



**COUNTRY
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Italy

EMPLOYEE INCENTIVES

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This country-specific Q&A provides an overview of employee incentives laws and regulations applicable in Italy.

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ITALY

EMPLOYEE INCENTIVES



1. What kinds of incentive plan are most commonly offered and to whom?

Incentive plans are an increasingly widespread remuneration tool in Italy.

At present, the most widespread ones are agreements providing – under company or territorial collective agreements – for the payment of performance bonuses paid by the employer to its employees upon achievement of specific objectives.

As regards tax treatment, Performance Bonuses for employees in the private sector are currently regulated by Law no. 208/2015 (Stability Law 2016) as amended by Law no. 197/2022 (Stability Law 2023), which provides for reduced taxation at a rate of 5% instead of the ordinary and additional personal income tax, within a cap of EUR 3,000.00 gross.

The amounts on which the said tax (“substitute tax”) is applied do not contribute to the formation of one’s total income and, therefore, are not relevant for the purposes of determining deductions commensurate with it, such as, for example, deductions for family loads or deductions for income from employment; since these latter are calculated in decreasing proportion to the total income, they will be due for a higher amount.

Another form of incentive is the so-called “**company welfare**”, which consists of services, works, and services paid to the employee in kind or in the form of reimbursement of expenses, having purposes of social importance, excluded from the income of employment. Law no. 208 of 2015 and subsequent amendments have extended the hypothesis of amounts and values that do not contribute to the determination of the income of employees, through a systematic intervention of art. 51 of the Consolidated Income Tax Act (“TUIR”).

In particular, paragraph 190 of article 1 of the aforesaid law has made changes to the rules governing the income of employees, which are also relevant to company welfare plans or flexible benefit plans, or plans that provide employees with a basket of benefits they can

choose among, according to their needs.

(a) These amounts and values can be summarized as follows:

- services, works, goods and services (paragraphs 2 and 3, art. 51 of the TUIR, so-called corporate welfare;
- payment of contributions to supplementary pension schemes;
- payment of health care contributions to bodies or funds whose sole purpose is to provide care services;
- use of services replacing the canteen service (so-called meal vouchers or tickets);
- use of transport services or purchase of local, regional, or interregional public transport passes;
- use of works and services for education, training, recreation, social and health care or religious purposes, for the attendance of rec centers and summer and winter centers, and for scholarships;
- use of care services for elderly or dependent family members;
- payment of contributions or premiums to cover the risk of non-self-sufficiency in the performance of daily activities or those relating to the risk of serious illness; allotment of shares in the company/employer or group companies.

(b) Fringe benefits (TUIR, paragraph 4):

- company vehicles;
- granting of loans;
- lease, use or loan of buildings;
- free travel for employees in the railway sector.

The tax and social security contribution exemption threshold for fringe benefits, limited to the 2024 tax year, is currently set at EUR 2,000.00 for employees with fiscally dependent children and EUR 1,000.00 for other employees.

Conversely, incentive plans based on share options, share acquisition or share purchase are not used on a large scale in Italy because the applicable tax regime reduces the related reward, making the incentive itself ineffective.

2. What kinds of share option plan can be offered?

Employees of medium/large-sized multinational companies can also be remunerated through certain stock incentive plans aimed at encouraging and retaining employees. This phenomenon is very widespread in Anglo-Saxon countries, but has now also involved the Italian economy. In particular, Stock Option plans are most widely used in this area.

In our legal system, stock options are governed by Article 2349 of the Italian Civil Code, entitled “shares and financial instruments in favor of employees”, and by Article 2441 of the Italian Civil Code, which provides for the right of option.

As mentioned above, Stock Option plans are a tool for rewarding and retaining the loyalty of the beneficiary workforce (employees or directors) considered strategically important for the company.

Through the assignment of Stock Options, the company offers an employee the right (option) to acquire his/her own shareholding, or that of another company belonging to the same group, in a predetermined future period and at a fixed price, usually equal to the value of the shares at the time of the offer itself.

