

True innovation drives businesses beyond

Expert's opinion

Innovative SMEs: requirements and advantages

Federico Feroci

Partner Bernoni Grant Thornton

The expression “innovative SMEs” refers to a category of small and medium enterprises which benefit from a specific favourable tax regime, introduced with Law Decree no. 3 dated 24 January 2015, converted by Law no. 33 dated 24 March 2015. Said regime was introduced following to the one dedicated to innovative start-ups, with the aim of strengthening the competitiveness of the Italian productive scenario and, in particular, of promoting a more widespread diffusion of technological innovations. In particular, within the Italian industrial planning, innovative SMEs fall within the scope of the wider technological development plan defined *Industry 4.0*. Small businesses, which play a key role in the Italian business fabric...

[read more](#)



Overview

Innovation as the key factor for growth

Davide Gabriele Savian

Partner Bernoni Grant Thornton

Open Innovative PMI is a multidisciplinary project concerning SMEs and innovation, aimed to develop skills and increase awareness among Italian innovative SMEs. Conceived by Grant Thornton, it is the first Italian project entirely dedicated to innovative SMEs, which is constantly monitored through an observatory that analyses their demographic, management, and economic characteristics. The Open Innovative PMI project is an open...

[read more](#)

Focus on...

SMEs: the driver beyond the economy

Alberto Alverà

Senior Manager
Grant Thornton FAS

In order to benefit from the supporting measures introduced by the European Union and by the Italian government, companies need to meet not only the “innovation” requirement, as discussed in the previous article, but also the “small and medium enterprise” requirement. Small and medium enterprises, given their high number, represent the main driver of the economy both in Italy and in Europe. In Italy, companies falling within the European definition of SME are approximately 160 thousand, with a total turnover ranging between 2 and 50 million Euro. With over 94 thousand companies, Northern Italy is the area with the highest number of SMEs...

[read more](#)



Overview

Innovation as the key factor for growth

Daide Gabriele Savian

Partner Bernoni Grant Thornton

Open Innovative PMI is a multidisciplinary project concerning SMEs and innovation, aimed to develop skills and increase awareness among Italian innovative SMEs.

Conceived by Grant Thornton, it is the first Italian project entirely dedicated to innovative SMEs, which is constantly monitored through an observatory that analyses their demographic, management, and economic characteristics.

The Open Innovative PMI project is an open container that constantly evolves and is made up by different activities structured into six different actions linked to each other: Award, Conference, Observatory, Academy, Incubator, and News.

In order to fulfil its multidisciplinary and popular nature, the project is based on a web platform (openinnovativepmi.it), where information and updates on innovative SMEs are available. This is an information website on everything concerning SMEs and innovation, from the management best practice, to the tax regulation, from industrial property to Open Innovation.

The Award

The fifth edition of the Open Innovative PMI Award has officially opened at the beginning of September. The Award is the first national prize entirely dedicated to innovative SMEs that are able to grow and modernize, conceived and organized by Grant Thornton.

The aim of the Award is to monitor, promote the best Italian innovation, fostering enterprises with a high growth potential, aware that small and young companies, driven by a great entrepreneurial culture and by a high technological content – such as start-ups and innovative SMEs, can considerably contribute to the innovation process in Italy, proposing new ideas and focusing on research and development, creating new business opportunities and creating employment opportunities.

Over the last years before the pandemic, the results reached by innovative enterprises were clear and outstanding, not only in terms of new employees but also and mainly of economic performance.

In fact, these entities have gradually acquired an increasing relevance in the Italian industrial system, to such an extent that they are now considered a pillar in our economic system.



However, in the first months of 2020, the COVID-19 Pandemic represented an unexpected and unparalleled challenge for Italy, but over 2020 and in the first months of 2021, despite the crisis had not yet been overcome, the number of companies registered with the special section of the Companies Registered continued to increase and this proves the high resilience and adaptation capacity of innovative SMEs.

The resilience of these enterprises is related to their peculiar strengths: strong aptitude for digital and smart working, speed and flexibility in responding to new needs, high technical and IT skills.

However, the crisis did not leave anyone unhurt and the support measures introduced to help strengthening the whole innovative entrepreneurial system were crucial.

The Open Innovative PMI Award is therefore aimed mainly to spread and promote the innovation entrepreneurial culture, pushing the economic and special development of our country and fostering collaboration between large companies and SMEs, in order to favour “open innovation” processes.

This year’s competition categories are three:

- **Research, innovation and digital**, dedicated to all innovative SMEs, whose economic and/or operational component is mainly dependent on their Research & Development activity and/or from technological applications;
- **Internationalization**, specifically dedicated to all innovative SMEs that started developing their business abroad;
- **Millenials**, exclusively dedicated to all SMEs founded before 2010.





