus also on attracting investments in our country.

Amb. Mario Andrea Vattani
General Commissioner for Italy at Expo 2025 Osaka

Presentation

Dear Colleagues,

in welcoming you to the AICEC mission 'Japan and EXPO 2025', I would like to present this orientation guide, a document intended to provide useful information to all those interested in approaching, knowing or better understanding the potential opportunities offered by the Japanese economy and Expo 2025. And it is precisely in the light of the many outstanding features of the country itself, and the specific EXPO 2025, that we would like to share with you some reflections that, we hope, may favor a better reading.

The OSAKA World Expo combined with the openness of the Japanese economy with its countless free trade agreements, not to mention the key role played by Tokyo in the Asian region due to its geographical position in one of the most economically dynamic areas on a global scale, are all factors that, in this year 2025, are capturing the attention of the whole world that is turning its gaze on Japan.

Japan's great economic and business potential together with its fascinating culture will surely be emphasized by the visibility offered by the EXPO, which will propose a space where visitors from all over the world can contribute to exchanging ideas and projects for the society of the future - 'Designing Future Society for Our Lives' is in fact the theme of Expo 2025 Osaka - by sharing technologies to achieve a sustainable society, that is proactive in supporting the ideas of individuals and can contribute to improving the quality of people's life, leading us all to consider ourselves as inhabitants of the same planet, despite the differences that characterize people, countries and systems.

"Art Regenerates Life" is the theme chosen for the Italian Pavillon in EXPO2025.

"Art" is then the word chosen to proudly represent the history of our country, a synonym of the Italian "savoir faire" that made us world-famous, that made renowned our being capable of transforming, conceiving, creating, building: in one word, our made in Italy, the made in Italy of our businesses, of that production system at the basis of our economy.

From this point of view, I wish to point out once again that the support provided by accountants to the growth of these small exporting companies, both in terms of structure and exported value, becomes fundamental for the whole national system. The growth, in terms of skills and knowledge of the 'different', of these small realities is made possible also thanks to AICEC. With the continuous and constant support of its founding members and its initiatives aimed at disseminating the culture of internationalization, AICEC is committed to increasing the degree of awareness required when dealing with foreign countries, both in terms of allocating the products and with reference to supply markets.

From export to foreign establishments, via the various intermediate stages of the complex internationalization process, our contribution as accountants remains fundamental, since besides being the natural interlocutors of SMEs we are becoming an increasingly important reference point also among the institutional players of the internationalization sector, who now consider us a particularly valuable asset of the entire system. Also for this reason, we are extremely grateful to the Ambassador of Italy to Japan H.E. Gianluigi Benedetti, the Commissioner General for Italy at Expo2025 Amb. Mario Vattani, and the whole Italian diplomatic network abroad, always providing a great support to our initiatives, intervening in the first person to witness the effectiveness of 'Sistema Italia' for the Italian companies interested in developing relationships with foreign counterparts.

From the very beginning, one of the objectives pursued by both AICEC and the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili has been to receive this important consideration by the institutions supporting the internationalization of businesses and professionals. This has been possible thanks to the seriousness and competence of the work carried out in providing the information necessary to concretely support our companies in their approach to foreign markets.

I hope you will enjoy the reading and have a memorable visit to Expo2025.

My sincere thank you.

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, the 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.

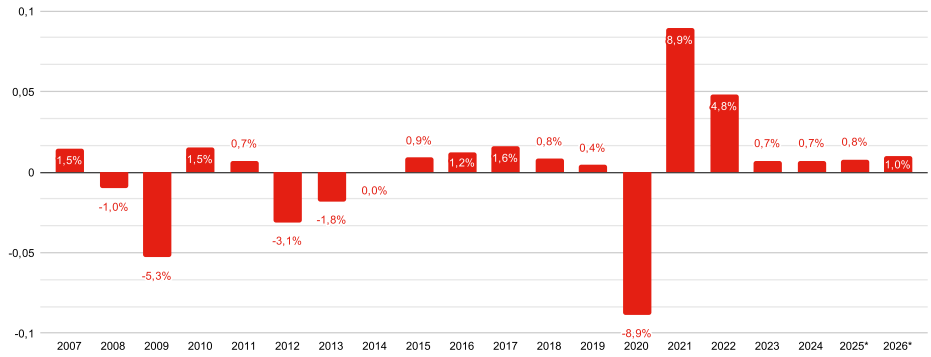
1.6. Economic outlook

1.6.1. The economic situation

After the jump in GDP occurring in the two years after Covid (2021-2022), in 2023 economic growth in Italy underwent a sharp slowdown with the increase in GDP stopping at +0.5% while for 2024 the forecast is +0.7%. In the current year, growth should increase slightly to +0.8% and then accelerate in 2026 to +1%.

According to the International Monetary Fund (World Economic Outlook, January 2025), in 2025 the Italian economy will grow by 0.7% against a growth in the euro area of 1%. IMP forecasts for Italy in 2025 are lower than those published by the Italian government (September 2024) in the Medium-Term Fiscal-Structural Plan 2025-2029 which predicts, instead, a GDP growth of 1.2%.

Graph 1. Real GDP trend (values benchmarked to 2015). Years 2007-2026



*Istat (National Statistics Office) (December 2024) and Ministry of Finance (Settembre 2024) forecasts. Source: FNC analysis of Istat and Ministry of Finance data

With regards to the general economic situation, there was zero growth in the second half of 2024, affected by a fall in industrial production. The Italian industrial sector recorded a contraction in added value in 2024, while services remained dynamic thanks to the positive contribution of trade and financial and insurance activities.

At international level, inflation is expected to continue to fall, moving from 6.7% recorded in 2023 to 5.8% in 2024 and 4.3% in 2025. In the euro area and in Italy, inflation has already completely returned to normal, and this has favoured a loosening of monetary policy.

The European Central Bank reduced interest rates by 1.35% in 2024 as a whole and it is expected that a further cut of one point could occur during 2025.

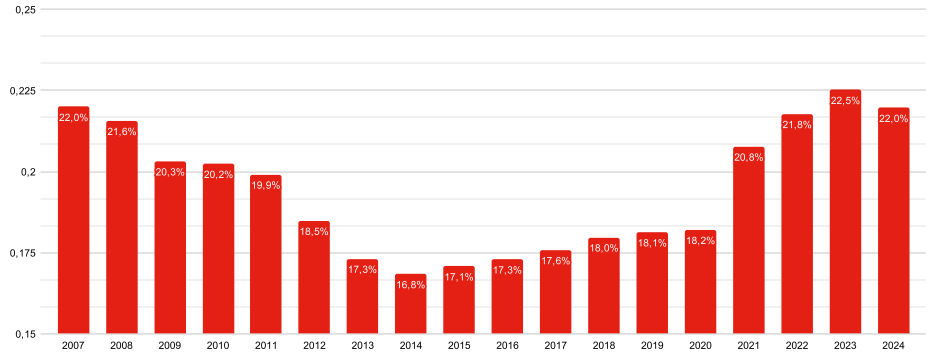
Despite the economic slowdown in progress, the Italian labour market continues to prove to be particularly dynamic. Employment continued to grow and unemployment continued to fall in 2024. At present, the employment rate in Italy has reached an all-time high of 62.3% thanks to the decisive increase in employment contracts, especially permanent ones. The level of unemployment has fallen further, reaching the level of 6.2%, the lowest value of the last ten years, even though this phenomenon, partly linked to demographic dynamics, has not yet resolved the problem of a mismatch between the offer and demand for labour.

Household consumption, after the strong recovery in 2021-2022, increased in 2023 in absolute terms, but fell in real terms due to inflation. In 2024, instead, there was a recovery in household consumption, boosted by the fall in inflation and an increase in available income.

With regards to businesses, instead, indices relating to the turnover trend in industrial sectors show a sharp fall that has continued uninterrupted since September 2022. The difficult situation of the manufacturing sector is also confirmed by the trend of business confidence indices. Specifically, the SME industrial sector closed the year at 46.2. In the tertiary sector, instead there are signs of expansion.

Investments, also growing in 2023, were sustained most of all by construction spending favored by the tax breaks introduced in 2020. In 2022, in fact, the overall level of investments rose to 24.8% of GDP against 17% in 2013. In the last year, the annual rate of growth of gross fixed investments fell drastically following the cessation of building subsidies, in particular, the “Superbonus”.

Graph 2. Fixed gross investments in percentage of GDP.
Values at current prices Years 2007-2023.



Source: FNC analysis of Istat data

In 2024, inflation remained under 2% in Italy, lower than in other European countries, but was slightly up against the previous year. Inflation measured for 2024 was 1% against an average of +2.3% for the euro area.

Italy's foreign trade was sluggish in 2024, reflecting the slowdown in world trade and the weakness of the European economies, particular Germany. The trade balance remained positive, albeit decreasing.

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 its economic planning, in autumn 2024 the Italian government set a growth target for 2025 of 1.2%, starting from an estimate of trend growth of 0.9%. More recent forecasts of Istat (Italian National Statistics Institute) and the Parliamentary Budget Office put 2025 growth at +0.8%. According to the International Monetary Fund, instead, Italian growth in 2025 will be +0.7%. In general, a prudent viewpoint prevails, due to the geopolitical uncertainties which could have a very significant impact on European economies, especially in view of the new American policy on tariffs.

Table 1. International Monetary Fund growth forecasts.

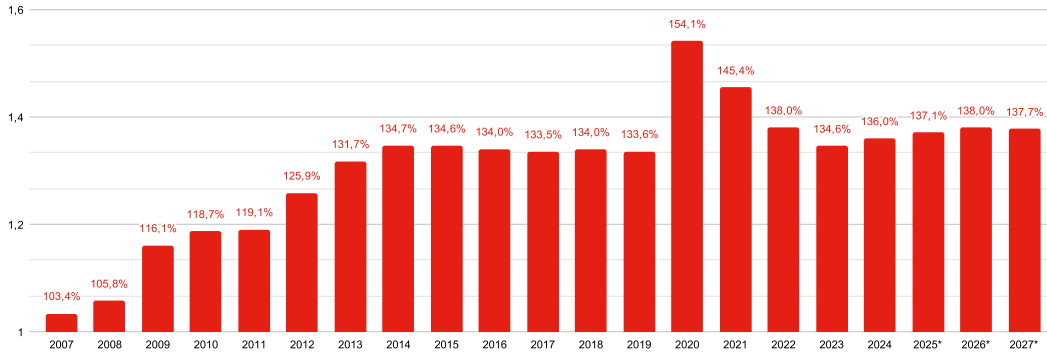
	2024	2025	2026
United States	2.8	2.7	2.1
Euro Area	0.8	1.0	1.4
Germany	-0.2	-0.3	1.1
France	1.1	0.8	1.1
Italy	0.6	0.7	0.9
Spain	3.1	2.3	1.8
Japan	-0.2	1.1	0.8
United Kingdom	0.9	1.6	1.5
Canada	1.3	2.0	2.0

Source: World Economic Outlook, IMF, 17 January 2025

1.6.4. Public finances

As is well-known, in 2020, due to the pandemic emergency and the measures to support household incomes and business liquidity, EU national governments, especially thanks to the suspension of the Fiscal compact, implemented strongly expansive fiscal policies, thereby significantly increasing deficits and public debt. Thanks, also, to accommodating interventions by the European Central bank, which launched an extraordinary plan for the purchase of securities and took real interest rates to a negative level, Italian public debt grew significantly in 2020, reaching 154.1% of GDP.

Graph 3. Trend in the ratio between public debt and gross domestic product. Years 2007-2027



*Ministry of Finance (MoF) forecasts (September 2024)
Source: FNC analysis of Bank of Italy and MoF data

Between 2022 and 2023, thanks to the high rate of inflation, as well as the prudent economic policies of the Italian government, the debt/GDP ratio returned close to pre-Covid levels. In 2024 the same ratio is expected to be 135.8%, that is, 2.2 GDP points above the pre-covid level.

In 2024, the overall Italian tax burden is expected to be around 42.3%, the same as the pre-Covid level. The tax part of the burden is equal to 29.6%, while the social security burden in 12.7%. Direct taxes represent 15.4% of GDP, while indirect taxes account for 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 own 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.

With the definitive coming into force of the Business Crisis and Insolvency Code further to the amendments introduced by Legislative Decree no. 83/2022 which implemented in Italy 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 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, 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, 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 "mit-

[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.

igating the link – until then fundamental – between the physical presence of an activity in the territory of the State and being subject to tax legislation".

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 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, also the permanent establishment is 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.

[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.

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..

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.

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 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[7] 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.

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 man-

[7] 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.

agement 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 dualistic system, in which the management of the company is assigned to a Management Board, controlled by a Supervisory Board, which appoints members of the Management Board. In this case, the independent audit is always assigned to an audit firm or to an auditor external to the company;
- the one-tier system, in which the management of the company is assigned to 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, the so-called board of directors, or by a single director, the so-called 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, 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. 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 telematic portals for crowdfunding, in compliance with the legal limits provided for by the legislation[8].

Along the same lines, SRL PMIs are able to create categories of shares.

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.

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).

[8] 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.

More precisely, 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

Limited companies are obliged to appoint an independent auditor.

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.

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 presone 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.

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 continuous and coordinated assumption of strategic decisions regarding the company or entity as a whole. 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).

Only for 2025, a so-called "Bonus IRES" is envisaged at 20% for companies which:

- set aside 80% of 2024 profits to reserves;
- reinvest at least 30% of the profits set aside (and, in any case, at least 24% of the 2023 profits) in new capital goods useful for the technological and digital transformation of enterprises – according to the "Industry 4.0" model and the "5.0 Transition Plan" – earmarked for production sites located in Italy;
- hire new employees with a permanent contract, in compliance with a number of safeguard clauses.

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 with-

holding 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 and 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.

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 in 2023 are set out below:

- up to 28,000.00 euros, 23%;
- over 28.000,00 euros and up to 50,000.00 euros, 35%;
- 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.

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 foods, drinks and agricultural products; 5%, for example, for certain 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 market

Businesses' demand for labour in the Italian market is met through the offer of two types of work: subordinate employment and self-employment.

With the exception of hetero-organised self-employed "parasubordinate" work, the regulation of which tends to be generally equated with the subordinate employee, the rules and conditions regarding "pure" self-employment can be freely determined by the contracting parties (client and contract worker).

With regards, however, to subordinate employment, Italian law provides for a protective statute for the worker of a mandatory nature.

Regulation of employed work relations is contained in the Italian Civil Code, in special laws of the State and in collective labour agreements signed between trade union organizations and representative employers' associations.

Permanent employment contracts can be terminated with an exit agreement or through unilateral withdrawal.

The worker can withdraw from the employment contract by resigning, respecting the notice period provided for in the collective agreement applying to the contract.

In this case, in order to be considered as valid, resignations can only be submitted electronically, via the Ministry of Employment and Social Policies website or by referring to a qualified entity (charitable institution, trade union, bilateral body, certification commissions, labour consultants, competent territorial offices of the National Labor Inspectorate).

The law equates the regulation of consensual termination of the employment relationship with that of voluntary resignations, with the result that, also in this case, the worker has to formalise the termination agreement exclusively by electronic means.

The employer can withdraw from the employment contract notifying the worker with a "justified" letter of dismissal, specifying the reasons for interrupting the employment relationship, in compliance with the notice period provided for by collective bargaining.

The notice of dismissal and the notice of resignation are not envisaged when there is a "just cause" for withdrawal from the employment contract or when trust between the employer and the employee breaks down.

With the 2015 reform of labor law regulations (the so-called "Jobs Act"), new remedies against illegitimate or unjustified dismissal were introduced. With the reform, the "effective" stability of the employment relationship, with the worker's right to be reinstated in their job, is provided for when the invalidity of the dismissal is ascertained. The dismissal is void when it is discriminatory, retaliatory, against legal provisions or when it is notified orally. The reinstatement of the worker to their job is also envisaged in the event of illegitimate disciplinary dismissal, when the collective con-

tract applied to the employment relationship provides for a less serious and conservative sanction for the facts under dispute (warning, fine or suspension).

In other cases, the main remedies against illegitimate dismissal provide for the worker's right to receive compensation.

"Normal" working hours are established by law at forty hours per week. They can be distributed over a period of five or six days per week. Work performed over and above the normal working hours is classified as "overtime". The law and collective bargaining provide for quantitative limits on the use of overtime. In all events, it is prohibited to work for more than 48 hours per week.