The following key moments can be distinguished in a stock option plan:

granting of the so-called option right, i.e. the moment when the beneficiary becomes entitled to be a shareholder of the employer company or of another company belonging to the same Group. At this time, the so-called strike price is also fixed;

vesting period, from the offer of the option to the initial term for its enforceability, which, in turn, can be diluted over time;

exercising, i.e. the date on which the option right is actually exercised and therefore the share is actually acquired under the conditions laid down at the granting stage.

This is the basic structure of a stock option plan, which must be specifically governed by the **Regulations** that the Companies are required to finalize and approve in

order to define the specific conditions, by way of example:

- capital increase to service the plan; whether or not options may be transferred;
- subordinating the exercise of the option to the achievement of certain performances;
- the forecast of a maximum life period of the plan at the end of which vested and unexercised options expire;
- limitation to the exercise of options in the event of termination of employment.

Stock option plans therefore aim to link part of the salary to the performance of the stock on the market, thereby encouraging employees to increase their productivity in order to improve the efficiency and profitability of the group.

The tax relief for stock options governed by Article 51, paragraph 2, letter g-bis) of the TUIR was repealed by Decree Law No. 112 of 2008. This regime consisted in the exclusion from taxation of the employee of income in kind deriving from the assignment of shares in the company with which the employee had an employment relationship or in another company of the Group.

Following the abrogation, the difference between the value of the shares at the time of the assignment of the option right and the amount paid by the employee always contributes to forming the taxable income from employment.

However, no changes were made to the tax rules governing the shares assigned to most employees pursuant to Article 51, paragraph 2, letter g) of the Consolidated Income Tax Act. Therefore, the value of shares offered to employees are still excluded from the calculation of one's dependent employment income provided that the shares:

- are offered to all employees;
- have a total value not exceeding Euro 2,065.83 for each tax period; if this threshold is exceeded, the excess alone is subject to taxation;
- are not repurchased by the issuing company or the employer or otherwise disposed of before at least three years have elapsed since the assignment.

3. What kinds of share acquisition/share purchase plan can be offered?

The attribution of remuneration based on financial instruments, and in particular on shares, may take place

through different methods of recognition of a variable remuneration, the fluctuation of which, linked to the value of the share, may depend on the assignment:

(i) in kind of the same share;

(ii) a differential amount linked to the change in the market price of the same

These different modalities, which can also be used simultaneously, differ according to the type of instruments or rights assigned. In practice, such remuneration may be granted in the form of **stock grants**, i.e. share grants or share value increases, or **option grants**, i.e. the granting of option rights that allow the subsequent purchase of shares with settlement by physical delivery or by cash.

In the area of **stock grants** the following may be included:

newly issued shares or shares already in circulation (and therefore purchased by the company on the market), whose delivery time may be:

“restricted stock”, that is, immediate. In this case, the attribution generally allows the immediate availability of the related capital benefits; for such shares there is a sales restriction often linked to the duration of the employment relationship;

“restricted stock unit”, that is, deferred. This is a promise to allot shares at a future date (corresponding to the time set out in the vesting conditions); this mechanism generally does not allow to benefit from dividends paid during vesting.

Rights to receive payments in the future based on the value of a hypothetical or notional quantity of shares; in other words, these are compensation plans based on financial instruments that do not provide for the physical delivery of the instrument but of a differential amount (so-called **phantom stock**).

The area of **option grants** includes the assignment of:

- options that confer the right to purchase or subscribe, at a future date, shares that are newly issued or already circulating (so-called stock options); in some cases the exercise price is established as fixed, initially at the time of assignment, in others it is parameterized on the basis of specific formulas that take into account the performance of the same share or of the market as a whole (so-called **index stock option**);

- options that give the right to obtain the differential variation, of the value of a certain number of shares, in a certain period of time (so-called **stock appreciation right** or **SAR**); these mechanisms, although similar to phantom stocks, differ from them, since, generally, they do not reflect the effects of ordinary dividends and often provide for the delivery of a quantity of shares with a value equivalent to the accrued differential.

4. What other forms of long-term incentives (including cash plans) can be offered?

In addition to the above, there are other forms of performance incentives.