Summary of the last 4 editions

	2017	2018	2019	2020
Location	Rome, Palazzo Cornaro headquarter of Dipartimento per gli Affari regionali e le Autonomie	Rome, Palazzo Mattei di Giove headquarter of Centro Studi Americani	Rome, Villa Lubin headquarter of CNEL – Consiglio nazionale dell’economia e del lavoro	Virtual event on the GoToWebinar platform
Categories	Technology & Research International and European Markets SMEs led by women	Technology & Research 10+ years Young player	Technology & Research Women entrepreneurs Joint stock companies	Research, innovation and digital Covid-19 resilience Environmental sustainability
Conference	<i>The world of innovative SMEs and the government plan Industria 4.0</i>	<i>Innovative SMEs and their dynamics of evolution</i>	<i>Public and private together for innovation</i>	<i>The management of the finance area for the mid-market in the Covid-19 era</i>

Highlights

- 200 Innovative SMEs participants in 4 editions
- 36 finalist companies and 12 winners
- 150+ articles in national and online newspapers



Applications for the Open Innovative PMI Award are free and accessible by all SMEs registered with the proper section of the Chamber of Commerce Companies' Register dedicated to innovative SMEs, as well as to those that are going to register, provided that they have the requirements provided by law to obtain the status as innovative SME at 19 October 2021.

Applications can be submitted by registering on the website openinnovativepmi.it/premio/ and filling in the online form by 30 September 2021. Among the many activities and initiatives related to the Award, we can mention the second edition of the Open Innovative PMI Golf Race, taking place on 17 October at La Pinetina Golf Club, in Appiano Gentile (CO).

The panel, made up of eminent representatives of the institutional community, will act as an independent board and will meet on 19 October to examine applications and select the finalist businesses, among which a winner for each category will be elected.

Chair of the panel will be Federica De Santis, lecturer at the Economics and Management Department at the University of Pisa and scientific director of the Open Innovative PMI Observatory.

The awarding ceremony will take place on 11 November in Rome at Consiglio Nazionale delle Ricerche (CNR) and will be preceded by a conference, during which Grant Thornton will disclose, in collaboration with the University of Pisa, the results of the analysis carried out by the Open Innovative PMI Observatory.

Thanks to its nature, Open Innovative PMI has obtained over years wide consensus by public entities and institutions, which have supported the initiative by providing their sponsorship and strategic support.

Sponsorship

Thanks to the success of previous editions, the award is sponsored by MAECI, CNR, AIFI, and ANDAF this year, too.

Grant Thornton has been supporting Italian companies for over fifty years and will continue to commit itself to deal with the important current challenges, favouring innovation as a key factor for a virtuous and durable growth, which innovative SMEs are an active and integral part of.



Ministero degli Affari Esteri
e della Cooperazione Internazionale



Consiglio Nazionale delle Ricerche

AIFI

Associazione Italiana del Private Equity,
Venture Capital e Private Debt



Expert's opinion

Innovative SMEs: requirements and advantages

Federico Feroci

Partner Bernoni Grant Thornton

The expression *innovative SMEs* refers to a category of small and medium enterprises which benefit from a specific favourable tax regime, introduced with Law Decree no. 3 dated 24 January 2015, converted by Law no. 33 dated 24 March 2015. Said regime was introduced following to the one dedicated to innovative start-ups, with the aim of strengthening the competitiveness of the Italian productive scenario and, in particular, of promoting a more widespread diffusion of technological innovations.

In particular, within the Italian industrial planning, innovative SMEs fall within the scope of the wider technological development plan defined *Industry 4.0*. Small businesses, which play a key role in the Italian business fabric, are considered as the drivers able of leading the IV industrial revolution by investing in technological innovation to solve the longstanding productivity problems which have been affecting Italy for more than 20 years now. The favourable tax regime was introduced 6 years ago, but it is worth underlining that its adoption by Italian SMEs has been much lower than expected. To date, only little more than 2,000 enterprises are registered with the dedicated innovative SMEs Register, but it is deemed that the number of Italian businesses potentially meeting the requirements for the registration is at least 10 times as much.



If only less than 10% of the businesses potentially meeting the requirements for accessing the dedicated register have actually proceeded with the registration, it is legitimate to wonder whether the benefits provided for by law are actually so advantageous.

Before analysing the benefits dedicated to innovative SMEs, it is worth specifying which businesses are the beneficiaries of said favourable tax regime. The law extended the scope of eligibility to the status of innovative SMEs to all small and medium enterprises having an innovative corporate object, incorporated as joint stock companies (S.r.l. - limited liability companies, S.p.A. - companies with liabilities limited by shares, or S.a.s. - limited partnerships) or cooperative companies, without providing for any limitation regarding the industry, based on the assumption that technological innovation is a characteristic that can be met in any business sector.