Each worker has the right to a minimum daily rest of eleven consecutive hours in every 24-hour period; to a weekly rest of a minimum of twenty-four consecutive hours; a period of holiday of at least four weeks for each year of work.

The time worked and professionalism are the main proportionality parameters used for calculating work remuneration.

Art, 36 of the Italian Constitution, in fact, affirms that workers have the right to remuneration 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.

According to consolidated jurisprudence, 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.

Italian law protects the work of women and minors.

According to the general principle, children that have not reached fifteen years of age cannot work. Adolescents, that is, minors aged between fifteen and eighteen years old, cannot enter the labour market before they are 16 and only having completed their compulsory education.

The parity of female workers with respect to male workers is given fundamental importance in the Italian legislation. Discrimination, also of a remunerative nature, against female workers, is prohibited. Discrimination of females in any professional orientation and training initiative is also prohibited.

The law attributes the employer executive power, disciplinary power and supervisory power for the management of their employed staff.

The employee has the duty to obey the directives given by the employer and is obliged to perform their work with diligence. In addition, during the employment relationship, employees have the obligation of loyalty with respect to their employer. This means that the law prohibits the worker from carrying out activities in competition with their employer.

Italian law has also established "flexible" employment contracts.

The regulation of "non-standard" or specially regulated contracts is set out in Leg. Dec. no. 81/2015.

The most commonly used "flexible" contracts are the fixed-term contract and the reduced working hours (part-time) contract.

The fixed-term contract can be freely entered into for the first time with any worker if it has a duration of no greater than twelve months. No worker can have fixed-term contracts with the same employer that have an overall duration of greater than twenty-four months. Upon the agreed expiry of employment, the contract is terminated automatically.

The contract may have a longer duration but, in any case, not exceeding twenty-four months, and only if at least one of the following conditions are met:

a. in the cases provided for by the national, territorial or company collective agreements entered into by the comparatively more representative trade union associations on a national level, and company collective agreements entered into by their company trade union representatives or by the unitary union structure;
b. in the absence of provisions in the collective agreement and, in any case, by 31 December 2025, for technical, organisational or production requirements identified by the parties;
c. in the event of replacement of other workers.

In the event of the entering into of a contract for a period greater than twelve months in the absence of the above conditions, the contract is converted into a permanent contract from the date of exceeding the twelve-month period.

The number of workers hired with fixed-term employment contracts cannot exceed the threshold established by the law or by collective bargaining.

All workers can be hired with a part-time employment contract provided that the contract specifies the working hours. The employee must be able to have free time outside the working hours established by the contract.

In compliance with the provisions of collective agreements, the parties to a part-time employment contract may agree, in writing, elastic clauses relating to relative variations in the scheduling of the work performance or relating to an increasing variation of its duration.

As a general rule, all employment contracts must be established through the signing of a written employment contract.

The law prescribes essential information to be contained in the employment contract:

a. the identity of the parties;
b. the place of work;
c. the site or domicile of the employer;
d. the position, level and qualification attributed to the worker or, alternatively, a brief description of the job;

e. the date of the start of the employment contract;
f. the type of employment, specifying in the event of fixed-term contracts, its intended duration;
g. in the case of employees of an employment agency, the identity of the user enterprise when, and as soon as, known;
h. the duration of the trial period, if provided for;
i. the right to receive training organised by the employer, if provided for;
j. the duration of holiday leave, as well as other paid leave the worker is entitled to or, if this cannot be indicated in the contract, the methods for determining their enjoyment;
k. the procedure, the form and the terms of notice in the event of withdrawal of the employer or worker;
l. the initial amount of remuneration and the method of payment;
m. the normal working hours;
n. the collective agreement, also corporate agreements, applied to the employment contract, with indication of the parties that have signed it;
o. the entities and institutes that receive the social security and insurance contributions due by the employer and any form of protection regarding social security provided by the employer.

Italian law provides for a general and absolute prohibition of intermediation and intervention in the employment relationship. That is, the supply of labour hired by an "intervening" hirer (the so-called provision of other people's work) and employed under the direction of an interposing entrepreneur, is prohibited. This implies that there must be a direct relationship between the employer and the worker. As a general rule, the employer cannot provide or supply their own employee to other employers.

The professional supply of manpower is legitimate only when it is operated by authorized employment agencies. The law defines the staff-leasing contract as the contract, whether permanent or fixed, with which an authorised employment agency, pursuant to Legislative Decree no 276 of 2003, makes available to a user one or more of its workers who, for the entire duration of the project, perform their activities in the interest and under the direction and control of the user. The number of agency-supplied workers may not exceed the thresholds provided for by the law.

The Italian legal system guarantees workers the freedom of trade union organisation in the workplace. All workers, therefore, are guaranteed the right to form trade unions, to become members of them and to carry on trade union activities inside the workplace. The law prohibits employers from discriminating against workers for trade union reasons and punishes with the sanction of nullifying any discriminatory agreement or act.

5. Forms of incentive and aid to investors and businesses

5.1. Tax credit for investments in capital goods

It's possible to benefit from a tax credit for the purchase of capital goods with a view to the technological and digital transformation of enterprises according to the "Industry 4.0" model.

Investments made up to 31 December 2025, or up to 30 June 2026 provided that, by 31 December 2025, the order has been accepted by the seller and that a down payment of at least 20% of the overall amount has been paid[9], can be subsidised for up to a maximum limit of 2.2 billion euros.

The tax credit is applied at the following rates:

- 20% of the cost for investments up to 2.5 million;
- 10% of the cost for investments over 2.5 million and up to 10 million;
- 5% of the cost for investments between 10 and 20 million.

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: Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily.

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.

[9] The aforementioned cost limit does not apply to investments for which by 31 December 2024 the relative order has been accepted by the seller and a down payment of at least 20% of the purchase cost has been made.

The aforementioned tax credit is attributed in relation to investments made from 1 January 2025 to 15 November 2025. To this end, the legislator has allocated a budget of 2.2 billion euros. The eligible investments, forming part of an initial investment plan, 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 exceed 100 million euros. Investment projects of an amount lower than 200,000 euros are also not eligible.

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: 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, 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, Puglia, Calabria, Sicily	Basilicata, Molise, Sardinia	Abruzzo
Small	60%	50%	35%
Medium	50%	40%	25%
Large	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[10].

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.

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:

[10] 'Adjusted aid amount' means the maximum permissible aid amount 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 established in an approved regional map and which is in force on the date of granting the aid, excluding the increased aid intensity for SMEs; A is the initial EUR 50 million of eligible costs, B is the part of eligible costs between EUR 50 million and EUR 100 million and C is the part of eligible costs above EUR 100 million.

1. fundamental research, industrial research and experimental research in the scientific and technological field[11];
2. technological innovation, aimed at the development of new or substantially improved products or production processes;
3. 4.0 and green technological innovation, aimed at the development of new or substantially improved products or production processes for achieving an ecological transition of 4.0 digital innovation objective[12];
4. 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).

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
Technological innovation	Rate	5%	-
	Amount limit	2 million	-
4.0/green innovation	Rate	5%	-
	Amount limit	4 million	-
Design and aesthetic ideation	Rate	5%	-
	Amount limit	2 million	-

[11] The criteria for the correct application of these definitions are set out in art. 2 of the Decree of 26 May 2020 issued by the Ministry of Enterprises and Made in Italy ("MISE") which takes into account the general principles and criteria contained in the OSCE's Frascati Manual 2015 - Guidelines for collecting and reporting data on research and experimental development. https://www.oecd.org/sti/inno/frascati-manual.htm).

[12] The criteria for the correct application of these definitions are set out in arts. 3 and 5 of the aforementioned Ministerial Decree, taking account of the general principles and criteria contained in the OSCE's Oslo Manual 2018 - Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition. https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm).

5.4. New 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 types of businesses earning income.

The new regulation allows a deduction, for IRES (Corporation tax) and IRAP (Italian regional tax on productive activities) purposes, increased by 110% of the costs incurred in carrying out research and development activities aimed at the maintenance, strengthening, safeguarding and growth of the value of software protected by copyright, industrial patents and legally protected drawing and models. The activities eligible for the benefit (the duration of which is five tax periods) can be classified as follows:

- Industrial research and experimental development (art. 2 MISE Decree 26 May 2020);
- technological innovation (art. 3 MISE Decree 26 May 2020);
- design and aesthetic ideation (art. 4 MISE Decree 26 May 2020);
- legal protection of rights on intangible assets.

For the purpose of the incentive, the following expenses apply with reference 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 counterfeiting prevention activities and the management of disputes aimed at protecting said rights.

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 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 of the innovative start-up;
    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 loses 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 30% of the amount invested in the capital of the innovative start-up is envisaged, up to a maximum investment of 1 million euros for each tax period (the amount, in whole or in part, not deducible in the reference tax period can be carried forward to subsequent tax periods, but not beyond the third one). The investment must be maintained for at least three years. The benefits are granted for a maximum of five years from the date of registration in the special section of the register of companies. An exemption from capital gains deriving from the sale of equity investments in innovative start-ups held for at least three years, is envisaged, even if the investment is made through a collective investment scheme (the exemption is subject to EU authorization);
b. alternatively, 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;

c. for **legal persons**, a deduction of taxable IRES (corporation tax) of 30% of the invested amount is envisaged, up to a maximum investment of 1.8 million euros for each tax period, provided the investment is maintained for at least three years. The benefits are granted for a maximum of five years from the date of registration in the special section of the register of companies;

d. 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 letters a), b) and c) 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;
- are registered in the special section of the register of companies.

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.

As for start-ups, the deductions of 30% previously mentioned (letters a and c) are also envisaged for innovative SMEs. It's also possible 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.

5.6. Capital Good – 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[13], which can be assisted by the Guarantee Fund for up to 80% of the amount.

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:

[13] Including a 12-month interest-only period.

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

5.7. Guarantee fund for SME access to credit

The ai mis to favour access to financial resources for small and medium enterprises 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.

Further to prior authorization by the European Commission, enterprises with a number of employees up to 499, taking account of association and affiliation relationships with other companies, will be eligible for the Fund Guarantee.

5.8. European Fund and the NRRP

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.

Other facilitative measures, directed, in particular, to innovation, and the ecological and digital transition, have been established using the funds of the National Recovery and Resilience Plan. For more information, reference should be made to the website: https://www.mimit.gov.it/it/pnrr/agevolazioni-pnrr.

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.

5.10. In-depth look at the Single SEZ of Southern Italy

5.10.1. Introduction: the Single SEZ of Southern Italy: a concrete cooperation and development opportunity for Systema Italy[14]

The Single Special Economic Zone of Southern Italy marks a turning point for the economic development of the South of Italy and, more generally, for Italy's entire productive system.

With the Single SEZ, the ai mis to strengthen the territories attractiveness, reduce bureaucratic complexities and incentivise qualified investments, creating a favourable context for the competitiveness of enterprises and the economic growth of the territory.

The main element of the initiative is the simplification of the administrative procedure, which concludes with the issue of a unique authorisation, which replaces the necessary construction permits for the start-up of new production facilities and/or for the expansion of existing activities. Thanks to this regulatory regime, businesses that choose to invest in the South of Italy have a good chance of obtaining the different authorisations in less than 40 days, in line with what occurs at international level.

In addition, the SEZ makes it possible to make investments thanks to a system of targeted benefits, first and foremost, tax credit, with the aim of stimulating actions focused on innovation and internationalisation.

The single SEZ, therefore, is not a mere economic incentive, but is configured as an effective industrial policy instrument, consistent with growth policies at both national and European level.

The final objective is to transform the South, making it a dynamic economic centre, able to attract investments, create employment and contribute in a significant manner to the development of the entire country.

In this scenario, accountants can play a key role, accompanying professionals, businesses and institutions with their knowledge of the opportunities offered by the Single SEZ.

[14] Introduction by Giosi Romano, coordinator of the Single SEZ of Southern Italy.

5.10.2. Special Economic Zones in the world: the state of the art

Recent estimates have indicated the presence of SEZs in the world at around 7,000, located in around 147 countries, generating more than one hundred million jobs[15]. The level of concentration is particularly high, considering that over half of SEZs in the world are situated in China, followed by India, the United States and the Philippines. This tendency is also reflected in the distribution of investments, as most of foreign capital is concentrated in a limited number of SEZs, contributing significantly to the exports of the reference country.

In this sense, the results registered in China are notable, where, according to the latest data, the Special Economic Zones contribute alone 22% of the national GDP, 46% of direct foreign investments that arrive every year in the country and 60% of exports. In Europe, over the years, 97 SEZs have been established, some of which have already been discontinued.

From the above results, it's easy to understand that, although the incentivising scheme is very similar between the areas, the economic effects are often very different.

This depends, to a large extent, on the industrial policy choices of policy makers. In short, the mere establishment of a SEZ is not synonymous with success, if the initiative is not inserted in a context in which there are for example, measures for the improvement of infrastructures and links with the rest of the local and national productive fabric.

5.10.3. Evolution of the Special Economic Zones (SEZs) in Italy

The coastal regions have always played an important role for the economic development of Italy, with particular reference to the Mediterranean regions, whose centrality has been reinforced in recent years, also thanks to the direction along which the growth strategies of the main world economies are developing.

From a geo-economic point of view, the Mediterranean is an important interconnecting point between the Atlantic and north European market on the one hand, and the Asian-African market on the other hand. Its central strategic position, therefore, makes the Mediterranean a centre of attraction for investments, particularly in the transport and logistics sectors.

[15] United Nations Trade and Development, "New global alliance of special economic zones to boost development", 2022.

Data show that the 25% of global scheduled services cross the Mediterranean Sea, in a north/south direction, particularly in Ro-Ro modality[16].

The Mediterranean's position in commercial exchange from and towards the MENA area[17] which, since 2001 has registered constant growth, has strengthened.

The Special Economic Zones (SEZs) in Italy were established in 2017, as mentioned, with the intention of favouring the development of certain zones in the country.

The implementation framework was completed in 2018, establishing the criteria and requirements for their creation.

The SEZs were conceived to favour investments, guaranteeing the growth of specific zones, provided:

- they are situation in regions that the European Union defines as "less developed" or "in transition";
- they include at least one port connected to the Trans-European Networks - Transport (TEN-T), that is, an infrastructure for trade and logistics.

In Italy, the SEZs are mainly found in the less developed regions (with per capita GDP 7% of the European average), such as Sicily, Basilicata, Puglia and Campania, as well as Sardinia, Abruzzo and Molise, which are considered as in transition. The SEZs began operating between 2021 and 2022, by virtue of the coming into force of the "SUD" Digital Single Desk. In 2023, there were eight SEZs operating in Italy, of which six regional and two interregional:

- the Abruzzo SEZ (port of Ancona);
- the Campania SEZ (ports of Naples and Salerno);
- the Calabria SEZ (port of Gioia Tauro);
- the eastern Sicily SEZ (port of Catania);
- the western Sicily SEZ (port of Palermo);
- the Sardinia SEZ (ports of Olbia and Cagliari);
- the Adriatic SEZ (composed of Puglia and Molise and focused on the ports of Bari and Brindisi);
- the Ionic SEZ (composed of Puglia and Basilicata and focused in the port of Taranto).

[16] This acronym indicates the "Roll-on/roll-off" boarding and disembarking procedure which concerns vehicles equipped with wheels (automobiles, lorries and so-on) and occurs without the use of external mechanical means. The expression was created to distinguish this means of loading and unloading from that in which products are loaded and unloaded vertically with cranes.

[17] This acronym (Middle East and North Africa) indicates the region extending from Morocco in the west, crosses the north-western band of Africa, and continues towards Iran in South East Asia.

Each SEZ was assigned objectives referring to the strengthening of infrastructures, to the advantage of territorial competitiveness, which could be followed by new investments to support the optimisation of logistics and international trade. Major infrastructures include strategic ports for international goods traffic (e.g., Naples, Gioia Tauro, Taranto), "retro ports", responsible for storage and logistics management, interports, organized as hubs for the intermodal transport of goods, etc.

In the light of the first results deriving from the SEZ initiatives, national economic policy decisions are directed towards a virtuous amalgamation of territorial management and a centralization of government control.

On the back of what has just been stated, a Single Special Economic Zone for the South of Italy was set up from 1 January 2024, which incorporated the eight pre-existing SEZs, extending its perimeter to the entire territory of the Regions involved.

