Ressort: Wirtschaft und Finanzen

Memorandum of Understanding between PRC and Italy

Rome, 25.03.2019 [ENA]

From 21 to 24 March, the President of the People's Republic of China, Xi Jinping, visited Italy and an important Memorandum of Understanding was signed between the two countries. The object of the collaboration between the two states in the project of the new Silk Road is very wide. In fact, the document must be interpreted more correctly as an act that identifies a broad general framework within which the

two countries intend to move. It also requires the signing of further agreements for its implementation.
Through the ancient Silk Road, born from the trade of precious goods transported by the caravans that connected Europe and China, different languages, cultures, knowledge and religions were also transferred. It was an essay of what today's globalization would bring.
In particular, the two countries showed a particular interest in establishing synergies in six sectors:
1. Dialogue on policies for greater connectivity between countries;
2. Transport, logistics and infrastructure;
3. Removal of barriers to trade and investment;
4. Financial collaboration;
5. Connectivity between people;
6. Cooperation in environmental issues.

China and Italy signed on Saturday 23rd a Memorandum of Understanding (MoU) on the Belt and Road Initiative. Italy's Prime Minister Giuseppe Conte and Chinese President Xi Jinping in Rome endorsed the global infrastructure-building project.
Conte and Xi shook hands after 29 separate sections of the MoU were signed by members of both governments.
Among the agreements signed, there is also a new Double Tax Agreement (DTA) substituting the previous DTA signed in 1986.

On the subject of Double Tax Agreements, nowadays China signed 107 treaties, while Italy signed 98 tax treaties. Economy Minister Giovanni Tria and the Foreign minister Wang Yi signed the new tax treaty at Palazzo Madama on 23rd March.
Previous China-Italy tax treaty was signed on 1986.10.31, in force from 1989.11.14 and valid since 1990.1.1. The new tax treaty revised the previous one including OECD / G20 BEPS recommendations.
As regards dividends, a reduction in the withholding tax rate has been introduced compared to the previous

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DTA signed in 1986, from 10% to 5%, in case of qualified dividends, consequently with direct participation of at least 25% of the equity held for not less than 365 days.

This rate reduction will grant a tax benefit to Italian companies that receive dividends from their subsidiaries. Besides, the beneficial rate of 5% for qualified shareholdings will increase the equity ratio allocation for investments in Italy and People's Republic of China.
Dividends non-qualified (equity lower than 25%) will be taxed with ordinary rate of 10%.
With reference to interests, the measure of the withholding tax applicable in the State of the source may not exceed a rate of 10% of the gross interest amount. A reduced rate of 8% on interest paid to financial institutions is granted in relation to loans with a minimum duration of three years towards financing investments projects and tax exemption for interests paid or

received by public institutions.
Concerning royalties, the new tax treaty confirms a standard rate of 10% and establishes an effective rate of 5% for payments related to the use or right to use industrial, commercial or scientific equipment. This new rate on royalties is lower than the royalty rates of main European countries where 6% is the rate on similar royalties for DTA with Germany, France, United Kingdom, and Spain.
The new Double Tax Agreement will probably need a few years to be ratified and enter into force. Recent experiences of France and Germany for example show the new DTA between China and France signed in November 2013 was ratified one year later and entered into force in January 2015.

In the case of Germany, the double taxation agreement was signed in March 2014, ratified in April 2016 and became applicable in January 2017. The new Agreement signed in Rome for the Avoidance of double taxation and the prevention of fiscal evasion seems to be an advantage in doing business between China and Italy. The partnership between Italy and China is built on solid foundations – as pointed out the President of the Italian Republic Sergio Mattarella- and it is inspired by natural convergences between two ancient civilizations. This bond is constantly enriched with new areas of cooperation. And that's an indicator of a certain importance.

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