In particular, among the most common ones, there are:

- performance awards;
- the so-called corporate welfare.

For the regulation of these two forms of incentives, see question 1.

5. Are there any limits on who can participate in an incentive plan and the extent to which they can participate?

The framework of an incentive plan may be designed for employees only or management. As regards the benefits admitted to tax relief, each scheme is to be applied to a well-identified category of employees.

In particular, with regard to **performance bonuses**, the subjective scope of application of the relief is defined by the specific characteristics that must characterize both the employer and the employees. As far as the **employer** is concerned, paragraph 186 of Law 208/2015 reserves the tax relief to the private sector and, consequently, excludes all public administrations from its scope. As for the **workers**, in the private sector mentioned above, the number of beneficiaries is identified with reference to the amount of employee income earned in the year preceding that in which the bonus was received. At present, this amount must not exceed EUR 80,000 per year. The application of the tax reduction, thus, depends on two joint requirements: one of a **qualitative nature**, consisting of the nature of the income produced (income from employment), the other of a **quantitative nature**, identified in the income limit (80,000 euros). The income limit of Euro 80,000 shall take into account the income from employment gained in the year prior to the year of application of the relief,

even if resulting from multiple employment relationships, and also include pensions of all kinds and allowances under Article 49, paragraph 2, of the TUIR. Moreover, for the purposes of verifying the limit of 80,000, the income to be considered is only that subject to ordinary taxation, with the exclusion, therefore, of any income from work subject to separate taxation.

In conclusion, with regard to the identification of the income limit of 80,000 euro, only income from employment subject to ordinary taxation should be taken into account, including the portion of the performance bonus subject to substitute taxation in the previous year. However, the following amounts shall not be taken into account for the purposes of this limit:

- income subject to separate taxation;
- income other than income from employment (e.g. income from self-employment, similar income, etc.);
- performance bonuses converted at the employee's choice into non-taxable benefits pursuant to Article 51(2) and (3) of the TUIR.

Finally, as regards the so-called **corporate welfare**, in order for it not to be deemed as income, it must be offered to all employees or to certain categories of employees. In particular, the term "categories of employees" does not refer only to the categories listed in the Civil Code (e.g. managers, workers, etc.), but to employees of a certain type (e.g. all employees of a certain level), provided that these frameworks are sufficient to prevent the granting of payments ad personam. Benefits should therefore be offered to a homogeneous group of workers, regardless of whether, in practice, only some of them benefit from them.

Consequently, the same payments made available only to certain workers also contribute, in accordance with the new regulatory provisions, to the formation of the income of employees.

6. Can awards be made subject to performance criteria, vesting schedules and forfeiture?

Awards can be made subject to performance criteria, vesting schedules and forfeiture, and this can be regulated by agreement between the parties. An award may also be differentiated according to the performance of the respective individual beneficiary.

7. Can awards be made subject to post-

vesting and/or post-employment holding periods. If so, how prevalent are these provisions both generally and by reference to specific sectors?

See answer 6.

8. How prevalent malus and clawback provisions are and both generally and by reference to specific sectors?

N/A

9. What are the tax and social security consequences for participants in an incentive plan including: (i) on grant; (ii) on vesting; (iii) on exercise; (iv) on the acquisition, holding and/or disposal of any underlying shares or securities; and (v) in connection with any loans offered to participants (either by the company operating the incentive plan, the employer of the participant (if different) or a third party) as part of the incentive plan.

From a fiscal point of view, the stock options, after the repeal of the favorable regime existing until June 2008, are to be considered to all intents and purposes as fringe benefits.

In the first phase of granting the right, there is no taxable phenomenon, while when the right is exercised, the beneficiary shall normally pay a price (strike price) lower than the value at that time of the underlying security.

Since the benefit derives from the conditions of employment (or similar in the case of directors), it must be considered in all respects as income from employment, for the principle of all-inclusiveness according to which all sums and values that the employee receives in relation to the employment relationship, constitute income from employment (article 51 of the TUIR).