In 2022, the SEZs handled 40% of the traffic containers in the Mediterranean, with over 5 billion of infrastructure investments between 2018 and 2023. In addition, in the areas in question, there has been a reduction in goods-handling times of 20% thanks to new intermodal connections and the creation of direct and indirect 50,000 jobs in the logistics sector.

5.10.3.1. The single special economic zone for the South of Italy: operating aspects

The Special Economic Zone (SEZ) for the South of Italy was established from the first of January 2024, and includes the territories of the regions: Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sicily and Sardinia.

The SEZ initiative is closely linked to the Single SEZ Strategic Plan, which sets out guidelines and priorities for maximizing the economic and social impact of the initiative.

The SEZ Strategic Plan aims at exploiting the South of Italy's geographic position, making it a connecting point between Europe, North Africa and the East, with the objective of transforming it into an economic and logistics hub at international level.

The main areas of intervention focus on:

- Five production supply chains[18] to be strengthened on the basis of the structural specialization of the different regions.
- Four production supply chains[19] selected according to indicators of economic dynamism, including competitiveness, internationalization, the labour market, innovation and technological progress.

This development will be supported by an integrated and digitalised logistics system, with particular attention on the agri-food and pharmaceutical sectors, promot-

[18] Agri-food&Agro-Industry, Tourism, Electronics&ICT, Automotive and quality Made in Italy.

[19] Chemical&Pharmaceutical, Naval&Shipbuilding, Aerospace, Railways.

ing, at the same time, synergies with the territory and local communities. In compliance with Regulation (EU) 2024/795, the plan aims to stimulate the creation of new businesses based on innovative and cross-cutting technologies, contributing to the growth of a modern and competitive industry.

Bureaucratic simplification and single authorisation

The single authorisation applies to projects linked to the establishment of economic activities in the industrial, productive and logistics sectors. This authorisation, however, refers exclusively to projects that are not included among those subject to certified notification of commencement (SCIA - (certified notice of commencement of business)), single SCIA and conditioned SCIA.

Projects promoted by public or private bodies for the establishment of economic activities or the installation of industrial, productive and logistical enterprises within the single SEZ are considered to be of public utility, non-deferrable and urgent, provided that they fall within the sectors identified by the Strategic Plan. A number of categories of interventions, including the development of energy-based plant and infrastructure, works and activities that fall under the territorial scope of competence of airports and investments of strategic importance, remain, however, excluded from the single authorisation, and are therefore subject to specific regulations. Public or private projects with a minimum value of 400 million euros allocated to the following key sectors are considered as of strategic importance:

- microelectronics and semiconductors;
- batteries;
- manufacturing with low CO_2 emissions;
- digital and smart health-care;
- etc.

The single authorisation replaces all the necessary enabling and authorisation permits for setting up, modifying or terminating an economic activity. This means that it's possible to obtain the required permits for locating, establishing, building, starting, transforming, restructuring, reconverting, expanding or transferring a business, whether industrial, productive or logistical, through a single procedure. In the same way, the single authorisation simplifies also the procedures linked to the closure or reactivation of said activities, reducing bureaucracy and accelerating response times.

The single authorisation issuance procedure, the responsibility of the SEZ Single Desk, provides for: submission of the application; electronic issue of the receipt attesting the due submission of the application and indicating the terms within which the administration is obliged to respond (that is, within which the silence of the administration is equivalent to acceptance of the application); any requests for supplementary documentation.

The SEZ Mission Structure calls for a simplified service conference, for which special provisions apply, within 3working days from receipt of the documentation. The conclusion of the services conference, with a motivated decision, allows for commencement of all the works, activities and services envisaged by the project. In some cases, this decision can imply a modification to the urban planning tool, giving the intervention the character of public utility, urgency and non-deferability. In addition, fundamental aspects such as the environmental impact of the project are taken into consideration in the final evaluation.

If conditions for suspension of the proceedings should arise and in the event administrations called upon to protect "sensitive" interests are not involved, the final decision of the services conference must be adopted within sixty days.

Specific provisions apply also in the case of projects that have been submitted by public or private parties which are under the jurisdiction of the Port System Authorities.

When it comes to projects initiated private parties, the SEZ Mission Structure forwards the application and the relative documentation to the competent Port Authorities through the SEZ Digital Single Desk. As the body responsible for the procedure, the latter has the task of convening the services conference and of issuing the single authorisation necessary for implementing the project.

If the projects are promoted by a public entity, the competent Port Authority, as the administration responsible for the procedure, receives any application and necessary documentation. It then goes on to convene the services conference, informing the SEZ Mission Structure through the Digital Single Desk, and issues the single authorisation in question.

The adoption of uniform methods and timeframes in all SEZ regions favours businesses, allowing them to choose where to invest on the basis of the attractiveness of the territory, without being conditioned by differences in administrative processes. In addition, the digital management of the procedures – from communication to the evaluation and consultation of the business file – reduces the distance between economic operators and administration, improving the overall efficiency of the entrepreneurial system.

A number of specific tasks are attributed to the Digital Single Desk. In particular, it deals with the management of administrative procedures linked to economic and productive activities, with regards to both the development, expansion or termination of production plant, and for their possible reactivation, localisation or relocation.

In addition, the Desk is responsible for administrative procedures relating to productive building interventions, including those for transformation of the territory through private initiative and modifications to existing buildings. Finally, administrative procedures necessary for the construction, expansion or renovation of structures intended to host sporting or cultural events open to the public also fall under its responsibility.

Tax credit

For the **benefits** envisaged with reference to tax credit in relation to investments made in the single SEZ, reference should be made to what is set out in paragraph 5.2 of this guide.

Other facilitative measures in SEZ areas

The framework of measures favouring the attraction of investments in the Single SEZ is completed with numerous types of concessions, which can be divided into non-repayable grants (or capital grants) subsidised financing (or interest contributions), guarantee interventions, tax credit and tax incentives:

- **capital grants**: the so-called "non-repayable fund", calculated in a percentage of eligible expenses; no restitution of capital or payment of interest is envisaged;
- **interest contributions and subsidised loans**: reduction of interest or loan concession at favourable conditions;
- **guarantee interventions**: the granting of guarantees using public funds.

For details regarding the application of the above incentives, reference should be made to the Single SEZ Strategic Plan and relative introductory provision.

5.10.4. Conclusions

The creation of a single Special Economic Zone (SEZ) for the regions of Southern Italy is a very significant strategic choice, both at national and European level. This initiative, launched in 2023 and subsequently submitted for approval by the European Commission, involves an extensive geographical area, situated in a key position in the Mediterranean context. This decision not only constitutes a challenge for the South of Italy, but the entire country and the European Union economic system.

The implementation of the Single SEZ has marked an important step forward, requiring a high level of planning and management capacity on the part of both public and private operators. Data updated to 15 February 2025 show a significant impact: since 6 August 2024 516 Single the Authorisations have been issued, with total investments equal to 8.5 billion euros and employment growth of around 9,000 new jobs. In addition, the positive trend of new business activities in the South of Italy has had a decisive effect on the national balance between closed and newly established businesses.

The importance of this strategic choice is not measured exclusively from the distribution of economic and fiscal incentives, albeit fundamental for attracting investments, but most of all on the capacity to develop an integrated governance model. A

well-coordinated system, based on collaboration between institutions and economic sectors, favouring a sustainable and structured development.

Finally, the Single SEZ can represent a driver not only for economic growth, but also for the exploitation of the Mediterranean as a space for cooperation and progress. Through the mobilisation of capital, know-how and opportunities, this initiative could boost international recognition in the region as a cohesive economic and geographical area, oriented towards sustainability, innovation and peace.

5.10.5. Contacts and references

The Mission Structure is established at the Presidency of the Council of Ministers, and performs the coordination and implementation tasks provided for in the Single SEZ Strategic Plan, takes care of preliminary procedures and carries out relevant administration functions for the purpose of the issue of the single authorisation as per art. 15 of the South Decree.

Reference and contacts:

Via della Ferratella in Laterano, 51 – 00184 Rome (+39) tel. 0667796885, website and reference email address:

- 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).

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)[20] and the delegated and implementing regulations connected to it[21] 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[22], 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[23] 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

[20] 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)).

[21] 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.

[22] 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.

[23] 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.

trade, then need to comply with customs procedures and formalities on account of 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[24]);
- risk prevention and mitigation measures regarding possible violation of various regulations (with the adoption of the 231 Model, extended to the crime of smuggling).

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 commercial 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 agree-

[24] 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.

ments – entered into by the European Union with third countries, with relation to the concept of "preferential" origin.

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[25], 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[26]". The goods thus classified comply with the "non-preferential"[27] 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 important for both commercial and customs purposes. The certificate of non-preferential origin is issued, in Italy, by the competent Chamber of Commerce (CCIAA) for the territory[28] 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 agreement, 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"[29] to attribute prefer-

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

[26] 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.

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

[28] 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.

[29] Sufficient processing must be understood as a work process that allows for a change in the customs head-

ential 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[30]. 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[31] 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:

- cooperation and partnership agreements that regulate economic relations between two countries;
- 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;
- 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 be-

ing or compliance with one of the other rules provided for by preferential agreements.

[30] 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.

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

tween partner countries and define the procedures for the related benefits to be recognised.

Free trade agreements entered into by the European Union[32] 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-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

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)[33].

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, as-

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

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

sessment, 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[34], 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[35].

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 immediately 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)[36].

[34] 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.

[35] Art. 96 Leg. Dec. of 26/09/2024 no. 141: *Administrative sanctions (As this guide is printed, the article is being revised by appropriate legislative action to raise the threshold for increased non-duty duties due.)*
1. Anyone committing violations as per arts. 78 to 83 is punishable with an administrative sanction of 100 percent to 200 percent of the border duties due and, in any case, to an extent not less than euro 2,000, and for the violations as per art. 79, to an extent not less than euro 1,000, except, alternatively:a) in the event of one of the aggravating circumstances as per art. 88, paragraph 2, letters from a) to d); b) the amount of at least one of the border duties due or unduly received, considered distinctly, or of the border duties unduly requested in restitution, is greater than euro 10,000.

[36] Art. 27 Leg. Dec. Of 26/09/2024 no. 141: *Customs duties and border duties – paragraph 33.*
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.

JAPANESE ECONOMIC SYSTEM

1. Country presentation

Japan, officially known as Nihon-koku or Nippon-koku, is an archipelago situated in East Asia, surrounded by the Pacific Ocean to the east and the Sea of Japan to the west. Its position has made it historically isolated from the Asian continent, allowing it to develop its own unique culture which is deeply rooted in traditions but, at the same time, extremely innovative.

The country is composed or around 6,800 islands, the four major ones being Honshū, Hokkaidō, Kyūshū and Shikoku. The capital, Tokyo, is one of the most advanced and densely populated metropolises in the world, with over 37 million inhabitants in the metropolitan area. Other important cities include Osaka, Kyoto, Nagoya, Fukuoka and Sapporo, all with a strong economic and cultural influence.

Japanese society is renowned for its discipline, sense of order and deep respect for rules. This is seen in every aspect of daily life, from behaviour in public to the extraordinary precision of its railway system, famous for the punctuality of its high-speed trains, the Shinkansen.

From a cultural point of view, Japan is a country that perfectly mixes ancient and modern: next to thousand years-old temples, Zen gardens and tea ceremonies, we find cutting-edge technologies, futuristic skyscrapers and a leisure industry which is one of the most influential in the world, with anime, manga and videogames loved throughout the world.

The Japanese economy is one of the most highly developed in the world, with a GDP that is among the highest on the planet. The country, however, is facing various challenges, including a serious ageing of the population and a birth rate that is one of the lowest in the world. The government is seeking to balance economic growth and the need for social reforms to tackle these demographic problems.

1.1. The political system

Japan is a constitutional monarchy with a parliamentary system, which means that the head of the State is a monarch (the Emperor), but effective political power is exercised by a democratically elected parliament.

The Emperor of Japan, currently Naruhito, has a purely symbolic and representative role, sanctioned by the Constitution of 1947, which defines Japan as a pacifist democratic State. The Constitution, imposed by the United States after the Second World War, has established a form of government whose executive power is assigned to the Prime Minister, chosen by the National Diet (the Japanese parliament).

The National Diet is a bicameral system, composed of:

- the House of Representatives (Shūgiin), which holds the main legislative power and is composed of 465 members elected every four years;
- the House of Councillors (Sangiin), with revision and control powers, whose members are elected for a mandate of six years.

In the last few decades, the Japanese political scene has been dominated by the Liberal Democratic Party (LDP), which has governed almost uninterruptedly since the end of the war, guaranteeing the country considerable stability. The political system is often criticised, however, for its excessive rigidity and for the difficulty of carrying out rapid structural reforms.

Japan is also renowned for its pacifist foreign policy, sanctioned by article 9 of the Constitution, which prohibits the country from having an offensive army, even though it has gradually strengthened its defensive forces.

1.2. The legal system

The Japanese legal system is based on civil law and has been strongly influenced by European juridical models, particularly the German and French ones. The Constitution of 1947, besides establishing the parliamentary system, also guarantees the fundamental rights of citizens, including the freedom of expression, the right to equality and the protection of private property.

Japan is known for having one of the lowest crime rates in the world. This is attributable not only to the efficiency of the law enforcement agencies, but also to strong social pressure, which discourages illegal conduct. The Japanese legal system, however, is often criticised for the high level of convictions, which exceeds 99% of the cases tried. This is due to a rigorous investigative system, aimed at obtaining detailed confessions even before the trial.

The Japanese legal system is structured on three levels:

1. District courts, which deal with first degree civil and criminal cases;
2. Courts of Appeal, which re-examine cases further to the request of the accused;
3. the Supreme Court, which is the highest legal body and has the task of guaranteeing compliance of laws with the Constitution.

In the field of civil law, disputes are often resolved through mediation and arbitration, avoiding court litigation, which is less common than in Western countries.

Japan Also has strict laws on the protection of personal data and on defamation, making the digital context highly regulated. Online defamation offenses, for example, can lead to severe legal consequences, reflecting the importance of reputation in Japanese culture.

1.3. The economic system

The Japanese economy is one of the most advanced and developed in the world, characterised by a high level of industrialisation and by a strong emphasis on technological innovation. With a nominal GDP that puts it in third place at global level, Japan stands out for the quality and efficiency of its productions, particularly in the electronics, automobile, robotics and precision mechanics sectors. This extraordinary economic success has its roots in the so-called "Japanese Economic Miracle", that occurred after the Second World War, when the country managed to rapidly rebuild its economy thanks to targeted economic policies, investments in training and in technological progress, and the population's strong spirit of sacrifice.

One of the most distinctive aspects of the Japanese economic system is the presence of the keiretsu, large business conglomerates operating in a variety of industries and which, thanks to close ties with banks and the government, manage to maintain strong financial stability. Examples of keiretsu are industrial groups such as Toyota, Mitsubishi, Sony and Panasonic, which have contributed to transforming Japan into a world leader in the respective industries.

The Japanese economy, however, is not without challenges. One of the most urgent problems is the drastic ageing of the population, which is reducing the available workforce and increasing the burden of the pension and welfare system. In addition, Japan has one of the highest public debts in the world, exceeding 260% of PIL, making it necessary to constantly balance expansive policies for stimulating growth with measures to contain public spending.

To tackle these problems, the Japanese government has adopted various economic strategies, including the famous "Abenomics" plan, introduced by the former prime minister, Shinzo Abe, which envisages fiscal stimuli, structural reforms and an ultra-expansive monetary policy to relaunch growth. Japan continues, moreover, to heavily invest in new technologies, from artificial intelligence to advanced robotics, in order to compensate for the demographic decline and maintain its global competitiveness.

1.4. The banking system

The Japanese banking system is one of the most highly developed, regulated and solid in the world. Its structure is dominated by large banking groups, including Mitsubishi UFJ Financial Group, Sumitomo Mitsui Banking Corporation and Mizuho Financial Group, which manage enormous quantities of capital and have a significant influence not only at national level, but also on the global financial market.

At the top of the Japanese banking system there is the Bank of Japan (BOJ), the central institute responsible for monetary policy. In the last few years, the BOJ has adopted a strategy of interest rates close to zero or even negative, with the aim of stimulating credit and incentivising investments. This policy, however, has had contrasting results: while, on the one hand, it has permitted businesses to easily access financing, on the other hand, it has reduced the profit margins of banks and increased the risk of economic stagnation.

