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UPDATES ON ITALIAN INTERNATIONAL TAX CREDIT ON FOREIGN AUDIOVISUAL WORKS PRODUCED AND POST-PRODUCED IN ITALY

Italy offers significant and attractive tax credits for international film productions, aiming to boost its audiovisual industry and attract foreign investment

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ITALIAN AUDIOVISUAL
LAW ALLIANCE

Main Incentive: 40% Tax Credit

- **Rate:** The primary incentive is a 40% tax credit on eligible production costs incurred in Italy
- **No Per-Project Cap (but annual limits apply)**:There's generally no maximum budget cap per project. However, an individual Italian production company (or group of companies) can receive a maximum of €20 million per year in tax credits for attracting foreign investments. For very large projects exceeding this, a foreign company might partner with multiple Italian producers or post-producers , each eligible for up to €20 million.
- **Eligible Costs**: This typically includes expenses related to pre-production, production, and post-production activities spent within Italian territory. This can cover location fees, equipment rentals, salaries for cast and crew (with certain limitations), and other services.
- **Immediate benefit:** The tax credit can be used immediately during production by the Italian production company to offset various tax debts (e.g., VAT, corporate income tax, regional income tax, social contributions). This "immediate saving" is a key advantage.
- **Transferability: :** The tax credit can also be transferred to banks, allowing the Italian production company to monetise it and transfer the residual amount to the foreign producer more quickly after production.

How does it Work for International Productions (Key Role of Italian Partner)

- **Italian Production Company is Key** - Only an Italian production or post-production company (or production service company) is entitled to apply for the tax credit with the Ministry of Culture.

- **Partnership required** - Foreign production companies must partner with an Italian producer or post-production service company to access the credit. This Italian partner handles the application process and manages the eligible costs incurred in Italy.

- **Application Process:**

  - **Preliminary Application**: Submitted by the Italian company (countersigned by the foreign producer) typically no later than 90 days before the start of the service. The Ministry of Culture responds within 30 days regarding cultural eligibility.

  - **Final Application**: Submitted by the Italian company (countersigned by the foreign producer) within 180 days after the end of all production activities. This includes a detailed cost report certified by an independent chartered accountant.

  - **Credit Confirmation**: The Ministry of Culture confirms the exact amount of the tax credit within 60 days of the final application.

Eligibility Requirements and Conditions - 1

- **Cultural Eligibility Test** - The film must pass a "cultural test" to demonstrate its cultural relevance and contribution. This involves meeting certain criteria related to the story, settings, language, and production elements.
- **Minimum Spend** - The eligible cost incurred in Italy must be at least €250,000.
- **Eligible Costs Breakdown**:
  - Costs incurred for goods and services acquired in Italy from Italian-registered businesses.
  - Expenses for individuals not fiscally resident in Italy but subject to taxation in Italy for the specific income generated.
- **Limitations**:
  - Financial, insurance, and guarantee costs can be up to 7.5% of total production costs.
  - Above-the-line expenses, like director and lead actors, are usually limited to 30% of production costs, especially for non-European subjects.
  - Producer fees and general company expenses are typically ineligible.

Eligibility Requirements and Conditions - 2

- **No "One Day Filming" Requirement** - The previous requirement for at least one day of filming/work on Italian territory has been eliminated, which is particularly beneficial for post-production companies.

- **AI Restrictions** - Costs related to the use of Artificial Intelligence for creative or artistic performances are generally ineligible, except for AI used for special effects related to "main actors" (this applies to the Italian executive producer). There are also obligations to disclose AI usage and include clauses in contracts regarding the use of performers' work for AI training.

- **Compliance** - Productions must comply with guidelines and local regulations, including the protocol against harassment and violence in the workplace

Recent Changes and Trends (Italian Decree n. 2540 of June 26, 2025)

- **Stricter Rules and Review -** Following allegations of misuse, the Italian government has recently conducted a review of the tax credit system and clarified stricter rules for access. This includes more detailed expense reports and more footage from on-location shooting for international producers.

- **Recent Changes** - Italian Decree n. 2540 of June 26, 2025, along with its counterpart Decree n. 2541 concerning national tax credits, represents a significant step by the Italian Ministry of Culture to refine and tighten the rules surrounding its film and audiovisual tax credit system, particularly for international productions. These decrees aim to enhance transparency, improve control over eligible costs, and combat potential abuses, which have been a concern in the past.