Therefore, when the employee receives shares for participation in a stock option plan, the difference between the normal value of the securities at the time of exercise of the option and the price paid by the employee (strike price) is considered as employee income, to be subject to normal IRPEF taxation.

For the determination of the normal value, article 51,

paragraph 3 of the TUIR expressly refers to art. 9 of the TUIR, which, with reference to shares, identifies it:

- for shares, bonds and other securities traded on regulated Italian or foreign markets, on the basis of the arithmetic average of the prices recorded in the last month;
- in the case of other shares, in the case of shares in non-equity companies and in the case of securities or shares in the capital of entities other than companies, in proportion to the value of the net assets of the company or entity or, in the case of newly constituted companies or entities, to the total amount of the contributions.

However, the qualification as an employee's income, as an exception to the principle of harmonisation of the tax and contribution bases, by explicit legislative provision (article 82, paragraph 24-bis of Decree Law. 112/2008), does not count for the formation of the taxable income basis.

Once the option right has been exercised, the new shareholder/beneficiary will be taxed in accordance with the general rules as regards both the possible receipt of dividends during the period of ownership of the security and as regards the taxation of any capital gains realised at the time of disposal of the security itself; in the event of sale, the tax cost of the security, to be compared with the consideration, will be the normal value of the same at the time of the exercise of the option right.

Conversely, **performance bonuses** are afforded preferential tax treatment which consists in subjecting such bonuses to an alternative taxation in lieu of the ordinary taxation established for the natural person's income (hereinafter referred to as IRPEF, after the Italian acronym for Imposta sul reddito delle persone fisiche) and its surcharges. More specifically, paragraph 182 of Article 1 of Law no. 208/2015 provides for the application of a 10% substitute tax for personal income tax and surcharges as a preferential measure for performance bonus, unless the employee expressly waives it in writing.

Finally, as to the so-called **corporate welfare**, article 51, in its paragraphs 2 and 3, of the TUIR provides that such benefits do not contribute to the formation of employees' income and, therefore, is not subject to taxation or contribution. It is essential, in order for these benefits not to contribute to the formation of employee income, that they are offered to all employees or to categories of employees.

10. What are the tax and social security consequences for companies operating an incentive plan? (i) on grant; (ii) on vesting; (iii) on exercise; (iv) on the acquisition, holding and/or disposal of any underlying shares or securities; (v) in connection with any loans offered to participants (either by the company operating the incentive plan, the employer of the participant (if different) or a third party) as part of the incentive plan.

As regards social security contributions, the social security exemption is exclusively linked to the allotment of shares, since in this case the employee shares in the business risk. On the other hand, that according to INPS circulars No. 123/2009 and No. 162/2010 and its message of 12/10/2010, in order to benefit from social security payment exemption it is necessary that the share plan is not generalized, that it is subject to the occurrence of specific conditions, and involves the actual allocation of shares. Otherwise the amount paid to managers is to be considered normal remuneration and, therefore, subject to contribution.

If **performance bonuses** are paid, nothing changes for the company from a tax and contribution point of view.

However, a recent amendment to paragraph 189 of article 1 of Law 208/2015 provides that *"For companies that involve employees equally in the organization of work ..., a twenty percentage point reduction is provided relative to the contribution rate payable by the employer for the scheme relating to invalidity, old age and late employees' dependents on a portion of the payments referred to in paragraph 182 not exceeding 800 euros. No contribution is due from the employee on the same quota. With reference to the portion of payments referred to in this paragraph, the pension contribution rate shall be reduced accordingly"*. This means that the employer is allowed to reduce its contribution burden by 20 percentage points in respect of a part of the bonus subject to tax relief not exceeding EUR 800, and the worker is allowed not to pay his/her own contributions on that amount.

On the contrary, in the case of so-called **corporate welfare**, the money sums, goods and services provided to the worker, not contributing to the formation of the income from employment, will also be exempt from the employer's social security contribution.

11. What are the

reporting/notification/filing requirements applicable to an incentive plan?