Another characteristic of the Japanese banking system is the strong presence of regional banks, which have a crucial role in supporting local small and medium enterprises. These banks offer personalised services and contribute to the development of local economies, even though in the last few years they have been facing difficulties linked to the demographic decline and the competition of new financial technologies.

In recent years, Japan has heavily focused on the digitalisation of the banking sector, promoting the use of electronic payments and fintech platforms. The country, however, remains strongly tied to cash, and many transactions are made in banknotes rather than with credit cards or digital systems, a phenomenon that contrasts with the modernity of the Japanese economic system.

1.5. The flag and the currency

Japan’s flag, known as Hinomaru, is one of the most iconic and representative national symbols. Characterised by a simple red disc on a white background, it symbolises the rising sun, a concept deeply rooted in Japanese culture. The meaning of the country’s name, Nihon or Nippon, translates, in fact, as "origin of the sun", a reference to Japan’s geographical position in East Asia.

From a historical point of view, the flag has been used in various contexts, including periods of war, and in some nations in East Asia it has been associated with Japan's imperialist past. Today, however, Hinomaru is mainly a symbol of national identity and unity, exhibited in official occasions and public ceremonies.

Japan’s official currency is the Yen (JPY, ¥), one of the strongest and most used currencies in the global financial markets. The value of the Yen is influenced by the coun-

try's economic policy and is often considered a safe haven currency, which means that investors buy it in periods of global economic instability to protect their capital.

1.6. Japan and its role in ASEAN

Although it is not an official member of ASEAN (Association of Southeast Asian Nations, of which more will be said in the chapter dedicated to free trade agreements), Japan has for decades had close economic, political and strategic ties with member countries, establishing itself as one of the leading partners of the region. Thanks to its economic strength and its technological capacity, Japan has been able to build a privileged relationship with many of the ASEAN nations, including Thailand, Indonesia, Malaysia and Vietnam, through intense commercial cooperation and targeted investments in infrastructures, industrial production and technological research.

Relations between Japan and ASEAN dates back to the 1970s, when Tokyo began to intensify its involvement through development aid and free trade agreements. This collaboration has gradually intensified, culminating in the creation of ASEAN+3, an economic cooperation platform that also includes China and South Korea. This mechanism aims at promoting financial stability, incentivising investments and strengthening regional trade, making Japan a key player in the economic dynamics of South East Asia.

Japan is today one of the major foreign investors in the ASEAN countries, with billions of dollars allocated to economic development, industrialization and infrastructure projects. Specifically, Japan is a leader in the transport and railway infrastructure sector, having supplied advanced technology for the construction of high-speed trains and subways in cities like Bangkok, Jakarta and Manila. Japanese experience in the railway sector, linked to the success of the Shinkansen, has made Japanese companies among the most sought after for the modernisation of urban and interurban transport networks in the region.

Besides transport, Japan is heavily committed to the development of renewable energy systems and environmental sustainability. Given the growing demand for energy in the ASEAN countries, Tokyo has financed numerous projects in the renewable energy sector, such as solar and wind systems, contributing to reducing the region's dependence on fossil fuels and to promoting a greener economy.

In the industrial sector, many Japanese multinationals have transferred part of their production to ASEAN countries, attracted by lower labour costs and tax incentive policies. This has led to the creation of numerous industrial and technological centres, especially in Thailand and Vietnam, where companies like Toyota, Honda, Sony and Panasonic have established large production sites.

Besides infrastructural and industrial investments, Japan plays a key role in financial cooperation with the ASEAN countries. Tokyo was one of the promotors of the Chiang Mai Initiative, a multilateral agreement aimed at stabilising the economies of the region through the creation of joint foreign exchange reserves, to protect the ASEAN countries from financial crises.

On a geopolitical level, Japan actively collaborates with ASEAN to guarantee security and stability in the Pacific region, especially in response to the increase in tension in the South China Sea, where China is expanding its influence. For this reason, Tokyo has strengthened its strategic ties with a number of ASEAN member states, providing military assistance and training to the naval forces of countries such as the Philippines, Vietnam and Indonesia.

1.7. Economic relations with Italy

Economic relations between Italy and Japan are well-established and characterised by a continuously growing trade flow. Both countries have highly developed economies, with a strong orientation towards innovation and the quality of products, elements that have favoured an increasingly intense economic cooperation. Although Japan is geographically very distant from Italy, the two nations share a deep respect for craft tradition and design, aspects that are reflected in the dynamics of commercial exchange.

Italy has always been considered as a point of reference for the luxury sector, fashion and design, and the Japanese market is one of the most receptive to Made in Italy. The Japanese appreciate the attention to details, the elegance and high quality of Italian products, elements which make them particularly attracted to high fashion brands, leather goods and luxury furniture. Italian brands such as Gucci, Prada, Ferragamo, Armani and Bulgari have a consolidated presence in Japan, with boutiques and outlets in strategic cities like Tokyo, Osaka and Kyoto.

Besides the luxury sector, Italy exports to Japan a vast range of industrial and technological machinery, particularly in the precision mechanics, robotics and automation sector. The Japanese manufacturing sector requires advanced tools and high-quality machines for optimising production, and Italian companies, thanks to their experience in mechanical engineering, are seen as a reliable partner for Japanese industries.

The agri-food sector is one of the most important sectors in trade relations between Italy and Japan. Japan is a sophisticated market, with consumers increasingly interested in food and wine products and in the Mediterranean diet. In particular, the Japanese show a strong appreciation for Italian products such as wine, olive oil,

cheeses, pasta and cold meats, considered symbols of excellence and a healthy and balanced diet.

Italian wines are among the most exported products, recording a significant increase in sales thanks to the growing wine culture in Japan. Italy is one of the main suppliers of wine in the Japanese market, with labels of prestigious regions such as Tuscany, Piedmont, Veneto and Sicily which are appreciated for their quality and authenticity.

Extra virgin olive oil has also made a mark with Japanese consumers, who increasingly use it in their kitchens, both for seasoning traditional dishes and as a healthy alternative to other fatty foods.

With regards to pasta, the Japanese market is showing growing interest for Italian productions, particularly artisanal and organic pasta. Despite the strong presence of local noodle-based dishes (like ramen, soba and udon), the Japanese have developed a taste for Italian pasta, thanks especially to the spread of Mediterranean cuisine in Japanese restaurants.

For its part, Japan exports to Italy automobiles, electronic components and advanced technology, sectors in which Japanese companies are world leaders.

Japanese car manufacturers, like Toyota, Honda, Nissan, Mazda and Suzuki, have a strong presence in the Italian market, offering models appreciated for their reliability, efficiency and advanced technology. The hybrid and electric cars segment is growing strongly, with Toyota and Honda leading the market thanks to their investments in innovation and sustainability.

Another key sector of Japanese exports to Italy is electronics and consumer technology. Companies like Sony, Panasonic, Canon and Fujitsu are among the main suppliers of electronic products, optical devices and precision tools used in various sectors, from photography to medical engineering.

Japanese industrial components are much in demand in Italy, particularly for machine tools, semiconductors and industrial components, essential elements for the Italian manufacturing sector. The Japanese robotics industry is among the most advanced in the world, and many Italian companies collaborate with Japanese partners to integrate new technologies in production processes.

One crucial element in the growth of trade between Italy and Japan was the coming into force, in 2019, of the Japan-UE Economic Partnership Agreement (EPA). This agreement was an important step for simplifying commercial exchanges between the two markets, gradually eliminating numerous tariff barriers and facilitating access by European and, therefore, also Italian, enterprises to the Japanese market.

Thanks to the EPA, Japan has reduced tariffs on many Italian products, including wines, cheeses and fashion products, enabling Italian exports to grow. In the same way, Italy has facilitated the importation of Japanese technological and industrial products, incentivising reciprocal investments between the two economies.

The agreement also promoted greater cooperation between Italian and Japanese businesses, facilitating the creation of joint ventures and industrial collaborations in

strategic sectors such as automation, artificial intelligence, sustainable mobility and renewable energy.

1.8. The protection of intellectual property

Japan has an advanced and extremely effective system for protecting intellectual property, which includes patents, trademarks and copyright. Being a country with an economy based on technological innovation, research and industrial development, the protection of intellectual property is considered fundamental for guaranteeing the competitiveness of Japanese enterprises and for attracting foreign investment.

The main body dealing with the management of intellectual property rights is the Japan Patent Office (JPO), which operates under the aegis of the Ministry of the Economy, Trade and Industry. The JPO is responsible for the registration and regulation of patents, trademarks and industrial designs, guaranteeing a clear and secure legal framework for companies. The Japanese system is recognised for its efficiency and rapidity in the examination of patent applications, with approval times often less than those in other large industrialised countries.

Japan has one of the highest number of patent applications at global level, thanks to its strong propensity for innovation. Every year, thousands of Japanese and international companies file patent applications to protect their inventions in the automation, electronics, artificial intelligence, biotechnologies and robotics industries.

The Japanese patent system follows the first-to-file principle, which means that the invention right is attributed to the party that first files the patent application, and not necessary the first one that invented it. This aspect makes it vital for companies to register their inventions rapidly in order to avoid the risk that they are patented by third parties.

The duration of patents in Japan vary according to the type:

- standard patents: protection for 20 years from the date of filing;
- utility models (inventions of a less complex technical nature): protection for 10 years.

One of the peculiarities of the Japanese system is the special attention towards high-tech and robotics, sectors in which Japan is a world leader. Japanese companies, like Toyota, Sony, Panasonic and Fujitsu, invest heavily in research and development, and the patenting system is designed to facilitate their expansion, protecting cutting-edge innovations.

As well as patents, Japan offers solid protection for commercial trademarks and industrial designs, essential for guaranteeing the recognizability and value of brands,

both Japanese and foreign. The trademark registration system in Japan is similar to the European and United States one, and provides for protection that lasts 10 years, with the possibility of indefinite renewal.

The fashion, luxury and technology sectors are among the most attentive to trademark protection in Japan, with large global companies registering their brands in order to avoid counterfeiting. Made in Japan is synonymous with quality and reliability, and the Japanese government has developed very strict regulatory instruments to protect the integrity of the national brand and to contrast counterfeit products.

Industrial design, which covers the aesthetic aspect and the distinctive shape of a product, is another highly valued category of intellectual property. The registration of a design in Japan offers protection of up to 25 years, providing companies with a long-term competitive advantage.

Japan has a well-developed legal system for the safeguarding of copyright, protecting literary, musical and cinematographic works, software and artistic works. The protection of copyright in Japan has a duration that varies according to the type of work and the person that created it:

- works of individual authors: protection for 70 years after the author's death (previously 50 years, extended to 70 in 2018);
- corporate or anonymous works: protection for 70 years from publication.

Thanks to its position as leader in the anime, manga, videogames and entertainment industry sector, Japan has adopted very strict measures for combatting piracy and the illegal distribution of contents protected by copyright. Illegal streaming platforms and download sites of manga and anime are constantly monitored and closed by the Japanese authorities, with the introduction of strict penalties for those infringing copyright.

One of the most significant aspects of the protection of intellectual property rights in Japan relates to the fight against counterfeiting and piracy, two phenomena that pose a threat to the economy and the security of consumers.

Japanese laws provide for very tough sanctions for those who infringe intellectual property rights, whether in a commercial or digital context. The penalties for counterfeiting include heavy fines and imprisonment for up to 10 years, depending on the gravity of the crime.

To combat counterfeiting, Japan has developed a close collaboration with companies and customs authorities, implementing advanced systems for monitoring and the seizure of falsified products. Particular attention is given to the luxury, technology and pharmaceutical sectors, which are among the most exposed to counterfeiting.

Another key tool is cooperation with international organisations such as the World Intellectual Property Organization (WIPO) and the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreements that guarantee that the intellectual property rights registered in Japan are recognized and respected also abroad.

1.9. Japan and the 2025 World Expo

The 2025 World Expo will be held in Osaka, in the region of Kansai, from 13 April to 13 October 2025, and will have, as its main theme, “Designing Future Society for Our Lives”. The event will take place on the artificial island of Yumeshima, situated in Osaka Bay, and it is expected to attract around 28.2 million visitors from all over the world.

Expo 2025 is a particularly important opportunity for Japan, a country that has always shown great commitment to technological innovation and sustainable development. The chosen theme reflects the need to face global challenges, such as climate change, population ageing and digitalisation, through innovative and sustainable solutions. Japan is hosting a World Expo for the third time: the first took place in 1970, also in Osaka, and the second 1990 with the International Gardening Expo.

One of the key aspects of the Expo will be advanced technologies, such as artificial intelligence, robotics and biotechnology, to improve the quality of life and create a more inclusive and connected society. 150 countries and organisations will be participating, contributing their own pavilions and innovative projects for exploring the future of human society.

Another distinctive element of Expo 2025 is its official mascot, Myaku-Myaku, a colourful creature with fluid forms which symbolises the continuity of life and the pulsating energy of the universe. The design of the mascot represents the meeting of water and living cells, fundamental elements for the survival and evolution of life on Earth.

Japan has invested heavily in transport structures to facilitate visitors’ mobility, including an extension of the Osaka subway line and the creation of sustainable mobility systems, such as hydrogen-powered buses and self-driving taxis. In addition, the event will adopt rigorous measures for environmental sustainability, with the aim of minimising ecological impact and promoting circular economy models.

Expo 2025 will not only be a showcase for innovation, but also a venue for global dialogue, where leaders, scientists, businessmen and citizens will be able to compare views on the challenges of the future and establish new international collaborations.

With particular attention on health, wellbeing and the link between people and technology, the Osaka Expo 2025 promises to be a revolutionary event, able to redefine the way in which we conceive the society of the future.

The World Expo in Osaka is an important opportunity for strengthening ties between Italy and Japan, promoting cultural, scientific and technological collaborations. The Italy Pavilion, designed by the architect Mario Cucinella, interprets the theme of the Expo, “Designing Future Society for Our Lives”, with the concept, “Art regenerates Life”. This pavilion functions as a living organism, highlighting the interactions be-

tween art, environment and innovation, and will host events and exhibitions that celebrate Italian excellence in various sectors.

The collaboration between Italy and Japan extends also to the aerospace sector. In November 2024, the Italian Space Agency (ASI) and the General Commissariat for Italy at Expo 2025 Osaka signed a Memorandum of Understanding to promote initiatives linked to the aerospace industry during the event. This agreement aims to exploit Italian excellence in space technologies and to strengthen the partnership with Japan in this area.

In addition, Italy has been appointed member of the Expo 2025 Osaka Select Committee, with the Ambassador Mario Vattani representing the country in the group responsible for organizing the World Expo. This appointment underlines the importance of Italy's participation and its commitment in actively contributing to the success of the event.

These initiatives highlight the strong collaboration between Italy and Japan, aimed at promoting cultural exchanges and technological innovation, further consolidating relations between the two countries in view of Expo 2025.

2. Setting up a business in Japan

2.1. Foreign investments in Japan: rules and procedures

Foreign investments in Japan are generally permitted. Starting from 1980 with the Foreign Capital Act and subsequent provisions, governments have incentivised foreign investments with various measures. Specific permits are, however, necessary in the following cases:

- Foreign Exchange and Foreign Trade Act: imposes restrictions mainly regarding activities that could potentially represent a risk for national security (such as arms, nuclear energy), public order (such as electricity, gas, telecommunications, public transport) and others.
- Limitations relating to specific sectors, with particular reference to infrastructures in which there could be restrictions on the stakes of foreign capital or sectors for which prior approval by the authorities is required, regardless of the nationality of the investors (health, public health and others).

A foreign party that wishes to carry on a business activity in Japan can do so through a representative office or a branch, or by setting up a new company.

2.2. The representative office

A representative office can operate as an intermediary between the foreign company and the third parties with which it wishes to enter into contracts; it cannot act on its own account, but only represent the parent company. It can only carry out market research and coordinate activities. Only parties that are employees or directors of the parent company can operate in it. No particular registration is required; it cannot open bank accounts or enter into contracts on its own account, but can only do so in the name of the foreign company.

Advantages: Easy to set up, no obligation for tax registration.
Disadvantages: Cannot carry on business activities directly; operating limitations.

2.3. The Branch

A branch must have the same name as the parent company and may only carry out the same activities as the parent company. It's useful if it is planned to export or sell directly in Japan

It is clearly not a different legal entity from the parent company. There needs to be at least one representative of the parent company in Japan in order to set up a branch.