Given the difference with innovative start-ups, the regime dedicated to innovative SMEs does not provide for any limitation as concerns the date of incorporation of the company, although it sets specific size constraints. Such constraints, relevant to small and medium enterprises are specified by the Commission Recommendation dated 6 May 2003 no. 2003/361/EC and will be analysed in detail in the following section.

Besides said size thresholds, further cumulative and alternative requirements are provided for innovative SMEs, partially coincident with the requirements for innovative start-ups. Specifically, in order for a business to be enrolled in the dedicated innovative SMEs Register, it has to meet a series of requisites, namely:

1. having being incorporated as a joint-stock company, also as a cooperative;
2. being resident either in Italy, pursuant to art 73 of the TUIR (consolidated income tax law) (Presidential Decree no. 917 dated 22 December 1986 and further amendments and integrations), or in any other member State of the European Union, or in States party of the agreement on the European Economic Area, provided that it has a production facility or a branch in Italy;
3. having obtained the certification of the last financial statements and of the consolidated financial statements, if any, released by an auditor or audit company registered with the roll of legal auditors (newly incorporated companies are exempted from this requirement);
4. not having shares listed on a regulated market;
5. not being registered with the special section of the Companies Register dedicated to innovative start-ups and certified incubators.

With reference to the innovative nature required to innovative SMEs, in addition to the cumulative requisites, businesses need to meet at least two of these alternative requisites.

1. Having a volume of expenditure in research, development and innovation equal to at least 3% of the higher between cost and total value of production. Expenses for the purchase and rental of immovable property are excluded from the calculation of expenses in research, development and innovation, whereas expenses relevant to the purchase of highly innovative technologies are included. The following expenses are to be considered as expenses for research, development and innovation: expenses relevant to pre-competitive and competitive development, such as experimentation, prototyping and industrial plan development; expenses relevant to incubation services provided by certified incubators (art. 25, para. 5 of Law Decree no. 179/2012 converted with modifications by Law n. 221/2012); gross costs for internal staff and external consultants employed in research, development and innovation activities, including shareholders and directors; legal expenses for the registration and protection of intellectual property, terms and licences for use. Said expenses need to result from the last approved financial statements and to be described in the notes to the accounts.



2. Having at least 1/5 of the total number of employees or collaborators of any title holding a doctorate degree (PhD), or studying for a PhD at an Italian or foreign university, or holding a university degree and having carried out research activity certified by public or private research institutions for at least 3 years, either in Italy or abroad, or having at least 1/3 of the total workforce holding a Master's Degree.
3. Holding, also as custodian or licensee, at least an industrial property right relevant to an industrial or biotechnological invention, to a topography of a semiconductor product, or to a new plant variety, or holding the rights relevant to an original computer programme registered with the special public Register for computer programmes, provided that said property right is directly referred to the corporate object and core business.

Having clarified the requirements to be met in order to enrol in the special Register for innovative SMEs, we set out below the different benefits provided for by law for such businesses.

Tax incentives for investments in the equity of innovative SMEs

The first provision analysed is probably among the most interesting, since it is aimed at promoting the capitalisation of small and medium-sized businesses, by reducing their indebtedness levels. This measure provides for a tax relief for subjects investing in the equity of innovative SMEs through a share capital increase.

This measure, introduced by Budget Law 2017 and reinforced by the so-called Relaunch Decree (art. 38 of Law Decree no. 34/2020), provides for a deduction from the gross Irpef tax equal to 50% of the investment, up to max 300,000 Euro as for individuals; and for a deduction from the IRES taxable base equal to 30% of the invested amount, up to max 1.8 million Euros, as for legal persons. In order to benefit from the tax relief, the investment need to be maintained for a minimum holding period of 3 years.

Raising capital through equity crowdfunding campaigns

With the same aims as above, the law introduced the possibility first for start-ups and later also for innovative SMEs to access fund raising through equity crowdfunding campaigns. Italy was the first country globally to regulate this market through the creation of a dedicated register of authorised online portals. This fundraising method provides the possibility for more people (crowd) to contribute money, even small amounts, to finance an entrepreneurial project. The investment is made entirely online through portals managed by financial intermediaries and it is in essence a contribution of risk capital which gives right to a title in the share capital of innovative SMEs and thus on the equity and administrative rights of the company.

It is worth underlining that in case of investment in the risk capital through crowdfunding campaigns, the subscription of shares will be made directly by the authorised intermediaries acting in the name and on behalf of investors operating through the online portal.