Information to be given to the market on the allocation of financial instruments to company representatives, employees or collaborators are referred to by article 114-bis of Legislative Decree no. 58/1998 (in Italian abbreviated as TUF, meaning Consolidated text of the provisions on financial intermediation). It provides the following:

1. Remuneration plans based on financial instruments in favour of members of the board of directors or of the management board, of employees or collaborators not linked to the company by subordinate employment relationships, or of members of the board of directors or of the management board, of employees or collaborators of other parent or subsidiary companies are approved by the ordinary shareholders' The issuer shall make available to the public a report with the information concerning it:

(a) the reasons for the adoption of the plan;

(b) the members of the board of directors or the management board of the company, of the parent companies or subsidiaries, who benefit from the plan;

(b-bis) the categories of employees or associates of the company and of the parent or subsidiary companies of the company who benefit from the plan;

(c) the arrangements and clauses for implementing the plan, specifying whether its implementation is subject to the fulfilment of conditions and, in particular, to the attainment of specified results;

(d) the possible support of the plan by the Special Fund for the encouragement of worker participation in enterprises, as per article 4, paragraph 112, of Law 350 of 24 December 2003;

(e) the manner in which prices are to be determined or the criteria for determining prices for the subscription or purchase of shares;

(f) the availability constraints on the shares or on the option rights assigned, with particular reference to the terms within which the subsequent transfer to the same company or to third parties is permitted or

2. The provisions of this Article shall apply to listed issuers and issuers of financial instruments which are widely distributed to the public in accordance with Article 116, which regards issuers of financial instruments which, even if not listed on regulated Italian markets, are available to the public to a significant

Consob establishes in its regulations the criteria for their identification, and may dispense issuers of financial instruments listed on regulated markets in other European Union countries or in markets in non-Community countries, in view of the information requirements they are required to meet, from the obligations laid down in those Articles, in whole or in part.

3. Consob's regulations define the information, relating to the elements indicated in paragraph 1, that must be provided in relation to the various methods of implementing the plan, providing more detailed information for plans of particular

As regards **performance bonuses**, however, an essential condition for the application of the tax relief (article 1, par. 187, Law no. 208/2015) is that the payment of such bonus, takes place "in the implementation of the company or territorial contracts referred to in article 51 of Legislative Decree no. 81 of 15 June 2015", i.e. contracts entered into by trade unions that are comparatively more representative at the national level or company collective contracts entered into by their company trade union representatives or by the unitary trade union representation. Furthermore, in order to benefit from the substitute tax introduced by article 1, paragraphs 182 and 189, of Law no. 208/2015 it is necessary that the company or territorial collective agreements, which provide the payment of performance bonuses and/or compensation are filed with the competent territorial Labour Office within 30 days of their signing, together with the declaration of compliance of such agreements with the provisions contained in the Decree. The filing of the agreement and the relative declaration must be made using the telematic method made available in the "Services" section of the institutional website of the Ministry of Labour and Social Policy at the address: www.lavoro.gov.it. In any case, the aforementioned period of 30 days is to be considered as a non-compulsory deadline without prejudice to the fact that performance bonuses will be admitted to the relief provided that the company or territorial agreements at the time of payment of the bonus have already been filed, together with the declaration of compliance of the agreement with the provisions of the law.

12. Do participants in incentive plans have a right to compensation for loss of their awards when their employment terminates? Does the reason for the termination matter?

These aspects may be regulated by agreement between

the parties. As a general rule, in the absence of agreement, the loss of options does not trigger a right to compensation. Other incentive plans, such as bonus agreements, usually provide that the bonus is paid *pro rata temporis*. However, the regulations of the incentive plan may well provide limitations or forfeiture of the option in the event of termination of the employment relationship.

13. Do any data protection requirements apply to the operation of an incentive plan?

Data processing related to incentive plans is governed by the GDPR and Italian data protection laws. In particular, the processing of the data of the involved employees is to be made in compliance with the principles of transparency, limitation of use for a specific purpose and for a determined and specified time period.

There may be further requirements regarding the transmission of employees' data to third parties or third countries, outside the jurisdiction of GDPR, within the scope of the execution of an incentive plan. The consent to the transfer of each employee's data is to be collected.