The branch may enter into contracts, open current accounts and rent premises in its own name.

Registration is necessary with the Legal Affairs Bureau. The requirements and necessary documentation are the same as for a Japanese enterprise the same type or similar.

It is taxed as non-resident and may not, therefore, benefit from local tax breaks.

Advantages: Simpler establishment procedure compared to a Japanese company; lower costs compared to the setting up of a KK or GK.

Disadvantages: Direct responsibility of the parent company; fewer tax breaks.

2.4. Setting up a company

A new company can have a different name from the parent company and may potentially carry on any business activity.

The types of company from which to choose are:

- Kabuishiki Kaisha - KK Joint Stock Company
- Godo Kaisha – GDK Limited Liability Company
- Gomei Kaisha – GMK Unlimited Liability Partnership
- Goshi Kaisha – GSK Limited Liability Partnership

2.4.1. Kabushiki Kaisha – KK - Joint Stock Company

This is the most common type of company, also among foreign investors, and provides for the limited liability of the capital contributed. It's more or less equivalent to the Italian società per azioni company and similar to the English joint stock company.

It cannot buy its own shares.

It must include the initials (株式会社) in its company name.

The minimum share capital is 1 yen. There are no limits on the transfer of shares, which can, therefore, be established in the articles of association.

It is necessary to file the financial statements.

The company must have a minimum of one or three directors, depending on its size, and the shareholders' meeting must take place at least once a year. Profits can be distributed in proportion to the stakes of share capital held.

Listing on regulated markets is possible.

It's the most widespread type of company in Japan and enjoys high credibility among companies and potential employees.

Advantages: high credibility, the possibility of stock exchange listing, easier access to funding.

Disadvantages: high initial and management costs; greater bureaucratic complexity.

To set up this type of company, the steps are as follows:

- identification of the type of company and checking with the Legal Affairs Bureau that no companies with the same name already exist;
- drawing up of the articles and memorandum of association and declaration of the beneficial owner;
- acquisition of the documents of the company investing in the equity;
- incorporation with a public deed drawn up by a Japanese notary;
- deposit of share capital in a dedicated current account;
- appointment of the directors and any other corporate bodies;
- registration with the Legal Affairs Bureau;
- acquisition of the registration certificate (around fifteen days after the deed of incorporation).

2.4.2. Godo Kaisha - GK - Limited Liability Company

This type of company also provides for the limited liability of the capital contributed.

The incorporation procedures are simpler and less costly than those for a KK.

It's possible to establish a percentage of profit sharing different from the share capital stake. The members are also directors, unless the articles of association specify otherwise.

The transfer of shares is subject to the unanimous approval of the other members.

Stock exchange listing is not possible and it is not mandatory to hold an annual general meeting of members.

This type of company was introduced in 2006 and is less common than the Kabushiki Kaisha.

Advantages: reduced incorporation and management costs; more flexible structure.

Disadvantages: less prestigious than the KK; cannot be listed on the stock exchange.

The incorporation process for this type of company is simpler than for the KK and involves the following steps:

- identification of the type of company and checking with the Legal Affairs Bureau that no companies with the same name already exist;
- acquisition of the documents of the members;
- drawing up the deed of incorporation;
- registration with the Legal Affairs Bureau;
- acquisition of the registration certificate (around fifteen days after the deed of incorporation).

2.4.3. Gomei Kaisha – GMK - Unlimited Liability Partnership

This type of business is comparable to the Italian società in nome collettivo and the English general partnership, with all members having unlimited liability and acting as directors.

There must be a minimum of two members. It is suited to small businesses, but is not very common, due to the lack of limited liability.

2.4.4. Goshi Kaisha – GSK - Limited Liability partnership

It's little used and in contrast with the Gomei Kaisha, a number of members can have liability limited to the contributed capital, similar to the Italian società in accomandita semplice and the English Limited Liability Partnership.

2.4.5. Sole proprietorship

This is the simplest type of business and provides for the unlimited liability of an individual. For this reason, it is not very common.

3. The tax system

3.1. Taxation of resident and non-resident natural persons:

In Japan, the principle of taxation on a global basis for income wherever produced by "permanent" tax-resident natural persons, that is, by Japanese citizens or foreigners that have been resident for at least 5 of the last 10 years, applies, while non-residents are taxed only on the income generated in Japan.

Foreign individuals that are "non-permanent" residents, that is, who have been resident in Japan for less than 5 years in the last 10 years, although not subject to the principle of taxation on a global basis, they are subject to taxation on sources of foreign income received or paid in Japan, besides the income actually produced in Japan.

A withholding tax of 20% on income of Japanese origin without deductions is generally applied to non-residents.

An individual that moves to live in Japan is considered as resident there, unless the work contract or other documentation shows that their stay in Japan is for less than one year.

3.1.1. "Shotokuzei", personal income tax

"Shotokuzei", equivalent to the Italian IRPEF, or English Personal Income Tax, is applied at progressive rates (the tax period runs from 1 January to 31 December) according to the following bands:

Taxable base (yen)	Rate
Up to 1.95 million	5%
From 1.95 to 3.3 million	10%
From 3,3 to 6.95 million	20%
From 6.95 to 9 million	23%
From 9 to 18 million	33%
From 18 to 40 million	40%
Over 40 million	45%

The income earned by the tax-payer is, in addition, subject to local tax (depending on the period of residence from 1st January each year) with an overall rate of 10%, composed for 4% of prefectural tax (on a provincial basis) and for 6% of municipal tax, besides a fixed contribution for respectively 1,500 and 3,500 yen, with the possibility of variations in the rates depending on the different tax policies adopted by the local administrations.

Following the Tohoku earthquake, an increase of 2.1% of the tax due (calculated on the tax amount and not on the tax base) was introduced for the tax years from 2013 to 2037.

3.1.2. Income from employment

The taxable income of employees includes salaries and wages, bonuses and generally all compensation in kind.

Fringe benefits granted to employees are, in fact, generally added to taxable income, except for a number of exceptions (e.g., house-moving expenses) or favourable tax treatments (e.g., under certain conditions accommodation made available to the employee).

Deductions varying from 550,000 yen (for a taxable income under 1,625,000 yen) with a ceiling of 1,950,000 (if income exceeds 8.5 million yen) are provided for employment income earned by residents.

Taxpayers are not always obliged to submit a tax return: an employee that only has employment income, for instance, is exempt from the obligation, as the employer will have already collected the tax through withholding tax.

3.1.3. Dependent family members and other income

Deductions for spouses and dependent children, as well as other deductions such as, for example, insurance premiums and medical costs, are applied.

Self-employment and business income, net of expenses incurred, which must be appropriate and pertinent, also incurs tax (on the basis of the progressive rates shown above).

Capital income (dividends, interest, capital gains) are generally subject to taxation at 20.315% determined as the sum of the national rate of 15% (increased by the solidarity contribution of 2.1%) and local tax of 5%.

In some cases, however, dividends are not subject to progressive taxation (e.g., equity investments in non-listed companies or significant equity investments in listed companies).

When capital gains refer to the sale of land or buildings held for at least 5 years, they are subject to tax increased by 30% of the national base, plus 9% of local tax: in practice, an overall taxation of 39.63% also taking account of the 2.1% solidarity tax.

3.1.4. Double taxation agreement

In the context of the double taxation of natural persons, it's possible to benefit from the protection agreed under the Convention between Italy and Japan ratified with Law 855/1972 and the relative additional protocol implemented with Law 413/1981.

It should be underlined that, in contrast with the OCSE model, double residency disputes are not resolved through the application of tie-breaker rules but, rather, through agreements between the competent authorities of each State (article 4, paragraph 2).

3.1.5. Inheritance and gift taxes

Japan applies tax with progressive rates from 10% to 55% on inheritances and donations, the taxes for which are regulated by the sozoku zei ho law and are imposed on the beneficiary of the succession and donation rather than on the deceased or donor.

The principle of taxation on a global basis is generally applied, with a number of exceptions: taxation is limited to assets in Japan if the heir or donee are not Japanese citizens and they are considered as "temporary" residents (domiciled for less than 10 years in the last 15 years) if they receive sums from a deceased or donor who is also temporarily resident in Japan.

3.1.5.1. Inheritance tax

Inheritance tax, the calculation of which generally requires the assistance of a consultant, is payable on a national basis (local taxation is not applied) and is calculated on a tax basis determined by the sum of the value of the assets transferred reduced by an exempted amount of 30 million Yen, increased by 6 million Yen for each heir.

In this way, for example, an inheritance involving married heirs each with three children will benefit from a deduction of 54 million Yen. As a result of these deductions, numerous inheritances are tax-free; quite significant amounts of tax could, however be payable when large estates are inherited, with the application of a 55% rate for estates worth over 600 million yen.

Progressive tax is, in fact, applied, imposed on each heir, as follows:

Taxable base (yen)	Rate
Up to 10 million	10%
From 10 to 30 million	15%
From 30 to 50 million	20%
From 50 to 100 million	30%
From 100 to 200 million	40%
From 200 to 300 million	45%
From 300 to 600 million	50%
Over 600 million	55%

The tax is increased by 20% when parties other than spouse, children or parents inherit.

Further deductions are, however, granted in favour of minor or disabled heirs and a reduction in the tax payable is also envisaged when the deceased has for their part paid inheritance tax in the last 10 years.

3.1.5.1. Gift tax

Gift tax always varies from 10% to 55% but with bands that vary according to the degree of kinship.

When the beneficiary of the donation is at least 18 years of age and the donor is a first-degree relative, the following bands apply:

Taxable base (yen)	Rate
Up to 2 millions	10%
From 2 to 4 millions	15%
From 4 to 6 millions	20%
From 6 to 10 millions	30%
From 10 to 15 millions	40%
From 15 to 30 millions	45%
From 30 to 45 millions	50%
Over 45 millions	55%

Donations in favour of parties other than a first-degree donee are also subject to rates from 10% to 55% but with a more accentuated progressiveness that leads to the application of the maximum rate of 55% already from 30 million Yen.

Taxable base (yen)	Rate
Up to 2 millions	10%
From 2 to 3 millions	15%
From 3 to 4 millions	20%
From 4 to 6 millions	30%
From 6 to 10 millions	40%
From 10 to 15 millions	45%
From 15 to 30 millions	50%
Over 30 millions	55%

3.1.6. Exemptions and deductions; double taxation

The are, moreover, exemptions that relate, for example, to assets transferred to non-profit organisations, foundations and public bodies, life insurances within the limit of 5 million yen or retirement benefits, again within the limit of 5 million.

A reduced taxation of 20% is applied, moreover, to certain small-sized plots of land.

Reductions are applied to minor heirs under 18 years of age and vary according to their age, while further reductions are envisaged in favour of disabled donees.

In general, with the aim of avoiding double taxation, credit for taxes paid abroad are recognised; in the absence of a double taxation agreement between Italy and Japan regarding inheritance and gift taxes, however, the risk of incurring double taxation cannot be excluded.

3.2. Taxation of Legal Persons in Japan

3.2.1. Introduction

The Japanese tax system is characterised by a complex and centralised structure, which includes taxes at national and local level. Legal persons, in particular, are subject to a structured taxation that takes account both of the business income and the size of the business. This chapter analyses the main characteristics of corporate tax in Japan, with a focus on the tax obligations and opportunities offered to foreign businesses.

3.2.2. Types of Taxes for Legal Persons

Companies governed by Japanese law are considered as resident legal persons for tax purposes and are taxed according to the worldwide principle. This includes both income generated both in Japan and abroad. A tax credit is recognised for taxes paid abroad that can be used to offset the Corporate Tax liability.

Non-resident legal persons are taxed in Japan on the income generated in the territory of the State. This includes, by way of example, revenues, dividends, interest and royalties.

A group tax relief regime is provided for at national level.

The main taxes envisaged for Japanese legal persons are as follows:

1. Corporate Tax (Hōjinzei)
   - Standard Rate: the rate for resident companies varies on the basis of the taxable base and on the size of the company, with an average of around 23.2%.
   - Taxable base: income is determined on the basis of the accounting results and are calculated subtracting admissible costs from revenues. In general terms, accounting for tax purposes follows the Generally Accepted Accounting Principles (GAAP) in Japan and the income of a company is determined according to the accrual basis. Particular deductions include costs for research and development (R&D) and amortisation and depreciation provisions.

The tax rates on companies with relation to tax periods starting from 1 April 2024 are as follows: Size of the company and income	Rate (%)
Paid share capital greater than 100 million Japanese yen (JPY)	23.2%
Paid share capital of 100 million JPY or less, excluding companies entirely owned by a company with a paid share capital of at least 500 million JPY:	
First 8 million JPY in the year	15.0%
First 8 million JPY in the year if the average taxable income of the last three financial years exceeds 1.5 billion JPY	19.0%
Over 8 million JPY	23.2%

2. National local Corporate Tax (Chihō Hōjinzei)

   A **national local Corporate Tax** was introduced from 1 October 2019, calculated at a rate of 10.3% of the Corporate Tax (rate in force from April 2024).

3. Enterprise Tax (Jigyōzei)

   The Enterprise Tax is a local tax applied to companies and other legal persons that carry on business activities in Japan. The tax is calculated on the basis of the company's taxable income, with rates that vary according to the type of activity and the size of the business:

   - small and medium enterprises: the tax is calculated only on income;
   - large enterprises: the calculation depends on the size (share capital) of the company and the "added value" (which includes items such as personnel costs and rents). As a result, large enterprises incurring losses could, nevertheless be subject to tax.

4. Special Local Corporate Tax (Gaikei Hyojun Kazei)

   This is a surtax supplementing the Enterprise Tax. Although a national tax, it's collected via the Enterprise Tax return and is applied to companies whose paid share capital exceeds 100 millon JPY.

5. Resident Tax (Jūminzei)

   Resident tax is applied on the income of a company divided between each prefecture and city (municipal district). The subdivision is generally made on the basis of the number of employees, as for the Enterprise tax.
   The effective amount of resident tax will be determined by each local government on the basis of the share capital paid and the number of employees.

Effective tax rates

The effective tax burden on corporate income (the effective tax rate) varies according to the size of the paid share capital of a company. Since Enterprise tax is deductible, the effective tax rate is less than the sum of the legal rates.

3.2.3. Tax incentives and tax-free zone

The Tax Reform Law 2024 introduces measures for:

- improving the investment environment;
- strengthening the start-up eco-system;
- increasing productivity and growth potential;
- optimising the tax system for an increasingly digitalised economy.
- The measures involved include:
- tax credit for promoting national production in strategic sectors;
- the institution of an "innovation box" and changes to the requirements for research and development (R&D) tax credit;
- tax credits for incentivising salary increases;
- introduction of the taxation of digital platforms.

The country has established a number of special economic zones (SEZ) and national strategic zones for incentivising investments, innovation and economic development in key sectors such as technology, health and finance. A number of areas receive tax and regulatory breaks to attract foreign and local businesses.

3.2.4. Transfer Pricing

If a legal person sells or purchases goods or services from a foreign related party or receives or pays a consideration, the operation must be carried out at an arm's-length price for tax purposes. By way of example, the Methods envisaged for the calculation of the market price are here listed: Comparable Uncontrolled Price Method, Resale Price Method, Cost Plus Method, Profit Split Method, Transactional Net Margin Method – TNMM, Berry Ratio, Discounted Cash Flow – DCF).

An **Advance Pricing Agreement** – APA system is available, which makes it possible to confirm in advance the transfer prices proposed by a counterparty.

3.2.5. Dividends

Dividends received

95% of dividends received by a national company and paid by a foreign company holding an equity stake of at least 25% for a continuous period of at least six months until the date of payment of the dividend can be excluded from the company's taxable income.

Any foreign taxes applied on a dividend taxable in Japan can be offset with a tax credit for foreign taxes.

Dividends paid

On dividends received by non-residents, a withholding tax of 20%, or the withholding tax envisaged by the double taxation treaty, if more favourable than the domestic one, is applied. There is a surtax of 2.1%.

3.2.6. Double Taxation Agreements

Japan has entered into numerous double taxation agreements to avoid businesses being taxed twice on the same income.

