

CLIENT COMMUNICATION: ITALIAN FINANCIAL TRANSACTION TAX

The purpose of this communication is to set out the process established and followed by Northern Trust for facilitating payments of the Italian Financial Transaction Tax (IFTT) for its custody client base.



BACKGROUND

The IFTT is a tax on transfers of Italian chargeable securities, American Depositary Receipts (ADRs) of Italian securities, derivatives linked to Italian equities and on high frequency trading. It is applicable to non-resident investors.

The IFTT imposes an obligation on banks, trusts and investment companies involved in the execution of taxable transactions, to collect and pay the tax due. In the instances where executing brokers are not involved in the transaction, it is the responsibility of the liable party (end investor) to assess and pay the tax due to the Italian tax authority.

Therefore, unlike with the French FTT, the IFTT legislation does not impose any reporting or collection obligation on the custody account keeper. This is the key difference in collection and reporting procedures between the two FTT regimes.

September 2013

KEY FACTS

- The IFTT has been in force for Italian chargeable securities from 1 March 2013 and derivatives from 1 September 2013.
- Taxable securities are listed shares of Italian companies with market capitalisation over EUR 500m as well as unlisted shares of Italian companies.
- The first payment of IFTT incurred since 1 March 2013 is due to the Italian tax authority by 16 October 2013.
- Brokers and investment firms executing transactions on behalf of the end investor are primarily responsible for collection and payment of IFTT. In the absence of the executing broker, the responsibility for payment and reporting of the tax rests with the end investor.

Exclusions and exemptions from the IFTT apply to, amongst others:

- Pension funds subject to supervision under EU Directive 2003/41/EC
- Transactions with EU institutions and other international organisations recognised by Italy
- Transactions in bonds and debt securities. However, conversion of bonds into chargeable Italian securities is subject to tax
- Securities financing transactions, repos, buybacks and sell backs
- Purchases linked to an issue of securities (primary market transactions)
- Parties involved in market-making activity, if they meet specific conditions
- Intragroup transactions and corporate restructuring

Investors should assess their exemption status with an independent tax advisor in accordance with the legislation and process prescribed by the IFTT Decree and Guidelines. This usually involves confirming an exemption with the executing broker in a certain format. Northern Trust does not confirm exemption status or sign exemption forms for its custody clients.

Refund procedure for the IFTT is expected to be available on an annual basis only (in line with the tax return procedures) and therefore all investors in the Italian market are advised to consider their positions carefully in advance of any payments of IFTT being made to the Italian tax authority.



NORTHERN TRUST'S PROCESS

As mentioned above, IFTT legislation does not impose an obligation on the custodian banks to report and collect the tax due. However, Northern Trust will be providing a client-directed payment service. This method of payment is only suitable where the below circumstances **do not apply**:

- On-market transactions facilitated by an executing broker
- Foreign investors with a permanent establishment (e.g. a branch or an office) in Italy
- Foreign investors who appoint a tax representative in Italy
- Payments by foreign investors through Monte Titoli
- Foreign investors with a bank account in Italy in their own name (in which case F24 form should be used)

If one of the above criteria applies, investors should contact their brokers or consult their tax advisors to establish alternative payment procedures.

It is important to note that the payment instruction does not satisfy filing (reporting) obligations and does not capture details of each transaction subject to tax. Similarly, any potential record keeping requirements are not met by this payment process and are not the responsibility of Northern Trust. Both the annual tax return and the record keeping obligations should be considered by the end investor.

The process described below applies to transactions which are **not executed via broker and where the end investor (custody client) instructs Northern Trust** to make payments of the IFTT to the Italian tax authority. An overview of this process as well as confirmation of the key areas of responsibility is set out below:

ENTITY	RESPONSIBILITY
Northern Trust clients	Assesses their tax liability with respect to any transactions in Italian chargeable securities since March 2013. The clients are also responsible for assessing and confirming any applicable exemptions. Custody clients have an option to instruct Northern Trust to make payments of IFTT in the prescribed format and in a timely manner between the 1st and 12th of the month following the month of taxable transactions. The IFTT payment instruction is to be made through the Global Cash Management system (GCM), or through SWIFT and facsimile format following the established payment procedures as relevant to each client. Please note that the first payment instruction for the IFTT is due to Northern Trust by 3.00 PM Central European Time (CET) on 12 October 2013 .
Northern Trust	Accepts instructions to make payments of the IFTT between 1st and 12th of the month following the month of taxable transactions.
Italian tax authority	Receives payments of the IFTT from foreign investors via the custodian network and keeps records of taxpayer's fiscal code, type of transactions and the amounts transferred.

SCOPE OF IFTT SERVICE PROVIDED BY NORTHERN TRUST

Northern Trust is unable to assist in the identification of transactions in scope of the IFTT. List of in-scope securities and ISINs should be obtained by the end investor from external sources. Similarly, Northern Trust does not confirm exemption status or sign exemption forms for its custody clients - this should be assessed by investors and their tax advisors.

Custody clients who require Northern Trust to make payments of the IFTT on their behalf should complete a payment instruction in the required format containing the following details

- The fiscal code of the liable party obtained from the Italian tax authority
- The reference period (i.e. month/year)
- The IFTT codes (codici tributo) that identify the different types of IFTT (i.e. on shares, on derivatives, on high frequency trading); These codes will be provided in a future regulation by the Italian tax authorities and communicated by Italian banks and Northern Trust as soon as possible.

Please refer to the attached payment instruction document for more details.

Investors should ensure they have requested and obtained the Italian fiscal code (ITIN) which is to be mandatorily quoted on all payment instructions for non-broker transactions. Please refer to Northern Trust Atlas update 12 – Italy, dated 3 September 2013.

TAX PAYMENT PROCESSING

Northern Trust will process payments in accordance with the specific client instructions and the IFTT guidelines. The instructions received from clients are processed and a direct cash payment is made in EUR to the Italian tax authorities.

INDEPENDENT ADVICE

Northern Trust strongly recommends that investors seek independent advice with respect to any payment that they wish Northern Trust to make on their behalf and with respect to any other obligations or exemptions under the IFTT. Northern Trust will bear no liability for inaccurate information being declared and/or inaccurate amount of tax being paid to Italian tax authorities on behalf of the end investors. Any penalties due to late, inaccurate or incomplete disclosure and payment are responsibility of the parties liable to tax and will not be borne by Northern Trust.

FOR MORE INFORMATION

If you have any further queries regarding the above, please contact your Northern Trust representative.

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