Therefore, within 30 days from the closure of the crowdfunding campaign, said intermediaries are required to file with the Companies' Register a certification demonstrating their title as shareholders on behalf of third parties and, at the same time, to provide the investors with a certificate demonstrating their title on the shares held, in order to legitimate their exercise of corporate rights.

Free-of-charge and simplified access to the SME Guarantee Fund

Among the benefits, innovative SMEs are granted free of charge, direct and simplified access to the SME Guarantee Fund (also FGPMI). This fund, regulated by Ministerial Decree dated 23 March 2016, is public funded and facilitates the access to finance by providing guarantees on bank loans. These guarantees cover up to 80% of the credit line granted by the financial institution, up to max 2.5 million Euro.

Nonetheless, pursuant to the Fund's new operating provisions, applicable to the applications filed starting from 15 March 2019, the conditions for SMEs to access the guarantees provided by the Fund significantly differ from what provided for innovative start-ups and certified incubators. Without prejudice to the gratuitousness, which remains valid for both categories of businesses, the Fund's intervention is actually no longer in automatic: innovative SMEs are now subject to a creditworthiness assessment by the Fund.

It is specified that, as in the past, innovative SMEs are refused direct access to the Fund in case they are certified in the lowest credit rating range.

There is in any case another point of full coincidence between the norms regulating two business categories: as for start-ups, also for eligible innovative SMEs, the Fund's guarantee covers 80% of the operation, regardless of the company's rating – whereas for other companies the coverage level is variable and often lower.

As indicated in the 26th periodic Report by the Ministry of Economic Development, updated at 31/12/2020, operations managed by the Fund in favour of innovative SMEs are 3,105 (up of 1,000 units compared to the previous reporting period), for a total invested amount of over 1 billion Euros.

The funding operations in favour of innovative SMEs which, to date, have had a positive outcome amount to 2,769 (89.2% of the total), a value significantly higher compared to Q3 2020, in which they were 1,685 (80.4% of the total for the quarter). The operations involved 1,041 businesses, 254 more than those registered in the previous quarter.

As a final note, it is specified that, following the pandemic emergency, art. 38, para. 6 of Law Decree no. 34/2020 (Relaunch Decree) reserved an amount equal to Euro 200 million Euro specifically dedicated to the issuance of guarantees in favour of start-ups and innovative SMEs.

Exemption from stamp duties for deeds filed with the Chamber of Commerce

Innovative SMEs, pursuant to art. 4, para 9 of Law Decree no. 3/2015, are exempted from the payment of the stamp duty normally due for the enrolment in the special section of the Companies' Register and for the deeds relevant to the Register.



Services for the internationalisation of businesses (ICE)

The ICE Agency (Agency for the foreign promotion and the internationalisation of Italian businesses - Ministry for Foreign Affairs and International Cooperation) sustains Italian businesses during the internationalisation process by providing information, training, promotion and consultancy services to get to know foreign markets, identify new opportunities and consolidate international relationships. Innovative SMEs, according to the provisions of Law no. 33/2015, benefit from a 30% discount on the purchase of the services above (with the exception of external costs).

Departures from the ordinary corporate regulation

All innovative SMEs, incorporated as limited liability companies (S.r.l.) are allowed to:

- create categories of holdings with specific rights (e.g. categories of holdings which do not grant voting rights or which grant voting rights not proportionally to the holding);
- carry out operations on treasury holdings;
- issue participating financial instruments;
- offer shareholdings to the public.

Extension of loss coverage terms

In order to support innovative SMEs having temporary difficulties, the Law has provided for an extension of the ordinary terms to cover losses exceeding 1/3 of the share capital. In case a company record losses leading to a share capital reduction for more than one third, as a departure to the provisions of the Italian Civil Code, the term by which the loss should be reduced to less than one third is postponed to the second subsequent FY (instead of the first subsequent FY).

In case of a reduction of the share capital below the minimum threshold provided for by law, the shareholders' meeting, as an alternative to the immediate share capital reduction and its simultaneous increase for an amount not lower than the legal minimum, can resolve to postpone the relevant decision to the next FY end.

It is specified that, in response to the epidemiological emergency, the Liquidity Decree (art. 6 of Law Decree no. 23/2020) first and the Budget Law 2021 (art. 1, para. 266 of Law 178/2020) later, introduced the possibility for companies - on a temporary and exceptional basis - to neutralise the losses recorded in FY 2020, postponing to the fifth subsequent FY the term (provided by art. 2446, para. 2 and art. 2482-bis, para. 4 of the Italian Civil Code) by which the losses need to be reduced to less than one third of the share capital.



