

Executive summary

of the new Italian legislation on start-ups

29th January 2014

Italian Ministry of Economic Development
Minister's Technical Secretariat

The steps Italy has taken in order to become the next “start-up nation”

On 4th October 2012, the Italian Government approved a Law Decree on “*Further urgent measures for Italy’s economic growth*”. Section IX of the Law Decree (articles 25 to 32) provides for specific measures aimed at promoting the creation and development of start-ups. This is the first time the Italian legislation deals with such companies.

The regulations on start-ups draw on the Report “*Restart, Italia!*”, which was elaborated by the Task Force set up by the Italian Minister of Economic Development Corrado Passera in April 2012. The Task Force was made up of 12 members, including entrepreneurs, venture capitalists, academics, journalists and civil servants, and was coordinated by Alessandro Fusacchia, the Minister's Advisor for European Affairs, innovation, and youth. The Report was publicly released on 13th September 2012.

After being approved by the Italian Government, the Law Decree was signed by the President of the Republic Giorgio Napolitano and published in the Official Journal (Decree Law no. 179, 18th October 2012).

The process of conversion of the Law Decree was completed by the Parliament on 13th December 2012.

In August 2013, the Law Decree on Labour has broadened the requirements for the definition of start-ups, encouraging Italian innovative entrepreneurship to fully exploit its potential.

Such legal developments attest the continuity and perseverance of the Italian Ministry of Economic Development’s commitment to supporting innovative start-ups under the guidance of newly-elected Minister Flavio Zanonato.

The new Italian legislative framework for start-ups

The newly approved legislation recognizes that start-ups are important for the promotion of sustainable growth, technological development and employment – in particular youth employment. Furthermore, start-ups contribute to developing a new business culture, creating an environment which is more favourable to innovation, increasing social mobility, as well as attracting to Italy investments and talented people from abroad. The legislation does not refer just to the digital sector, but also to start-ups established across all sectors.

The main content of the new legislation can be summed up as follows:

1. **Definition of a start-up:** the Law Decree refers to “innovative start-ups” to make it clear that it is not dealing with any new company but only those whose business is clearly linked to innovation and technology.

In order to benefit from support measures, a start-up must fulfill a number of requirements, including: (a) it must have been established for no longer than 48 months; (b) it must reside or be subject to taxation in Italy; (c) it has no turnover or has a turnover that does not exceed 5 million € (around 6.4 million \$); (d) it does not distribute profits; (e) its core business consists of innovative goods or services of high technological value; (f) it does not originate from a merger, demerger or divestment process. Finally, a startup can be qualified as innovative if: *either* 15% of its costs are related to R&D; *or* at least one third of the team is made up of people who either hold a PhD or are PhD candidates at an Italian or foreign university or have conducted research for at least three years or at least two thirds of the team is made up of people holding a Master’s degree; *or* it is the owner or the licensee of a patent or a registered software.

2. **Definition of a “start-up with a social goal”:** it fulfills all the requirements that apply to ordinary start-ups. However, a social start-up operates in specific domains that have a considerable social value according to the Italian legislation; for example social inclusion, fight to marginalization of disabled persons, environmental protection etc.
3. **Definition of a “certified incubator”:** the start-up incubator or accelerator must verify if specific requirements concerning the start-up’s physical structures,

management, facilities and, above all, its track record, are fulfilled. In this way, the law aims to identify the structures that are able to offer efficient incubation services in Italy. Certified incubators can benefit from some instruments provided for by the law (e.g. they can use stock options, as if they were start-ups themselves →see below point 7; priority access to credit deriving from tax return →see below point 8; simplified access to guarantees on bank loans →see below point 11).

4. **Innovative start-ups** and **certified incubators** must register at an **online directory** created for this purpose at the Chambers of Commerce, which is where usually companies must register. This public registration procedure allows the company to gain visibility and to be controlled by the competent authorities; moreover, such registration makes it possible to monitor and evaluate the impact of the new legislation in terms of economic growth and employment.
5. **No registration fees:** unlike most companies, start-ups do not have to pay anything for their own creation and registration at the Chambers of Commerce.
6. **Labour law applicable to start-ups:** start-ups can hire personnel through fix-time contracts which last for at least 6 months and no longer than 36 months. Within this time frame, contracts can also last for a short time and can be renewed more than once. After 36 months, the contract can be further renewed for just one more time, for no longer than 12 months, i.e. the total duration of the contract must not exceed 48 months. After such length of time, the employee can keep on working for the start-up exclusively with an open-ended contract.
7. Start-ups can remunerate their team members and the providers of external services, including lawyers and accountants, with **stock options** and **work for equity** respectively. The tax system applicable to these instruments is advantageous and is tailored on the most common needs of a start-up. Certified incubators can also make use of these instruments.
8. **Credit deriving from tax return:** priority access is granted to facilitations for the employment of highly qualified personnel in innovative start-ups and certified incubators.
9. Introducing **tax incentives for corporate and private investments in start-ups** for the years 2013, 2014, 2015 and 2016. These incentives apply both in case of direct investments in start-ups and in case of indirect investments by the means of other

companies investing predominantly in start-ups. Tax concessions are greater if the investment concerns start-ups with a social goal or those operating in the energy sector.

10. Introducing **crowdfunding**: of late, CONSOB – the equivalent of the American SEC¹ – has published a *“Regulation on the raising of venture capital by innovative start-ups through on-line portals”*, thanks to which Italy has become the first EU country to have introduced a structured legislation on equity-based crowdfunding.
11. Fast-track, **simplified and free-of-charge access for start-ups to the *Fondo Centrale di Garanzia***, a Government Fund that supports access to credit through guarantees on bank loans. Certified incubators can benefit from the same special treatment given to start-ups.
12. More targeted and tailored **support to the process of internationalisation of start-ups** provided by the Italian Trade Promotion Agency (“ICE”). Support includes assistance in the legal, corporate and fiscal activities, real estate and credit matters. Support measures include free-of-charge participation to international fairs and events, as well as to international activities the aim of which is to favour the matching between innovative start-ups and potential investors for the phases of early stage capital and expansion capital. In particular, a “Start-up service card” has been released by the Agency, granting 30% reductions on its assistance services.
13. Introducing a **“fail fast” procedure**: the aim of this measure is to avoid that the entrepreneur is “stuck” for ages because of the liquidation procedure and to allow him to start a new business project as soon as possible.
14. Making a general call to design a **national campaign**, which aims to promote a better understanding and awareness – amongst the general public and especially young people – on the role of innovation and the opportunities provided for by the new legislation on start-ups.
15. Introducing a regular evaluation and **policy monitoring** by means of collection of data and by assessment of the impact of the new legislation, with the support of the Italian National Statistical Institute (ISTAT).

¹ Commissione nazionale per le società e la borsa (CONSOB) is the Italian Securities and Exchange Commission (SEC).

In addition to the above, the Italian Government is committed to:

- a) developing, in cooperation with the Ministry of Education, University and Research, a pilot project for the set-up of **Contamination Labs** in a few Italian universities located in Convergence Regions (Calabria, Campania, Sicily, and Apulia) that have shown interest in the project. Contamination Labs aim to promote entrepreneurial education, mentoring programmes, the “contamination” of different disciplines and giving birth to innovative business ideas;
- b) Implementing the **cooperation agreement** in the field of high-tech industries, technology transfer and entrepreneurial education **signed by Italy and Israel** on 25th October 2012.