The main aspects of the Agreement entered into with Italy are set out in the table below:

Article	Comment
Art. 7: business profits	Sono esenti nell'altro Stato contraente, tranne nel caso in cui vi sia una stabile organizzazione: gli utili attribuibili alla stabile organizzazione sono tassati nell'altro Stato contraente (potestà concorrente tra i due Stati contraenti).
Art. 10: dividends	They are taxed in the State in which the beneficiary of the dividends is resident but a withholding tax on dividends paid is applied which may not exceed: › 10% of the gross amount of dividends if the beneficiary is a company that possesses at least 25% of the shares with voting right of the company paying said dividends in the six months immediately prior to the end of the accounting period for which the distribution of profits took place; › 15% of the gross amount of the dividends, in every other case. There is concurrent jurisdiction between the two contracting States.
Art. 11: interest	The State of the recipient applies tax on interest but there is also a withholding tax that may not exceed 10% of the gross amount of the same interest. If the beneficiary of the interest is a stable organisation in the other State and the interest relates to it, such interest remains taxable in the latter State.
Art. 12: royalties	The State of the recipient taxes royalties received from another contracting State according to its domestic legislation. There is the possibility of a withholding tax on royalties paid that cannot exceed 10% of the gross amount of the royalties.
From art. 15 to art. 21	These provisions relate to the taxation of salaries and wages of employees, of the remuneration of a member of the board of directors, of the income of professionals in the entertainment business and of athletes, of pensions and analogous remunerations, and of sums received by students and apprentices.

3.2.7. Tax compliance

For legal persons, the tax period is indicated in the deed of incorporation and may not exceed 12 months. A Japanese subsidiary of a foreign company must adopt the same tax period as the parent company in its country of origin.

Tax returns of companies (that is, for national corporation tax return, enterprise and local resident tax) are based on a self-assessment system.

A company is obliged to submit the tax returns within two months from the end of its tax period. In some cases, if a company is not able to submit the return within the due period, it can request an extension subject to approval of the tax authorities.

Taxes due on the basis of tax returns must be paid by or before the expiry of the return. If an extension for submission of the return is granted, the taxes can be paid by or before the new extended deadline, with the application of interest.

3.2.8. Consumption Tax (Shōhizei)

Consumption tax in Japan (equivalent to Italian IVA or English VAT) is applied when a business transfers goods, provides services or imports goods into the country. The general rate is **10%**; a reduced rate of **8%**, however, is applied to a number of products (e.g., food and beverages and newspapers).

The consumption tax paid by a company, if attributable to taxable income, can be deducted or reimbursed through the submission of a tax declaration, provided the transaction is correctly recorded in the accounting records and supported by relative invoices.

4. The labour market

The labour market in Japan has unique characteristics, influenced by the country's culture, economic history and social policies; traditionally, there is a strong "job for life" mentality; this means that many employees begin to work in a company immediately after graduating and stay in the same company for their entire career.

The Japanese labour market is going through a phase of transition, with increasing openness to immigration, changes in working culture and demographic challenges. In the past, the Japanese labour market was very rigid for women but government policies in the last few years have encouraged greater female participation in the labour market, with an increase in the number of women holding leadership positions in companies.

In the last few years, various legislative reforms have been introduced to modernise the labour market and face demographic and economic challenges: the most significant reforms relate to the laws against gender and racial discrimination.

Since 2020, both men and women have had the right to parental leave of up to a year after the birth of a child. The law allows up to 6 weeks of paid maternity leave before birth and 8 weeks after birth for mothers.

In addition, in 2022, Japan approved laws for a new programme intended for foreign workers, replacing the previous Technical Apprenticeship Programme set up in 1993; this change aims at improving working conditions and at guaranteeing greater protection for foreign workers; immigration policies are, in fact, very restrictive, but the growing lack of labour has made important changes to policies necessary, providing for the introduction of a visa for qualified workers and opening up to foreign workers in sectors such as elderly care, construction and catering.

4.1. Employment law (overview)

The main laws regulating employment in Japan are the following:

- **Labour Standards Act (LSA)**: is the main legislative source of employment law. It regulates working hours, weekly rests, the minimum wage, the remuneration of overtime, holidays and safety laws.
- **Labour Union Act (LUA)**: is the law regulating the Trade Unions. It defines the rights and procedures for the unionisation of workers and bargaining.
- **Labour Contract Law (LCL)**: is the labour code, including a series of laws and regulations that cover more specific aspects of the employment rela-

tionship such as, for example, discrimination, dismissal and maternity protection.

These laws, subject to modifications in the last few years, are currently being revised to make the labour market more flexible and to improve working conditions.

The labour laws regulate the various forms of employed work envisaged by the framework; this means self-employed workers or independent contractors are excluded from the regulations.

4.2. The Employment Contract in Japan

The employment contract must be drawn up in writing and in Japanese. In addition, pursuant to art. 15 of the **Labor Standards Act**, the employer is obliged to provide the employee with a "notice of working conditions" in which the terms of the job, the description of the work to be performed, the remuneration, working hours and company benefits are indicated. A model of the notice document is obtainable on the Ministry of Health, Employment and Welfare website.

With the coming into force of the reform that affected the **Labour Standards Act**, since 1 April 2024 is has been necessary to insert among the working condition to be set out in the "notice of working conditions" three new obligatory elements.

More precisely: in the reformed law, at art.5, there is the obligation to specify not only the current place of work and work duties, but also the scope of possible variations.

The "**place of work and duties**" means the place and tasks in which the worker will be engaged immediately after joining the company; "**scope of variation**" means the scope of possible variations in the place of work and in duties during the employment contract period, also in the case of transfer or secondment. Temporary variations, such as temporary support in other departments, are not included.

In addition, the reform introduced the "presence of details of renewal limit", that is, the obligation to specify in writing any unfavourable changes to the contractual conditions for part-time or contract workers. Therefore, pursuant to art.5 of the reformed Labor Standards Act, if a worker is hired with a renewable fixed-term contract (fixed-term employees, part-time employees, temporary workers, contract workers, temporary workers), if there is a renewal limit (maximum duration of the contract or the maximum number of renewals) in the contract, it is obligatory to give the details.

In addition, if, during the period of a fixed term contract it is decided to introduce or reduce a renewal limit, it is necessary to explain the reasons for it in advance.

There is no National Collective Agreement in Japan (CCNL in Italy) as in many European countries. Employment legislation establishes fundamental rights and regu-

lates aspects such as the minimum wage and working hours and applies to all employees. Many specific working conditions, however, are regulated and determined at corporate level with company or sectorial collective bargaining through company trade unions.

Company trade unions are workers' organisations that deal directly with each single company to determine working conditions, wages and other benefits for employees. Working conditions, therefore, can vary considerably from one company to another, also if large companies tend to have stronger and more favourable collective contracts for workers. In addition, in some industrial sectors, company collective contracts are very influential and establish standards for wages, working hours, holidays and other rights.

Sectorial collective contracts are negotiated for industrial sectors. These contracts tend to be less common, and are present most of all in the construction and transport sectors and, to a lesser extent, in the manufacturing sector.

There are, however, various type of employment contract, each with their own characteristics and means of application. The type of employment contract varies significantly on the basis of the type of work, the duration of the contract and on the required working conditions. Permanent contracts are the norm for qualified workers, while temporary or part-time contracts are very common for seasonal work and for those seeking a flexible job.

For all contracts trial periods may not exceed 3 months, and fixed-term contracts have limitations and require specific justifications.

4.2.1. Permanent contracts

The permanent contract is the most common contract and also represents the most traditional and stable form of employment in Japan, especially for those working in large companies and in technological sectors. Naturally, it does not envisage an expiry date and the worker hired with such a contract is considered an integral part of the company, with opportunities for advancement and continuous training.

It's a type of contract that offers generally more favourable career and promotion opportunities and implies a high level of loyalty between the worker and the company, which in turn expects a long-term commitment.

The working hours are generally 8 hours per day with a lunchbreak; there is, however, strong pressure on the worker to work many more hours: this phenomenon is known as karoshi (death from work).

Japanese salaries tend to be competitive, but salary growth is often slow.

Benefits such as annual bonuses (two or more per year), health insurance and other welfare benefits are envisaged with permanent contracts. Overtime can be included in the contract but are not always paid separately.

Annual holidays increase with seniority and accrue after six months of employment. Sickness leave is generally absent, and in fact, employees normally use annual holidays for sickness. Maternity/paternity leave is, instead provided for: mothers can use 6 weeks of leave before the birth and 8 weeks after the birth; fathers have the right to parental leave (the use of paternity leave is not common).

4.2.2. Fixed-term contracts

Fixed-term contracts are contracts with a starting date and a pre-established expiry date. They are fairly common in the training, tourism, catering and elderly care sectors. Generally, the term of the contract varies from one to three years and can be renewed.

With the reform introduced in 2024, in the fixed-term contract it's now obligatory to indicate the opportunity for fixed-term workers to request conversion to a permanent contract upon renewal of the contract and to clarify the working conditions after conversion.

In this case, the employer is obliged, pursuant to art.3 of the Labor Standards Act, to explain changed conditions on the basis of the work situation (content of duties, level of responsibility, the scope of variations, etc.)

Fixed-term workers can have working hours similar to those of permanent workers but often don't enjoy the same benefits. This contract type is often used for specific projects or seasonal work, such as, for example, in schools, in universities and in the hospitality sector. In addition, the continuity of the contract depends on company needs and, at times, companies seek not to renew the contract at its expiry, making this type of contract less stable. The fixed-term contract can also envisage overtime, remunerated separately.

The period of annual holidays is generally less compared to the permanent contract. Sick leave is normally absent, while maternity/paternity leave is similar to that envisaged for the permanent contract.

4.2.3. Part-time contracts

This contract type is very frequent among students, women and the elderly. The working hours are generally less than those of a full-time job and vary from 3 to 6 hours per day and on the days established by the contract.

Part-time contracts are typically used for temporary jobs (bartenders, waiters, shop assistants).

Part-time workers are generally less protected by employment rights; they don't enjoy the same benefits as full-time workers, the hourly rate is less, and health insurance or company pension is not envisaged unless they work for a sufficient number of hours.

4.2.4. Freelance contracts

Freelance workers in Japan are independent and they have no subordination obligation. They can work in various sectors, such as technology, design, writing, translation and teaching. Freelance workers have to autonomously manage their working hours and their taxation and do not enjoy the benefits typical of full-time contracts, such as business insurance. In addition, they are responsible for their social security and their pension position.

4.2.5. Seasonal contracts

These contracts are used for jobs that involve activity only in certain periods of the year (e.g., holidays, tourist seasons). They are contracts that characterise short-term work, which can vary from a few months to a maximum of a year. Typically, seasonal workers don't receive the same benefits as full-time workers, and are employed in tourist and services sectors and in agriculture. A seasonal work contract can be converted into a fixed-term contract with the possibility of renewal.

4.2.6. Temporary workers

Temporary workers are hired by employment agencies: they work, therefore, on a temporary basis in companies but are hired by employment agencies. It's a contract with low protection but with greater flexibility.

4.2.7. Project workers

The project-based type of contract exists in Japan. With this employment contract, a worker is hired to complete a specific project, with a starting date and a pre-established expiry date. Structurally, project-based contracts are similar to fixed-term contracts, but focus mainly on a determined task or activity. Once the project has been completed, the contract terminates, unless it is extended for new tasks. Welfare benefits, such as pension or health insurance, may not be envisaged or be limited depending on the duration of the contract.

4.3. Working hours and overtime

In Japan the standard working week is 40 hours, with a daily maximum of 8 hours for 5 days per week. Japan, however, has a very intense work culture and therefore working hours often exceed the 40 hours per week. Overtime is permitted and must be remunerated with a salary increase that can vary from between 25% and 75% of the standard salary rate. In 2019, the Basic Limit Rule was introduced which limits overtime to a maximum of 45 hours per week. Workers have the right to a break of 30 minutes after 6 hours of continuous work and a pause of one hour each day.

4.4. Minimum wage, pay check and salary payment methods

No national minimum wage is envisaged in Japan; the minimum wage various depending on the region and prefectures and is updated annually. In October 2024, the average national minimum wage was 1,054 yen (equivalent to around 6,60 euros), registering a record increase compared to previous periods.

Below are some examples of hourly minimum wages in different prefectures:

- **Tokyo**: 1,113 yen
- **Osaka**: 1,114 yen
- **Hyogo**: 1,052 yen
- **Hokkaido**: 1,010 yen
- **Tottori**: 790 yen

These figures highlight regional differences, with the metropolitan areas tending to have higher minimum wages compared to rural areas.

The Japanese has set the objective of taking the hourly minimum wage to 1,500 yen by 2030 (equivalent to around 9.38 euros). All the details of minimum wages by prefecture can be found on the official website of Japan's Ministry of Health, Employment and Welfare.

4.5. Child labour laws

The Labor Standards Act Also regulates child labour, establishing working conditions for minor workers.

The law prohibits the employment of minors of less than 15 years of age and sets out specific restrictions for the employment of minors between the ages of 15 and 18 years.

Specifically: minors between 15 and 18 years of age cannot work between 22:00 and 5:00 in the morning. The employment of minors (15-18 years of age) for work which is dangerous, harmful to the health or morally inappropriate, is also prohibited. The maximum working hours are 40 hours per week.

There are apprenticeship programmes that combine training and practical work. In all events, it's essential that such programmes comply with the child labour laws and guarantee safe and adequate working conditions.

In the last few years, Japan has intensified efforts in combatting child labour and exploitation, implementing stricter measures against forced and child labour.

4.6. Free time and breaks

The right to paid free days accrues when the employee has worked for at least six months for the company. 10 annual days of holiday automatically accrue once six months have passed. After the first six months, one more day of holiday accrues for every additional year employed.

The employer can, however, contractually establish more paid days of holiday than those envisaged by the law. In Japan there are 16 national holidays; considering these days as paid national holidays is an important benefit if compared to the possibility for employees of enjoying paid free days or requesting unpaid leave.

4.7. Sick leave

In Japan employees do not automatically have the right to paid sick leave. They are, in fact, expected to use their annual holidays if they need to be absent from work. The Japanese government provides financial support during the period of sickness or injury that covers around 60% of the wage. The employment laws oblige employers to provide all employees with annual medical check-ups.

4.8. Parental leave

Childcare has been at the centre of recent changes in employment law and in policies implemented to modernise working conditions in Japan.

Japanese law permits up to 6 weeks of paid maternity leave before the birth and 8 weeks of paid leave after the birth. Women are not authorised to return to work for at least six weeks after the birth unless with a doctor's approval.

Starting from 2020, both men and women have the right to parental leave for childcare up to a full year after the birth of a child.

During maternity/paternity leave, two thirds of the standard salary is covered by social insurance. This amount is reduced if the company decides to cover a part of the employee's salary during this period.

4.9. Dismissal

Dismissal in Japan is regulated by the **"Labor Standards Act" (LSA)**, which establishes the conditions for a legitimate dismissal. To dismiss an employee, it's necessary to provide adequate motives and to comply with the notice period. Dismissal procedures are rather complex and to avoid legal disputes must be following in compliance with the laws in force.

Dismissal is permitted only for justified motives and with valid cause. A dismissal without just motives and valid cause is illegitimate and can be challenged in court.

A number of justified reasons for dismissal include:

- lack of work (e.g., an economic crisis or business difficulties that do not allow the regular carrying out of business activities are considered as justified reasons);
- inappropriate behaviour or misconduct (for example, serious breaches of company policies);
- inability to perform the job (besides the inability to fulfil professional duties, this situation can arise for long-term health reasons);
- work performance problems (the employee fails to reach work performance standards; warnings and opportunities for improvement, however, must be provided).

The dismissal process starts with a preliminary warning that the employer is obliged to communicate to the employee. Japanese law establishes that if dismissal occurs without urgent just cause, the notice period must be at least 30 days.

If the company decides not to give the 30-day notice, it must pay compensation equivalent to the salary due for the notice period. If the dismissal is for disciplinary reasons, the company must provide clear, documented motivation with valid justifications: otherwise, the dismissal is considered as unjustified.

In contrast with Italy, in Japan there is no specialized section for labour matters in the courts; labour disputes are normally settled out of court through labour conciliation commissions or judicially, in case of failure to reach an agreement, before an ordinary court.

4.9.1. Dismissal without just cause

If a dismissal is considered unfair, the employee may challenge the dismissal through an appeal and request compensation for damages or reinstatement in the workplace. To avoid disputes, companies must therefore demonstrate that the dismissal decision was reasonable and appropriate in the circumstances.