14. Are there any corporate governance guidelines that apply to the operation of incentive plans?

In Italy, there are no corporate governance guidelines regarding the allowance to employees of **performance bonuses** or the so-called **corporate welfare**.

With regard to **stock options**, instead, there are some governing regulations. Companies are required to finalise and approve specific Regulations providing the structure of their stock option plans in order to define the specific conditions thereof, such as, for example:

- the increase in capital to service the plan, or the conditions under which to meet the commitments made under the plan with securities already held;
- whether or not the options can be transferred; subordinate the exercise of the options to the achievement of certain performances (individual or company);
- the forecast of a maximum life period of the plan at the end of which vested and unexercised options expire;
- limitation to the exercise of options in the event of termination of employment.

While maintaining its essential structure, a company, hence, can design a stock option plan so as to match its needs.

CONSOB has underlined that remuneration plans based on financial instruments are characterized by a complex method of implementation, involving:

- (i) the approval of the compensation system and its characteristic elements (also referred to as the "attribution" of compensation);
 - (ii) the approval of the arrangements for determining the availability and the allocation of the relevant financial instruments, e.g. capital increase, or purchase on the market ("funding" of instruments).
- The process of allocating the awards principally includes:
- (i) a resolution of the Board of Directors approving the plan and all the characteristics of the remuneration;
 - (ii) subsequent resolution of the Shareholders' Meeting approving the compensation plans previously established by the Board of

15. Are there any prospectus or securities law requirements that apply to the operation of incentive plans?

No information or prospectus is required with regard to **performance bonuses** and **company welfare**, except for the requirements described in question 9.

For **stock option** plans, on the other hand, Article 114-bis of the Consolidated Law on Finance (TUF) requires that an information report be made available to the public. The main information to be published concerns:

- the reasons for adopting the plan;
- the members of the board of directors or the management board of the company, of the parent companies or subsidiaries, who benefit from the plan;
- the categories of employees or collaborators of the company and of the parent or subsidiary companies of the company who benefit from the plan;
- the arrangements and clauses for implementing the plan, specifying whether its implementation is subject to the fulfilment of conditions and, in particular, to the attainment of certain results;
- the procedures for determining prices or the criteria for determining prices for the subscription or purchase of shares;

- the restrictions on the availability of shares or option rights assigned, with particular reference to the terms within which the subsequent transfer to the same company or to third parties is permitted or prohibited.

However, these provisions only apply to listed issuers and issuers of financial instruments which are widely distributed to the public.

16. Do any specialist regulatory regimes apply to incentive plans?

In addition to the requirements referred to above in point 13, Consob may, by means of its own regulations, provide that more detailed information be given relative to plans of particular importance.

When Consob put into practice art. 114 bis of the TUF, it stated that in order to provide overall information on the data on stock options, as well as to highlight the evolution over time of the plans themselves and the burden, for the shareholders of the company, resulting from the dilution of the value of the shares held recommends that at least the following information be included in the report on operations of the financial statements for the year:

(a) an indication of the stock option plans adopted or still in effect during the year and the reasons for adopting such plans;

(b) a brief description of the characteristics of each “plan”, an indication of the amount of the shares for which the offer is pending (including in percentage of the share capital), the beneficiaries, the duration and the methods of allocation and exercise;

(c) indication of any transactions carried out for the purchase or subscription of shares pursuant to Article 2358 of the Italian Civil Code, with evidence that allows easy reconciliation with the financial statements data relating to any loans and guarantees

In the case of “plans” of particular significance (in relation, for example, to the percentage of capital involved or the total value of the options assigned), it is also recommended to indicate:

(d) data on the evolution of the ‘plans’, indicating the rights (options):

d.1 – granted and vested at the beginning and end of the financial year;

d.2 – attributed;

d.3 – exercised; e:

d.4 – expired during the year.

It is also required to indicate the weighted average prices for these items and the average market prices, in order to allow the measurement of the overall benefit enjoyed by the assignees and the latent benefit at the end of the year.