Derogation to the regulation on shell companies and companies systematically making a loss

Innovative SMEs are not subject to the norms regulating shell companies and companies systematically making a loss. Therefore, in case they attain “non consistent” profits, or they consistently record tax losses, the tax penalties provided for shell companies are not automatically applied to them, e.g. the allocation of a minimum income and of a minimum taxable base for Irap tax purposes, the limited use of the VAT credit, the application of a 10.5% Ires tax surcharge.

Remuneration through shareholdings

In order to promote the participation of employees, directors and collaborators in the company's equity and to remunerate their work through an incentive plan, i.e. with shares or shareholdings, it is possible for innovative SMEs to adopt work for equity and stock option plans. The income deriving from the allocation of these instrument does not contribute to the formation of the taxable income, neither for tax, nor for social security purposes.

Support to venture capital

The Decree of the Ministry of Economic Development dated 01/10/2020 implemented the Venture Capital Support Fund, devised to support investments in the capital of innovative start-ups and innovative SMEs, with a first allocation of 200 million Euros.

The Fund's initial investments in the target companies are made through *convertible loans*¹, while the possible subsequent interventions are made through equity investments.

Through this Fund, it will be possible to issue resources up to maximum 4 times the value of private investors' contribution, within the total limit of 1 million per each start-up or innovative SME. Generally speaking, the investment will be focused on start-ups and innovative SMEs which, at the time of the Fund's intervention, meet the following conditions:

- have their registered office and actually carry out their activity or development programs in Italy;
- have real development possibilities, measurable basing on quantitative and/or qualitative indicators, evidence of which can be provided through compliance with at least one of the following criteria:
- an increase in revenues, clients or service users in the twelve months preceding the investment by the Fund;
- a sustainable three-year industrial plan approved by the relevant administrative body;
- strategic contracts or partnerships;
- registered patents with industrial exploitation potential, as well as during a possible research and development phase, basing on the certification of the proposed technology;
- have no assessment provisions underway;



- successfully pass the assessments relevant to risk management, compliance with regulations or prevention of money-laundering and terrorism financing risks possibly carried out by the asset management company (SGR).

In order to promote new investments, it is provided for that these need to be made in favour of start-ups and innovative SMEs which are making an investment round or which have completed one maximum in the six months preceding the entry into force of the Relaunch Decree.

In conclusion, having examined the requirements and advantages provided by the current regulation of innovative SMEs, it would be desirable that the number of Italian companies which actually proceed with the registration with the dedicated section of the Companies' Register will increase significantly.

In order for this to actually happen, the path identified by the Industry 4.0. Plan will hopefully be the right one to stimulate Italy's economic recovery, although it will be necessary to decidedly invest in those businesses, which more than others are able to drive technological innovation. Consequently, a further strengthening of the incentives already provided will be needed, as well as the introduction of new incentives for Research and Development activities and a reduction in the red-tape burdening the administrative and tax management of these businesses.

¹ These are instruments which do not entitle to a repayment or refund, generate figurative interest income at a rate equal to 5% per year and which are subsequently converted into equity. There are different possibilities as regards the conversion, which depend deom the path that the company will be able to take after the investment. It is worth noticing that it is not possible to convert the investment in equity. It is not possible to repay the loan without conversion into equity.

GET CONNECTED !

Follow us on



Instagram



Focus on...

Small and medium enterprises: the driver beyond the economy

Aleberto Alverà

Senior Manager Grant Thornton FAS

In order to benefit from the supporting measures introduced by the European Union and by the Italian government, companies need to meet not only the “innovation” requirement, as discussed in the previous article, but also the “small and medium enterprise” requirement.

Small and medium enterprises, given their high number, represent the main driver of the economy both in Italy and in Europe. In Italy, companies falling within the European definition of SME are approximately 160 thousand, with a total turnover ranging between 2 and 50 million Euro. With over 94 thousand companies, Northern Italy is the area with the highest number of SMEs (54 thousand in North-West and 40 thousand in North-East), though SMEs are widespread all over Italy (33 thousand in central areas and 32 thousand in Southern Italy).

In the aggregate, the value added produced is equal to 230 billion Euro, of which 39% is produced by SMEs in North-Western Italy, 28% by SMEs in North-Eastern Italy, 18% by SMEs in central Italy, and 15% in Southern Italy (source: Regional Report on SMEs 2021 dated 27 May 2021 – Confindustria/Cerved).

Nowadays, it is not always easy to distinguish a small-medium enterprise from a larger company, since the entrepreneurial environment they operate in is increasingly more evolved, sophisticated and characterized by more or less complex operating, financial and governance relationships, which cannot always be identified easily.

The EU definition of small and medium enterprise is useful to identify those entities that can benefit from public incentives, state aids and *de minimis* contributions within State subsidies. Therefore, before meeting the requirements related to innovation, innovative SMEs need to meet the requirements needed to be classified as Small and Medium enterprises.

