

HR & Tax Alert



Quality In Everything We Do

Italy – Tax Law on Stock Options definitively approved

November 2006

Executive summary

On 23 November 2006 the Italian Parliament has definitively approved Decree no.262/06, originally issued on 3 October 2006, that had modified (for the third time in four months) the rules regarding the taxation of stock options.

No additional changes have been introduced by the Parliament on the occasion of this last approval, so the current tax treatment for stock option income remains as described in our Alert dated October 2006.

Final Legislation

For your ease of reference the new conditions introduced by the Law Decree, which apply with effect from 3 October 2006, are:

1. The exercise price is not lower than the fiscal value of the shares at grant;
2. The employee's shareholding or voting rights are less than 10% of the total share or voting rights;

3. There is at least a 3-year vesting period for the option (i.e. there is at least three years between grant and the first possible date of exercise);
4. The company is listed on a Regulated Market at the time when the option vests;
5. The employee maintains an investment in shares for a value at least equal to the difference between the value of the shares at exercise and the price paid for the shares.

If these conditions are met, capital gains tax only (at flat rate of 12.5%) is payable on the spread between the market value at exercise and the exercise price.

If the conditions are not met, the spread between exercise price and market value at exercise will be taxable as employment income at progressive rates.

Grandfathering provision

The only grandfathering provision available relates to social security tax on stock option income, as outlined in our Alert of July 2006.

For further information please contact your local Ernst & Young Human Capital professional, or in Italy:

Claudia Giambanco

Tel: +39.06.3609631

E-mail: claudia.giambanco@it.ey.com

Paolo Santarelli

Tel: +39.06.3609631

E-mail: paolo.santarelli@it.ey.com

Manuela Stefoni

Tel: +39.06.3609631

E-mail: manuela.stefoni@it.ey.com

Giorgio Tedeschi

Tel: +39.02.85141

E-mail: giorgio.tedeschi@it.ey.com

The *Ernst & Young Human Capital HR & Tax Alert* is a periodic newsletter designed to communicate current developments in the 'human capital' area. It is not intended to serve as legal, immigration or tax advice. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. No member firm of Ernst & Young Global Limited ("EYGL") or Ernst & Young International Limited ("EYI") or EYGL or EYI accept responsibility for any loss arising from any action taken or not taken by any person in reliance on this publication.

© 2006 Ernst & Young LLP.