4.9.2. Dismissal during the trial period

During the employment trial period, which usually last 3 to 6 months, dismissal can be easier with respect to an employee with a permanent contract. Also in this case, however, the company must justify the decision with legitimate reasons; an employee dismissed without just cause, also during the trial period, can always, in fact, challenge the dismissal.

4.9.3. Dismissal for economic reasons

Economic difficulty that can occur during a recession or a financial crisis is considered as just cause for dismissal if aimed at reducing costs. In this case companies must, however, follow a rigorous process, which includes demonstrating proof of the need to reduce staff, the exploration of other alternatives to dismissal and respect for the principles of equity. Companies therefore cannot dismiss workers for causes linked to economic or financial crises without having attempted to reduce costs in other areas, or without having first implemented a salary reduction.

4.9.4. Dismissal for health reasons

In Japan, as in Italy, if an employee cannot be dismissed if they are unable to work for health reasons. In the event of sickness, in fact, an employee is covered by health insurance. Dismissal can be envisaged, however, if the employee is unable to perform

their work for a long period and the company has done everything possible to find an alternative solution (such as transfer to another role).

4.9.5. Effects of dismissal

Employment law does not oblige the employer to pay a specific "severance payment" (as is the case, for example, in a number of European countries); in all events, a number of companies recognise an allowance for employees who are made redundant, especially if they are economic redundancies.

In the event of dismissal, the employee can have the right to an unemployment benefit from the Japanese government, but only if certain parameters and determined conditions established by law are met, such as, for example, having worked for a minimum period of time and having paid social security contributions.

4.9.6. Dismissal of fixed-term employees

The dismissal of employees with a fixed-term contract is more complex with respect to permanent employees, as specific contractual clauses have to be complied with. Also in these cases, however, early dismissal is permitted only if justified by legitimate reasons and the worker could, moreover, have the right to compensation.

4.10. Social Security

The employer must withhold income taxes from employees' pay checks, the rate of which varies according to when each employee joined the company. A part of an employee's salary is also withheld to pay social security. Employers pay into social security an amount equivalent to employees' contributions. In Japan, social security, or social insurance, includes medical insurance, work accident insurance, unemployment benefit and pensions.

Since social security covers public medical insurance, employers are not obliged to provide private insurance plans.

The employment laws oblige employers to provide all employees with annual medical check-ups. In addition, all companies with 50 or more employees must offer regular stress checks, irrespective of the sector in which they work or the type of work performed.

4.10.1. Health insurance

In Japan, both health and workers' compensation insurance are mandatory for all workers and are fundamental for ensuring health and social protection. Public health is well developed and contributions for health insurance are divided between employees and employers. Workers' compensation insurance, which covers accidents and occupational diseases, is fully payable by the company, and offers a complete protection for workers in the event of accidents at work. The Japanese system is designed to guarantee a good quality of life and financial security in the event of illness, injury or other difficulties.

In Japan there is health and workers' compensation insurance, and both are a fundamental part of the Japanese welfare and social protection system.

Health insurance is mandatory and the system is based on two main programmes:

- **Public health insurance**: intended for those not covered by a company health insurance (for example, for freelance workers, pensioners, students and the unemployed). This insurance is normally managed by local municipalities and citizens are obliged to register if they are not covered by another insurance system. Contributions are calculated on the basis of annual income and vary from region to region. In general, the insured person pays a part of the health costs (around 30%) and the rest is covered by the public system.
- **Company health insurance**: intended for employees that work for Japanese companies or subsidiaries international companies in Japan. Most permanent and fixed-term employees are covered by this type of health insurance. Company health insurance is managed by the insurance companies of each firm. Companies are obliged to register their employees with this health insurance. Contributions are divided between the employer and the employee. In general, the employee pays around 50% of the contribution, while the company pays the other half.

4.10.2. Workers' Compensation insurance

Workers' compensation insurance is another cornerstone of the Japanese welfare system, and is aimed at the protection of workers against accidents at work and occupational diseases.

All employees, irrespective of the type of contract, are covered by this insurance. The system is managed by the Japanese government and is financed by the contributions of companies, which are obliged to pay for their employees.

Contributions are fully payable by the employer and the rate of contribution depends on the sector in which the company belongs.

4.10.3. Pension insurance

Japan has a mandatory pension system that covers all workers, freelance and contract workers. The system is based on a contribution by the worker and by the employer, and is structured in two parts: the national pension (for all) and the company pension (for employees of large companies) Employees registered with the company health insurance are automatically covered also by the public pension system, which offers benefits in the event of retirement, disability or death. Freelance workers are covered by the national pension system, which is based on fixed contributions.

4.10.4. Sickness and maternity benefits

In Japan, there are also sickness and maternity benefits: if an employee becomes ill and cannot work for a prolonged period, they can receive a daily allowance that covers part of their income during the illness. The amount cannot, however cover the entire salary. Female workers have the right to maternity allowance and to paid leave in the event of pregnancy, with benefits that vary according to circumstances and the health insurance.

4.11. Visas for foreign workers

Japan has a rather strict immigration policy and, to work legally, it's necessary to obtain a work visa. The visa system for foreign workers is well regulated and depends on the type of work to be performed. To obtain a visa it's necessary to have an employment contract (permanent or fixed-term) with a Japanese employer and to meet the specific requirements envisaged for each type of visa. Visas are granted on the basis of specific skills required in the country (for example, for professionals in the technological, engineering, educational and health assistance sectors).

Visas for foreign workers in Japan are divided into various categories, depending on the profession and the level of qualification required:

- **Visa for highly qualified professionals**: intended for professionals with high qualifications and skills in the engineering and business management fields. The visa system for highly qualified professional is based on a points system, which takes account of various factors such as, for example, educational qualifications (degree, doctorate, etc.), work experience, the salary offered, age and knowledge of languages (Japanese or English). Workers who obtain a high score can benefit from a visa that allows them to work for

a long period (up to 5 years) and to access numerous advantages, such as finding it easier to obtain permanent residency.

- **Visa for specialised workers**: this is one of the most common types of visas for foreign workers and is intended for specialised professionals, especially in the software development, business management (managers, consultants), international consultancy, marketing, design and film production sectors. The requirements are possession of a degree or experience in the specific field, an employment contract with a Japanese company or an "invitation letter" provided by an employer that confirms the employment offer.
- **Visa for teachers of foreign languages**: this is for teachers of foreign languages, such as English, who wish to work in Japanese schools (public or private). Requirements generally include a degree, teaching experience, (with specific certificates such as TEFL, TESOL), a work contract with a Japanese school or educational institute.
- **Visa for workers in specific sectors**: introduced in 2019 to respond to labour shortages in sectors such as construction and care of the elderly, the hospitality sector, catering, agriculture and logistics. There are two categories of this visa: for workers with technical skills and specialised (for example, in the construction and transport sectors) and for highly specialized workers that have advanced experience and skills, and who can work in Japan for longer periods (over 5 years, if they continue to demonstrate high expertise).
- **Visa for technical interns**: this is for workers that arrive in Japan for a practical training programme (technical internship), generally in sectors such as manufacturing, agriculture and construction. Technical interns can work in Japan for a maximum of 5 years. The visa is generally granted through a programme managed by the Japanese government and by private organisations.
- **Visa for temporary work**: this is for workers who take part in specific projects (for example, conferences or events). The duration of the visa is generally from 15 to 90 days.

4.11.1. General requirements for obtaining a work visa

To obtain a work visa in Japan, it's generally necessary to have an employment contract with a Japanese employer or an invitation letter from a Japanese company. It's also necessary to have the required qualifications for the proposed work (for example, a university degree or pertinent work experience) and to submit passport, employment contract, visa application form, photograph and other information. The hiring company must sponsor the visa application and send the documentation to the

Japanese Immigration Office. Work visas for Japan can have a variable duration, depending on the visa category:

- visas for highly qualified professionals or for specialized work: 1, 3 or 5 years.
- visas for workers in specific sectors: generally, up to 5 years for Category 2.
- visas for teachers of foreign languages: from 1 to 3 years.
- visas for technical interns: 1-3 years, renewable for up to a maximum of 5 years.

5. Forms of incentives and aid to investors and businesses

After a long period of stagnation, Japan is once more attracting the attention of global investors. Among the factors that have contributed to this renewed interest are undoubtedly a number of key elements, which include:

- **The UE-Japan Economic Partnership Agreement**, which came into force from February 2019, has made it possible to reduce trade tariffs and barriers for European businesses, with particular attention on small and medium enterprises, which are more affected by barriers to international trade. This agreement has, moreover, led to an opening up of the services markets, especially financial services, telecommunications and transport. In addition, there is greater protection against discriminatory phenomena for foreign investors taking part in public tenders and a greater protection of intellectual property and of geographical indication products.
- **Tax deduction system based on the regional law on the promotion of future investments** allocated to projects that create high added value, provided they can represent a stimulus for the local economy. The incentives in this case are special depreciation provisions and tax deductions for capital investments. In addition, companies can receive exemptions or reductions regarding taxes payable for the acquisition of real estate and property tax applied by local authorities.
- **Existence of a particularly favourable framework of investment incentives for enterprises**.

In detail, with regards to this last aspect, a series of support measures and incentives can be identified:

a. **Tax incentives for strengthening local business structures** directed to companies that open subsidiaries and research laboratories in certain well-identified local areas. The investments can relate to both direct foreign investments and transfers of headquarters by foreign affiliated companies. In this case, the incentives are essentially tax credits for hired workers and special depreciation provisions or tax deductions on the value of specific company structures. Certified companies, moreover, can obtain tax exemptions and reductions of corporate tax, property acquisition taxes and property taxes.

b. Incentives for Special Zones identified as follows:

- Special Strategic National Zones: special legislative measures, tax treatments and financial/monetary support
- Complete Special Zones (for international competitiveness and for local regeneration): special regulatory measures, tax credits and tax/financial support
- Special Reconstruction Zones: special measures, such as deregulation, tax incentives, etc.
- Special Zone for the Promotion of investments in industrial reconstruction in Fukushima: special tax measures when enterprises make capital investments or employ calamity victims

In this context, moreover, the Japanese government has recently set up 4 Special Financial and Capital Management Zones in which special support offices will be set up allowing companies to carry out the necessary procedures for carrying out their activities in Japan entirely in English. In addition, a new visa will be created for foreign investors, granted on condition that they invest in local start-ups located in the four pre-established zones. Each area will adopt specific measures to attract investments.

c. Subsidies for the establishment of new enterprises and the creation of jobs in areas recovering from the tsunami and nuclear disaster: in this case, subsidies are envisaged to support companies that are building or extending plant or factories, in order to relaunch the regional economy through the creation of jobs, subsidies for evacuated areas, and so on, which have been seriously damaged by the nuclear disaster. Financial subsidies are envisaged, moreover, for companies that are considered to have a potential for future growth and which can contribute to the regeneration of the local industrial sector of the damaged area. Specifically, besides grants for the employment costs of disaster victims seeking employment, companies can receive grants for accommodation costs and for costs relating to rented homes or blocks of flats.

d. Digital transformation: a support measure for digital investments to be allocated to enterprises that use the cloud technology necessary to accomplish Digital Transformation, besides tax credits for specific national and local 5G investments

e. **Green energy and carbon neutrality**: the Japanese government has set up a "Green innovation fund" with the aim of providing continuous support to companies and other organisations committed to facing the challenge of achieving specific goals, from research and development to demonstration projects and social implementation over the next 10 years. This tax system provides for special measures such as tax credit and special depreciation provisions for introducing equipment with a significant impact on decarbonisation and equipment that achieves both decarbonisation and an improvement in added value in production processes. The system includes, furthermore, a series of interest subsidies for loans granted to commercial operators that have drawn up plans over at least ten years for promoting constant CO2 reduction efforts.

f. **Open innovation and R&D**: consists in a tax credit that allows companies that carry on research and development to deduct from corporate tax a percentage of costs sustained for testing and research, or a tax credit for the total amount of costs for joint research or incurred in contracts with national universities and research institutes. There is also the possibility of exploiting a tax credit for costs incurred for the acquisition of shares issued by start-ups. Finally, incentives are envisaged, such as subsidies, tax credits and priority review for the development of unapproved medicines and off-label medicines that meet certain conditions.

g. **Tax incentive for the improvement of wages and productivity**: a tax credit that allows companies that actively invest in wage increases and the development of human resources to deduct a certain percentage of the increase in the salaries of employees in the previous tax year from the amount of corporation tax or income tax.

h. **Incentives for foreign highly qualified professionals coming from foreign countries**: Japan has set up incentive measures for foreign citizens, specifically with relation to start-ups. It is essentially a system that guarantees preferential treatment in immigration and residence procedures for highly qualified professionals, using a points system to promote the acceptance of highly qualified foreign professionals. In addition, foreign citizens that attempt to set up a business in Japan, generally have to obtain a "business manager" visa; on the basis of special measures of the Immigration Control Law regarding national strategic special zones and for the promotion of foreign investments, also in the absence of specific requirements for obtaining this visa, applicants can, in any case, obtain a residence status for six months/1 year depending on the specific case, in order to set up a business, under the supervision of the project executive organization. Alongside

this system, there's another system, distinct from the previous one, which guarantees residence status for individuals with a certain level of education, work history and annual income and guarantees them preferential treatment as "special highly qualified professionals" with respect to the points system for highly qualified professionals described above. Finally, the last measure is the possibility granted to certain individuals that have graduated at specific prestigious universities and who wish to look for a job or carry on business activities in Japan to obtain a residence status for "designated activities" ("Future Creation Individual Visa") which allows them to stay in Japan for a maximum of two years.

5.1. Direct foreign investments

Separate mention should be made of the incentives provided for in Japan regarding direct foreign investments, as per the law on the promotion of special measures, for supporting global companies that carry out a new R&D project or a control operation in Japan, in order to promote the attraction of R&D and supervisory bases of global companies in the country.

In detail, a series of measures will be envisaged for all global companies that have been certified by the competent Minister for carrying out a new R&D project or control operation in Japan.

1. Assistance for the raising of finance for small and medium enterprises on the part of the Small and Medium Business Investment & Consultation Co., Ltd.
2. Acceleration of the examination of patents; ordinary examination takes around 22 months, while the accelerated examination takes around 2 months.
3. Abbreviated investment procedures for the anticipated notification of direct investments in regulated sectors that normally occurs in 30 days, while in this case the period is shortened to 2 weeks.
4. Acceleration of residence status checks requested by foreign citizens who intend to work in Japan, for which ordinary times are 1 month while with the accelerated check the time required is around 10 days.

6. Free trade agreements and Japan's strategy

6.1. Evolution of Japan's trade strategy

After the period of great economic expansion that characterised the second half of the 20th century, Japan experienced a significant slowdown in its growth and has had to face the growing competition of emerging economies, in particular China and the ASEAN countries (Association of South-East Asian countries established in 1967 and composed of Brunei, Cambogia, the Philippines, Indonesia, Laos, Malaysia, Myanmar, Singapore, Thailand and Vietnam).

To face the challenges linked to internal economic stagnation and growing international competition, exploiting its geographical position in one of the most economically dynamic areas of the world – the Asia-Pacific area - Japan has chosen to adopt new and more appropriate instruments for strengthening its global economic position and has developed a trade strategy focused on the expansion of its **Free Trade Agreements** (FTA) network, joining numerous **bilateral** and **multilateral** commercial treaties.

The first of these, signed in 2002 with Singapore, was motivated by the intention to help revitalise the domestic economy and the national productive system, contrasting the downsizing of the manufacturing sector caused by the growing process of delocalisation abroad.

Today for Japan, the main objective in joining FTAs is that of guaranteeing its economy stable and safe energy and raw material supplies and, in a longer-term perspective, of reducing the competitiveness gap that separates the country from major international rivals in terms of access to emerging markets, and of developing productive investments in key sector such as automobiles and IT.

Japan is today the third world economy, after the United States and China, and one of the most modern and advanced economic systems in the world.