17. Are there any exchange control restrictions that affect the operation of incentive plans?

N/A

18. What is the formal process for granting awards under an incentive plan?

The Board of Directors normally identifies among its members a Commission in charge of approving and amending the measures. The Pay and Compensation Committee identifies fixed and variable compensation and the benefits to which individual managers and employees are entitled. The members of this Committee shall be mostly non-executive and independent directors. The Committee cannot include individuals who have any relationship of kinship or affinity with directors, shareholders or employees, hold or have held other positions that place them in conflict with the company, or provide the company or its affiliates with (independent) products and/or services. The Pay and Compensation Committee shall establish:

- the total amount of stock options to be distributed;
- the method of issue: date on which they can be purchased, method of calculating the purchase price, expiration date;
- method of liquidation of stock options: increase in share capital or sale of the company’s own shares;
- the beneficiaries of stock options;
- the individual objectives, which each manager must achieve;
- date and method of establishing individual objectives;
- the amount of stock options available to individual beneficiaries.

According to current best practices, the price of stock options is determined from the weighted average price of the shares in the month preceding the issue date, the maturity date is within one year from the issue date, the assessment of individual targets is subsequent to the

approval and certification of the financial statements for the year, the financial statements contain an indication of the shares and stock options purchased, sold and held by individual managers.

19. Can an overseas corporation operate an incentive plan?

There are no restrictions for foreign companies operating in Italy on the possibility of applying incentive plans for employees, collaborators and/or directors.

If the incentive plan includes an offer of financial instruments by a foreign issuer to persons residing in Italy, the offer of option rights to the employees of the Italian subsidiary is undoubtedly to be considered as a "public offer of financial products" according to the definition contained in Article 1, paragraph 1, read. t) of Legislative Decree 24 February 1998, n. 58 (Consolidated Law on Finance in Italian acronymized as "TUF") on the basis of which any type of communication addressed to persons (i.e. independently of the number of persons, theoretically also one) in any form and by any means that details offers of financial products with a view to the purchase or subscription of the same is subject to the regulation and restrictions of the public offer of financial products.

20. Can an overseas employee participate in an incentive plan?

Overseas employees can participate in an incentive plan. As regards the relevant tax levy on the employee, the applicable law depends on the Country he or she is a tax resident of.

21. How are share options or awards held by an internationally mobile employee taxed?

Taxation depends on whether the individual is an Italian tax resident at the time the tax payment becomes due, as laid down in the answer to question #7. If an employee is an Italian tax resident at that time, the regulations governing Italian income taxation shall apply, also, as the case may be, taking into account any applicable bilateral agreements between Italy and the relevant foreign country.

22. How are cash-based incentives held by an internationally mobile employee taxed?

Taxation depends on whether the individual is an Italian tax resident at the time the tax payment becomes due. If an employee is an Italian tax resident at that time, the regulations governing Italian income taxation shall apply, also, as the case may be, taking into account any applicable bilateral agreements between Italy and the relevant foreign country.

23. What trends in incentive plan design have you observed over the last 12 months?

Incentive plans based on **stock options** purchase have not been implemented on a large scale in Italy because the applicable tax regime makes reduces the related reward, making the incentive itself ineffective.

Companies, on the other hand, are showing greater interest in performance bonuses and **corporate welfare** by virtue of the tax and social security benefits provided for these forms of incentives. In this scope, the trend of the legislation seems to be moving in the direction of increasing the number of beneficiaries and making these forms of incentives more attractive to employees.

24. What are the current developments and proposals for reform that will affect the operation of incentive plans over the next 12 months?

Incentive plans based on **stock option** have not been implemented on a large scale. Only providing new and more favourable legislation an increase could be expected over the next year.

However, there are currently no proposals in place on issues relating to incentive schemes. Considering the recent evolution of the legislation, it is reasonable to expect that law-makers will intervene again on the subject of **performance bonuses** and **company welfare** in order to better respond to the needs of companies and employees with a view to lightening the so-called tax wedge, i.e. aimed at reducing the difference between labor cost on the company and each employee's net gain.

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