To this regard, the European Commission Recommendation 2003/361/EC dated 6 May 2003 and ministerial decree dated 18 April 2005 aim to:

- provide a practical instrument to help companies identify themselves as SMEs;
- ensure that EU and Member states’ subsidies are benefitted only by companies that really need them.

As explained below, the characteristics required to be classified as a SME are far beyond the mere dimensional assessment, as it is increasingly more frequent to find very small companies, which, for diverse reasons, can access very significant resources.



The identification of a SME is divided mainly into 4 phases:

- A. Verify whether the entity classifies as an enterprise;
- B. Identify the eligibility criteria and their thresholds;
- C. Interpret the criteria and their correct application;
- D. Identify the data to be used to ensure that thresholds are met.

A. Verify whether the entity classifies as an enterprise

for this purpose, an entity must carry out an economic activity, regardless of the industry (either goods or services) and of its legal form (partnership, corporation, etc).

B. Identify the eligibility criteria and their thresholds

in order to fall within the definition of SME, an enterprise must meet the following two requirements:

1. the so-called *ULA* (*Unità Lavorative Anno*, i.e., the average number of employees in a year) requirement;
2. the *turnover* criterion or, alternatively, the *total financial statements assets* requirement.

The choice between the *turnover* and the *total financial statements assets* requirement is provided in order to allow a more homogeneous evaluation of enterprises, depending on their industries (enterprises operating in commerce can have a very different turnover from those operating in the manufacturing industry).

By comparing its own data with the established thresholds, an enterprise can understand whether it falls within the definition of SME or not and, specifically, understand whether it falls within one of the following categories:

- **Micro enterprises**, with less than 10 *ULA* and a yearly turnover or total financial statements assets lower than 2 million Euro;
- **Small enterprises**, with *ULA* ranging between 10 and 50 and a yearly turnover or total financial statements assets lower than 10 million Euro;
- **Medium enterprises**, with *ULA* ranging between 50 and 250 and a yearly turnover lower than 50 million Euro, or total financial statements assets lower than 43 million Euro.

Category	Criterion 1		Criterion 2	
	ULA	Yearly turnover		Total FS assets
Micro enterprise	<10	< 2m euro	or	< 2m euro
Small enterprise	10<=>50	<10m euro	or	<10m euro
Medium enterprise	50<=>250	<50m euro	or	<43m euro

C. Interpret the criteria and their correct application

Once the eligibility criteria and their thresholds are identified, data to be used to assess that such thresholds are met must be identified.



ULA – The calculation of the *ULA* of an enterprise takes into account people employed full time, part time, temporarily and seasonally, whether they are either employees, agency-supplied workers, or partners dealing with management activities. On the other hand, the calculation does not include employees under apprenticeship or professional training contracts and employees under maternity or parental leave. Since “*ULA*” are expressed in units, those who worked for the enterprise full time for the whole year count as one unit each, while those who worked under temporary, seasonal or part-time contracts are counted as unit fractions, based on the actually worked months.

Yearly turnover – It is meant as the revenue deriving from the sale of products or services relevant to the last filed financial statements. Such information refers to the item A1 of the income statement, as provided under art. 2425 of the Italian Civil Code.

Total assets - it is meant as the value of an enterprise’s assets. Such information refers to the Assets under the balance sheet, as provided under art. 2424 of the Italian Civil Code.

ULA and *Yearly turnover/Total assets* to be considered are those referring to the last approved financial statements. If the company has been newly incorporated and does not have approved financial statements, yet, the above data must be estimated in good faith on the ongoing fiscal year.

D. Identify the data to be used to ensure that thresholds are met

Before calculating the criteria to assess that thresholds are met, it is necessary to assess whether the enterprise is:

1. independent;
2. associated;
3. affiliated.

This check is crucial because, depending on the type of enterprise, the following data are used, respectively, to verify that the threshold is met:

1. data of the single enterprise;
2. data of the single enterprise and part of the data of the associated company(ies);
3. data of the single enterprise and all data of the affiliated company(ies).

Definition of independent enterprise

the enterprise (i) must not hold participating interests in other companies, nor must other companies hold participating interests in the enterprise, or, (ii) the participating interest held in one or more companies and/or that held by other or more companies in the enterprise must be lower than 25%.

In this case, the independent enterprise will verify the threshold by considering its own data only (*ULA* and *Yearly turnover/Total assets* of the last FY).