These are the key points of its trade strategy:

- **market diversification**. Japan depends heavily on exports and has sought to diversify its trading partners in order to reduce the risks associated dependence on "strong" countries such as the United States and China. From this point of view, the FTAs have allowed Japan to have access to growing markets and to extend its economic influence in strategic regions;

- **improvement in its competitiveness**. Through the FTAs, Japan has reduced the cost of customs duties and non-tariff restrictions, offering greater competitiveness for its products, particularly in high-technology sectors such as automobiles, electronics and robotics;
- **more decisive orientation towards multilateralism**. Although Japan has implemented numerous bilateral free trade treaties, it has not failed to promote and support multilateral agreements like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Japan-UE Economic Partnership Agreement (EPA), which do not only involve the removal of tariffs, but extend to substantial questions such as the protection of intellectual property rights, environmental standards and questions linked to workers' rights.

6.2. Japan's free trade agreements (FTSs)

Bilateral agreements

- **Japan-Singapore Economic Partnership Agreement (JSEPA).**
  The Agreement, signed on 13 January and coming into force on 30 November 2002 and then revised in 2007, this was the first FTA entered into by Japan. Intended to eliminate over 98% of tariff barriers between the two countries, the JSEPA is aimed at encouraging investments, simplifying customs procedures, introducing the mutual recognition of standards in the electronics sector and in telecommunications and at creating shared rules that increase the use of e-commerce.

- **Japan-Mexico Economic Partnership Agreement.**
  The Agreement, signed on 17 September 2004 and coming into force on 1 April 2005, with the aim of eliminating 90% of the tariff barriers between the two countries over a period of ten years, liberalises the automotive sector for the Japanese side and agricultural products and foods for the Mexican side. The Agreement also refers to the investments sector and offers Japanese companies the possibility of establishing production sites with direct access, thanks to NAFTA, to the United States and Canadian market.

- **Japan-Malaysia Economic Partnership Agreement.**
  The Agreement signed in 2006, with the aim of eliminating over ten years 97% of the tariff barriers between the two countries, liberalises the automotive and auto components sectors for the Japanese side and the agricultural

products and foods for the Malaysian side and also refers to services, intellectual property, investments, competition policies and human resources.

› **Japan-Chile Economic Partnership Agreement.**
The Agreement, undersigned on 27 March and coming into force on 3 September 2007 with the aim of eliminating over ten years over 90% of the tariff barriers between the two countries, liberalises the automotive, machinery and electronics sectors for the Japanese side and food products for the Chilian side.

› **Japan-Thailand Economic Partnership Agreement.**
The Agreement, signed on 3 April and coming into force on 1 November 2007, with the aim of eliminating over ten years over 90% of the tariff barriers between the two countries, liberalises the automotive, auto components and steel sectors for the Japanese side and agricultural, fishing and livestock products for the Thai side. The Agreement is also intended to favour the entry of Thai workers into Japan in the catering sector.

› **Japan-Indonesia Economic Partnership Agreement.**
The Agreement, signed on 20 August 2007 and coming into force on 1 July 2008 to eliminate over 90% of the tariff barriers between the two countries, liberalizes the automotive, auto components, electronic and steel sectors for the Japanese side and agricultural, forestry and clothing products for the Indonesian side. Thanks to this FTA, Japan also guarantees a stable and secure supply of petroleum and natural gas in exchange for an increase in Japanese investments in Indonesian production plant.

› **Japan-Brunei Economic Partnership Agreement.**
The Agreement, signed on 18 June 2007 and coming into force on 31 July 2008 with the aim of eliminating 99.9% of the tariff barriers existing between the two countries, guarantees Japan a stable and secure supply of petroleum and natural gas, of which Brunei is rich.

› **Japan-Philippines Economic Partnership Agreement.**
The agreement, signed on 9 September 2006 and coming into force on 11 December 2008, aims at eliminating 94% of the tariff barriers between the two countries, liberalising the automotive, machinery, electronics and steel sectors for the Japanese side, and agricultural and food products for the Philippine side. The Agreement also aims at increasing the flow of Philippine nurses, domestic workers and carers into Japan.

› **Japan-Switzerland Economic Partnership Agreement.**
The Agreement, signed on 19 February and coming into force on 1 September 2009 is the only bilateral FTA entered into with a European country. Intended to eliminate 99% of tariff barriers between the two countries mainly in the food sector; the Agreement also facilitates the exchange of services, guaranteeing the protection of investments and intellectual property, promoting e-commerce and safeguarding competition.

› **Japan-Vietnam Economic Partnership Agreement.**
The Agreement, signed on 25 December 2008 and coming into force on 1 October 2009, aims at eliminating 92% of the tariff barriers between the two countries, liberalising the electronics and auto components sectors for the Japanese side and agricultural, fishing and clothing products for the Vietnamese side. The Agreement also facilitates Japanese productive investments in Vietnam in the automotive, motor cycles and electronics sectors.

› **Japan-India Economic Partnership Agreement.**
The Agreement, signed on 16 February and coming into force on 1 August 2011, aims at eliminating over 90% of the tariff barriers between the two countries, liberalising the automotive, auto components, machinery and electronics sectors for the Japanese side and agricultural and food sectors for the Indian side. The Agreement also aims to facilitate investments and the free movement of workers between the two countries.

› **Japan-Peru Economic Partnership Agreement.**
The Agreement, signed on 31 May 2011 and coming into force on 1 March 2012, aims at eliminating 99% of the tariff barriers between the two countries and liberalises the automotive and electronics sectors for the Japanese side and mining, agricultural, fishing and clothing products for the Peruvian side. The Agreement also facilitates Japanese investments in Peru.

› **Japan-Australia Economic Partnership Agreement.**
The Agreement, signed on 8 July 2014 and coming into force on 15 January 2015, and the first entered into by Japan with a large exporter country of agricultural products, aims at eliminating 100% of the tariff barriers between the two States. The Agreement also refers to other service sectors, intellectual property, investments and tenders.

› **Japan-Mongolia Economic Partnership Agreement.**
The Agreement, signed on 10 February 2015 and coming into force on 7 June 2016, aims to eliminate 96% of the tariff barriers existing between the two countries, liberalising the automotive, industrial mining machinery and

construction sectors for the Japanese side and textile products and fissile fuels for the Mongolian side.

› **Japan-US Trade Agreement and Japan-US Digital Trade Agreement.**
The United States and Japan signed a trade agreement on 7 October 2019 regarding market access for a number of agricultural and industrial products, with the intention of continuing with further negotiations in order to arrive at a broader free trade agreement. On the same day, the two countries signed an agreement on digital trade that establishes high-level standards in this area, confirming the guiding role that the two countries have in the global regulation of digital trade.

› **Japan-UK Comprehensive Economic Partnership Agreement.**
The agreement, signed on October 2020 following the United Kingdom's exit from the European Union, is largely similar to the economic partnership agreement between the European Union and Japan entered into in February 2019 with small changes made to the regulation of financial services, digital trade and rules of origin.

Multilateral agreements

› **Japan-ASEAN Feree Trade Agreement**
The Agreement was signed on 26 March 2008 and came into force on 1 December 2008. It covers the trade of goods, services, investments, rules of origin, sanitary and phytosanitary rules, the settlement of disputes, technical obstacles to trade, economic cooperation and intellectual property rights. Thanks to the Agreement, large Japanese automotive and electronics companies present in South-East Asia can today move components more economically within the production chain they have created in the ASEAN Region.

› **CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership).**
This is probably the most ambitious trade agreement entered into by Japan with the country – further to the withdrawal of the United States from the Trans-Pacific Partnership (TPP) in 2017 - playing a central role in the relaunch and modification of the original agreement.
The CPTPP, signed in 2018, and coming into force on 30 December of the same year, today includes countries such as Canada, Australia, Mexico, New Zealand, Singapore, Vietnam, Peru, Malaysia, Chile and Brunei Darussalam,

relates to around 13% of the global economy and offers Japan privileged access to the most dynamic markets in the Asia-pacific region. This Agreement reduces agricultural and industrial tariffs, liberalises investments and improves the protection of intellectual property. Japan will eliminate import tariffs on 95% of products, with the exclusion of sensitive sectors, including rice and beef, which will still benefit from tariff protection and government subsidies.

- **Japan-UE EPA (Economic Partnership Agreement).**
  Signed on 17 July 2018 and coming into force on 1 February 2019, the agreement is the first signed by the European Union with the second biggest commercial partner in Asia. The agreement aims to facilitate trade between the two economies removing tariffs and restrictions on a wide range of goods and services and is also intended to be a foreign policy tool for consolidating ties between the countries of the European Union and Japan in a context of growing global uncertainty.

- **RCEP (Regional Comprehensive Economic Partnership).**
  This is a further trade agreement, linking Japan to 10 ASEAN countries and other important markets in Asia and Oceania, including China, South Korea, Australia and New Zealand.
  The 15 countries that signed the RCEP represent larging trading bloc in history with around 30% of the world's population (2.2 billion people) and 30% of global GDP (29.7 trillion dollars) The Agreement, signed in November 2020, is considered crucial for Japan's commercial expansion in Asia and Oceania.
  It aims at lowering tariffs, increasing investments and facilitating the circulation of goods in the region and includes unified rules of origin that can facilitate international supply chains and trade within the region.

6.3. Strategic goals and advantages of the free trade agreements entered into by Japan

- **Regional and global economic integration**. The FTAs have allowed Japan to reinforce its role as a "hub" of regional and global trade, especially in Asia, in a geopolitical regional context in which China is exercising increasing economic and political influence.
- **Defence of its own economy against protectionism**. Japan – although having good relations with the United States – needs to take account of an

international context in which isolationist policies and protectionist impulses are gaining ground. The FTAs can, therefore, represent for Japan a containment strategy to avoid the negative effects of protectionist measures on global free trade.

- **Sustainability and high standards**. The trade agreements signed by Japan (especially the CPTPP and the EPA) are not just concerned with the liberalisation of trade, but also include important chapters relating to environmental sustainability, human rights, employment and the protection of intellectual property, combining economic effects with social responsibility effects.

6.4. A more in-depth analysis of the Japan-UE Economic Partnership Agreement (EPA)

Since **there are no bilateral free trade agreements exclusively between Japan and Italy**, and economic cooperation between the two countries is mainly regulated through the **Economic Partnership Agreement (EPA)**, it's worthwhile examining the agreement in more detail and identifying aspects of particular interest for Italian enterprises that intend to operate in the Asian country.

Signed in 2018 and coming into force on 1 February 2019, the **Economic Partnership Agreement** is an ambitious and wide-ranging agreement, which effectively creates an open trade area involving 635 million people and almost a third of global GDP and favours the strengthening of the ties between the two partners through regulatory harmonisation between the two economies, greater access to their respective markets for goods, services and public tenders, the elimination of non-tariff barriers (NTBs), the protection of geographical indications and intellectual property rights, and the protection of EU standards. Thanks to this agreement, EU businesses every year export over 58 billion euros of goods and 28 billion euros of services to Japan.

Key points of the Japan-UE EPA.

- **Removal of tariffs**. The agreement provides for the removal of duties, tariffs and other trade barriers and simplifies importation and exportation for the companies of both sides with a liberalisation of 99% of EU tariff lines (corresponding to 75% of imports) and 97% of those of Japan (corresponding to 91% of imports from the EU). This asymmetry is, however, compensated by the Japanese opening towards non-tariff measures with the elimination of most of the barriers (regulations, certifications or onerous technical requirements) which hindered the exportation of European products.

Tariff quotas or tariff reductions have been agreed on tariffs not yet eliminated.

- **Access to markets**. The agreement ensures the opening up of markets to services – particularly financial services, telecommunications and transport – and improves the access of European businesses to Japanese markets, making the exportation of food and beverage, fashion, machinery and advanced technology products easier. At the same time, Japanese businesses benefit from improved access to EU markets, expanding opportunities for the high-technology, automotive and industrial machines sectors.
- **Protection of intellectual property**. The EPA provides for special protection of intellectual property, particularly important for the fashion, design and food sectors. Specifically, the agreement recognises the protection of geographic brands for Italian food and beverage products, such as Parmigiano Reggiano, Prosecco and Balsamic Vinegar of Modena. This prevents these products from being sold under misleading names in the Japanese market.
- **Service and investments**. The agreement guarantees a non-discriminatory treatment of EU companies that operate in public tender markets and facilitates access to the services market, including the professions, telecommunications, finance and transport. European and Italian companies – particularly those in the banking, insurance and professional services sector – can therefore benefit from a more favourable regulatory environment in Japan. The EPA also creates conditions for reciprocal investments making it easier for enterprises in the two blocs to expand their business activities.
- **Sustainability and standards**. The UE-Japan EPA includes reciprocal commitments also with regards to environmental, employment and social sustainability, and to compliance with international standards in relation to climate change, protection of the environment and workers' rights. Specifically, it's the first agreement that includes a specific commitment to the Paris Agreement on climate change.
- **Bilateral protection measures** that allow for the temporary limitation of a product that can cause, or threaten to cause, serious harm to the economy of the contracting countries. Specifically, they are most agricultural safeguarding measures used to protect specific products from any surges in imports. EU products subject to these measures are: beef and pork meat, whey protein concentrate (WPC), whey powder, fresh oranges and racing horses.

The UE-Japan EPA – Main opportunities and benefits for Italian businesses

Italy has solid ties and significant possibilities for growth with Japan, which is one of the leading global players in industrial manufacturing, innovative technologies and international trade.

The economic partnership agreement with Japan offers numerous advantages to Italy and reinforces its commercial relations with the Asian country, boosting opportunities for the export of goods in the agri-food, automotive, pharmaceutical products, medical devices, industrial goods and advanced technologies sectors.

In particular, in the following sectors:

- **Food and beverage products**. Agri-food is the sector in which Italy benefits most from the agreement. Japan is one of Italy's major partners for the export of high-quality food products. With the reduction in customs duties, Italian producers of cheeses, cold meats, vino and olive oil have been able to enhance their access to the Japanese market. Specifically, Italian wine has benefitted from customs tariffs and has generated a growth in the Japanese demand for Italian labels. Alcoholic drinks, which were burdened with tariff of 15%, were liberalized upon the agreement coming into force.
  The agreement recognises special status and offers protection in the Japanese market to over 200 European agricultural products with a specific European geographic origin, known as Protected Geographic Indication (PGI). The owners of Protected Geographical Indications agreed bilaterally in the agricultural, food and beverages sectors benefit from protection against counterfeiting. 45 PGIs will benefit in Japan from the same level of protection as guaranteed in the EU (26 of which relate to wines).
- **Automotive and machinery industry**. The strong Italian sector has found a favourable market in Japan for precision machinery and vehicles. Italian companies in the high-end automotive sector, like Ferrari and Lamborghini, have benefitted from further expansion of their sales in Japan, where the demand for luxury cars is constantly growing.
- **Fashion and design**. Japan is one of the most receptive markets for Italian design and fashion and the agreement has facilitated the access of brands in the sector to the Japanese market, both thanks to the reduction in customs barriers and the protection of intellectual property.
- **Advanced technologies and industrial collaborations**. Thanks to the EPA, Italy and Japan have been able to set up numerous collaborations in the technological and industrial field, particularly in the robotics, automotive and renewable energy sectors. Italian businesses can today benefit from Japanese advanced technologies and Japanese ones have improved access to Italian know-how in the industrial design and ecological technologies sectors.

The UE-Japan agreement contains a chapter specifically dedicated to the support of SMEs, often penalised disproportionately by trade barriers. In this regard, the European Commission has published a dedicated website to obtain information regarding access to the Japanese market which includes links to authorities on specific trade

issues and a database that can be consulted by customs tariff code. To this end, the address of the Japanese Foreign Ministry website providing support to EU PMIs that export to Japan is also particularly useful: https://www.mofa.go.jp/policy/economy/page6e_000013.html.

6.5. Conclusions

The **free trade agreements (FTA)** are today a fundamental component of Japan's economic and trade strategy and also make it possible to consolidate Europe and our country's 's role in the global economic system which is constantly and rapidly changing. In particular, for EU exports, the elimination of tariffs provided in the **Economic Partnership Agreement (EPA)** between the EU and Japan, allowing for an overall saving of around 1 billion euros per year and the opening up of a potential market of 127 million consumers, offers businesses operating in numerous strategic sectors in our national economy significant opportunities for access to new markets and the development of their business.

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CNDCEC
Piazza della Repubblica, 59
00185 - Roma
Tel. 06.47863300
Fax. 06.47863349
E-mail info@commercialisti.it
Web. www.commercialisti.it

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FNC
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Great thanks to the ODCEC Naples ZES Study Committee.

A.I.C.E.C.
Piazza della Repubblica, 59
00185 - Roma
Email: info@aicec.net
Web: www.aicec.net