Enhanced Traceability and Transparency

- **Dedicated Bank Account**: A major change is the requirement for beneficiaries (the Italian production company acting as the executive producer) to use a dedicated bank account for all financial flows related to the tax credit. This is designed to ensure full traceability of funds allocated for the production, separating them from other company activities.

- **Invoice Detail**: All invoices for expenses exceeding €1,000 must explicitly state the title of the audiovisual work to which they refer. Failure to do so will result in the cost not being considered eligible for the credit. This is a crucial measure to prevent the inclusion of unrelated or vaguely described expenses.

- **Detailed Service Reports**: For services outsourced to third parties (e.g., equipment rental, post-production services), detailed reports are now mandatory. These must include the supplier's personal data, a precise description of the activities, a list of personnel employed (with tax codes and compensation), and proof of payment. This goes beyond simple invoices, requiring a deeper level of documentation.

- **Supplier Declarations**: Service providers are now required to confirm, under their own responsibility, that there have been no undeclared or unauthorised "cascade" subcontracts. They must also attest that their expenses comply with eligibility criteria and that their company is fully compliant.

Stricter Cost AND DIFFUSION Verification and Expertise

- **DGCA's Power to Request Expert Analysis**: The Directorate General for Cinema and Audiovisual (DGCA) now has the explicit power to request an expert appraisal (perizia di congruità) on the declared eligible costs. This can be conducted by an independent third party approved by the DGCA, even for assessing the transferability of the tax credit. This introduces a robust layer of external verification.
- **Reinforced Rules for Personnel and Outsourcing**: The decrees reinforce existing rules regarding the hiring of personnel and the outsourcing of services to external parties, likely implying a more rigorous review of contracts and labor compliance.
- **Obligation to Deliver a Copy of the Work:** For the first time, the tax credit for international productions now includes the obligation to deliver a complete copy of the finished work to obtain definitive recognition of the tax credit. This aligns with a pre-existing requirement for national productions and helps ensure that the public funds are indeed supporting completed and deliverable projects.

Context and Rationale

- **Fighting Fraud**: These stricter measures are a direct response to past controversies and allegations of misuse of the tax credit system. The "*Francis Kaufmann affair,*" where a director allegedly obtained significant tax credits fraudulently for an unreleased film, highlighted vulnerabilities in the previous system.

- **Greater Efficiency and Meritocracy**: The government's stated aim is to make the tax credit system "scam-proof" and move towards a more "strategic and meritocratic" incentive. This implies a shift from an almost automatic benefit to one that requires more stringent compliance and demonstrates a clear cultural and economic return for Italy.

- **Budget Overruns and Unreleased Films**: Previous reforms, including those in 2023-2024, aimed to address issues like budget overruns and a proliferation of unreleased films that had benefited from the tax credit. These new decrees further solidify those efforts.

Impact on International Producers

- **Increased Administrative Burden**: While the 40% tax credit remains highly attractive, international producers (and their Italian executive partners) will face an increased administrative burden due to the more detailed documentation and stricter compliance requirements.

- **Importance of Experienced Local Partners**: The new rules make it even more crucial for foreign production companies to partner with experienced and reputable Italian executive producers or production service companies and professionals. These partners will need to be meticulous in their record-keeping and understanding of the updated regulations.

- **Continued Attractiveness**: Despite the stricter rules, the core 40% tax credit rate and the absence of a per-project cap (though annual company caps apply) mean Italy's incentive remains one of the most competitive globally, especially for larger productions. The aim is to ensure the benefits are directed towards legitimate and impactful projects.

- **In essence**, Decree n. 2540 of June 26, 2025, marks a significant tightening of the screws on the Italian international film tax credit. It signals a clear commitment from the Italian Ministry of Culture to increase accountability, transparency, and control over public funds, ensuring that the generous incentive genuinely benefits the Italian audiovisual industry and attracts high-quality international productions.

Trends

- **Focus on Quality and Sustainability -** The trend is towards a more "strategic and meritocratic" tax incentive, with the 40% ceiling potentially becoming an exception reserved for productions with significant cultural impact and economic sustainability. The credit may be modulated based on quality, size criteria, type of distribution, and involvement of national broadcasters or international co-productions.

- **Increased Public Funding** - The law passed in 2016 increased public funding for films and TV series to €700 million per year.

- **Important Note**: While Italy's 40% tax credit is highly attractive, understanding the detailed requirements and working with an experienced Italian production partner is crucial for navigating the application process and maximising the benefits. It's always advisable to consult with film commissions, legal experts, or specialised production service companies in Italy for the most up-to-date and specific guidance.