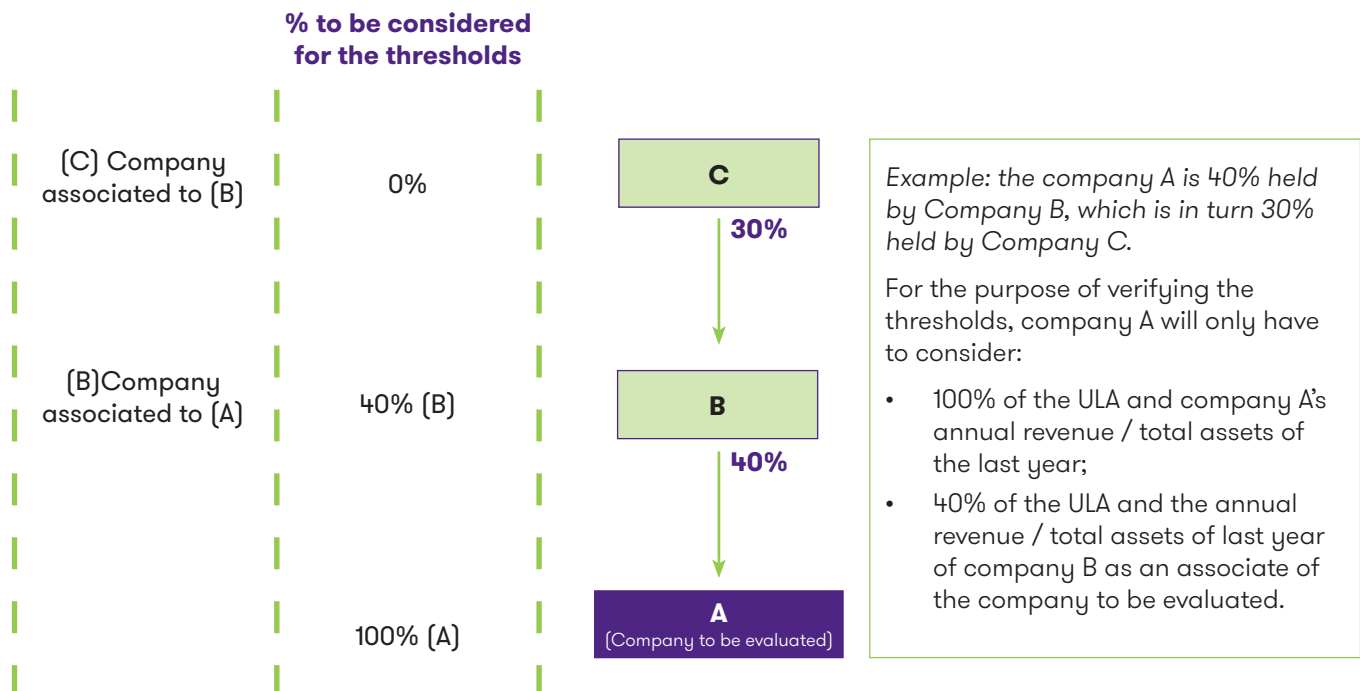
The regulation provides for some exceptions as concerns the definition of independent enterprise in those cases in which the participating interest is higher than 25% but is held by specific categories of investors, including:

- universities;
- institutional investors (including regional development funds);
- public holding companies, companies/ individuals or groups of individuals regularly investing in risk capital, provided that the total invested amount does not exceed €1,250,000.

Definition of associated enterprise

The enterprise must hold one or more participating interests in one or more companies and/or one or more companies must hold a participating interest in the enterprise that is higher than 25% and up to 50%. In this case, the enterprise will verify the threshold by taking into account its own data and, pro-quota, the data of the associated enterprise.

NB: data relevant to a company associated to the associated enterprise must not be included in the scope of the evaluation and must not be taken into account for the calculation of the thresholds.





