

## **F** Regulation Matters

### **Italian Financial Transaction Tax (IFTT)**

The version of the bill approved on the 29th December 2012 which will see the Italian Financial Transaction Tax (IFTT) enter into law differs substantially from the initial draft. For example, whilst the draft considered only the sale of financial instruments, the approved bill now includes all transfers of ownership rights. In addition, the scope of the tax has been restricted to equities (and assimilated instruments) and equity derivatives. Some details of the technical framework are yet to be agreed, and will be contained in a Finance Ministry decree to be published by the end of January 2013. The main features of the IFTT are as follows:



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#### **Equities**

The tax applies to transfers of shares, equity and equity-like, issued by Italian resident companies, including ADRs/GDRs. The transfer of shares following conversion of convertible bonds is also taxable.

The tax applies regardless of where the transaction is executed or the country of residence of the counterparties. The tax on equities is due by the party that acquires ownership (the buyer).

The tax rate for transactions executed on a regulated market or MTF is set at 0.12% for 2013 and will decrease to 0.1% from 2014. OTC equity transactions are taxed at 0.22% in 2013, decreasing to 0.2% in 2014.

The tax applies from 1st March 2013.

#### **Equity derivatives**

The IFTT applies to equity derivatives with underlying Italian shares and equity-like or equity-related financial instruments, including equity structured notes, equity warrants, covered warrants and certificates which are assimilated to derivatives for the purpose of taxation.

The tax applies regardless of where the transaction is executed or the country of residence of the counterparties. A notable difference from equities is that the tax on derivatives is due by both counterparties to the transaction.

Equity derivatives are subject to a fixed charge, depending on the type of contract, in accordance with the table below. For example, trading 3 lots of the MIB future is taxed at €3.75 (assuming that the index has 17,500 points and the future contract multiplier is 5). Interestingly, the IFTT rate is reduced to one fifth of the given fixed amount when the transaction is executed on a regulated market or MTF, essentially penalising OTC transactions.

It is worth noting that, in the case of physical settlement, the IFTT is also payable on the transfer of ownership on the underlying instrument.

The tax applies from 1st July 2013.

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## High-frequency Trading (HFT)

HFT is hit especially hard by the new Italian tax. Under the approved bill, order amendments and cancellations are taxed when they take place within a time frame shorter than 0.5 seconds. However, the final time interval is yet to be set by the ministerial decree. The tax, which applies on all instrument types listed in the previous paragraphs, is levied at a rate of 0.02% on the value of those orders that have been modified or cancelled during a trading day that exceed a certain threshold. This threshold will also be set by the ministerial decree mentioned above. In any case, the threshold cannot be less than 60% of the value of the submitted orders.

The start date for the tax on high-frequency trading depends on the traded instrument; 1st March 2013 for equities and 1st July 2013 for derivatives.

## Exemptions

There are some notable exemptions to the IFFT (but not to the tax on HFT).

Market makers and liquidity providers, as defined by EU regulations, are explicitly exempt from the tax.

No tax is applicable when the counterparty is the Italian Government, the European Union, the European Central Bank, central banks of EU member states, foreign central banks managing the reserves of other states or international organisations whose foundational treaty has been ratified by Italy.

Other categories excluded by the tax are pension funds, intra-group transactions and transactions on instruments qualified as ethically or socially responsible.

For equities, share issuance and cancellation, debt instruments, stock lending and repurchase agreements are non-taxable. In addition, the tax does not apply to transactions relating to shares of companies with a capitalisation of less than €500 million when executed on a European regulated market or MTF. Inheritance and donations of shares are also exempt.

## Italian Financial Transaction Tax Rates (all figures in €)

Financial instrument	Notional value of the transaction (€'000)							
	0-2.5	2.5-5	5-10	10-50	50-100	100-500	500-1000	> 1000
Futures, certificates, covered warrants, options on share-related yields, parameters and indexes.	0.01875	0.0375	0.075	0.375	0.75	3.75	7.5	15
Futures, warrants, certificates, covered warrants, options on shares.	0.125	0.25	0.5	2.5	5	25	50	100
Swap agreements on shares and share-related yields, parameters and indexes; forward agreements on shares and share-related yields, parameters and indexes; differential financial agreements on shares and share-related yields, parameters and indexes; any other transaction involving a cash payment determined with reference to shares, share-related yields, parameters and indexes; combinations of agreements mentioned above.	0.25	0.5	1	5	10	50	100	200

Source: Gazzetta Ufficiale della Repubblica Italiana No. 302, 29th December 2012