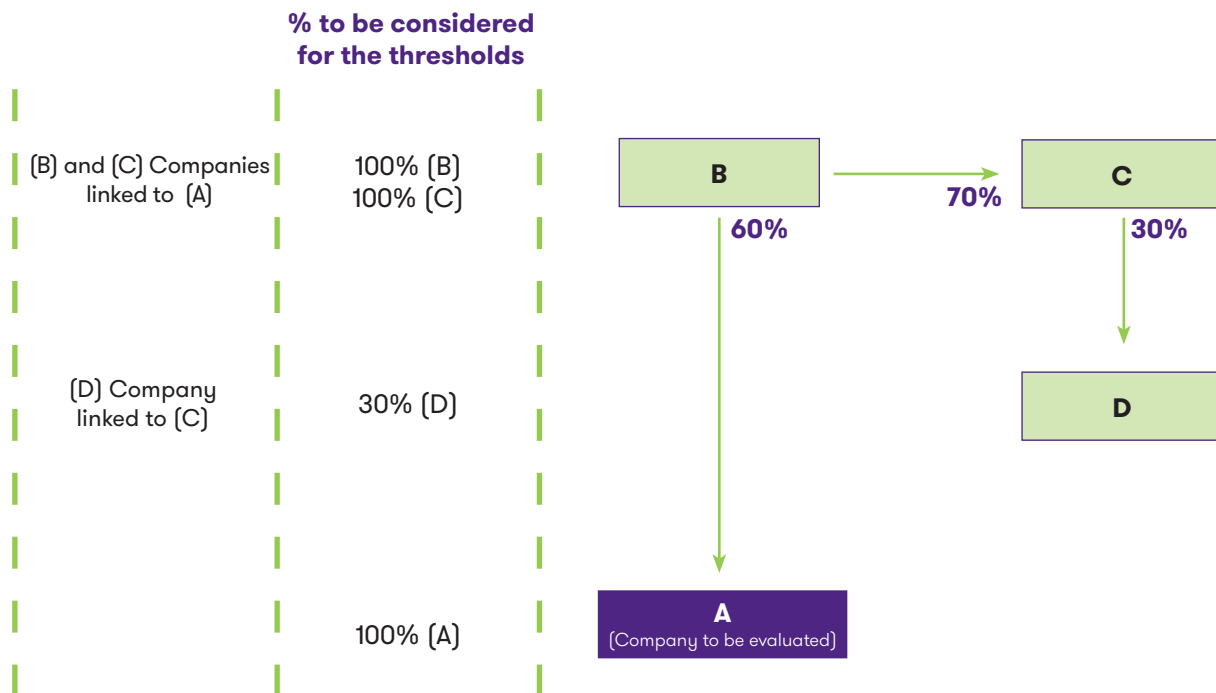
Affiliated enterprise

One or more enterprises are defined as affiliate if one of the following situations occurs:

- an enterprise holds the majority of voting rights into another company;
- an enterprise holds the right to appoint the majority of the governance (BoD, supervisory board, governing board);

- an enterprise, by virtue of a contract or a clause in the articles of association, exercises a predominant power on another company;
- an enterprise, by virtue of an agreement, is able to control the majority of voting rights.

In this case, if the company prepares the consolidated financial statements, the enterprise will verify the thresholds by including consolidated data, otherwise it will consider its own data and 100% of data relevant to affiliated companies.



Example: company A is 60% held by Company B, which also holds 70% of Company C and 30% of Company D.

If company B does not draw up the consolidated financial statements, for the purposes of verifying the thresholds, company A must consider:

- 100% of the ULA and the annual Revenue / Total assets of the last year of company A;
- 100% of the ULA and of the annual Revenue / Total assets of the last year of companies B and C as associates of the company evaluated;
- 30% of the ULAs and of the annual Revenue / total assets of the last year of company D as an associate of the associate.



Considering the turbulence in markets, the current regulation is trying to ensure stability and certainty for those enterprises who are close to exceeding thresholds, providing that a company is no longer a SME only after exceeding such thresholds for two successive years. The same term is provided for the shift from *non-SME* to SME.

Conclusions

Dimension is not the only criterion to consider to classify a company as a SME, as the company's shareholding independence must also be evaluated. To this regard, the following elements must be considered:

- shareholding structure and participating interests;
- type of shareholders/participating interests (individuals vs public companies vs universities vs risk capital investment companies);
- type of governance;
- predominant influence on one or more companies, directly or indirectly related to the company that is under examination;
- reference end markets, where the company under examination operates.

Given the increasingly more complex and continuously evolving economic environment in which Italian SMEs operate, it is advisable to carry out such verification activity supported by a professional, who can analyse, on a case-by-case basis, the occurrence of the shareholding independence requirement, particularly in the Italian context, where cases in which individuals – often relatives – holding separate companies are frequent.

To this regard, the opinion expressed by the ministerial commission on 13/12/2018 is in favour of considering as affiliates those apparently independent companies whose legal and economic relationships reveal that they constitute – through an individual or a group of individuals acting in cooperation – a unique economic activity, even if the requirements provided for affiliate companies do not occur. Individuals acting in cooperation to exercise an influence on the commercial decisions of concerned enterprises lead to consider the latter as not economically independent from each other.

The realization of this condition depends on the specific circumstances and is not necessarily subordinated to the existence of contractual relationships between these people, nor to their intention to get round the definition of micro, small and medium enterprises. However, point 12 of European Commission recommendation 2003/361/EC dated 6 May 2003 limits this case to those individuals who act in cooperation with separate legal entities in the same reference markets or in similar ones.

STATUS QUO
REMINISCES.

Status Go™

RE-ENVISIONS.

Ready to see today's challenges
through the lens of tomorrow?

Welcome to Status Go.

bgt-grantthornton.it | ria-grantthornton.it

