

# Pj. Moulding Star

Draft Tax Due Diligence report

May 2021



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May 2021

Dear Sirs

**Project Moulding Star**

In accordance with your instructions set out in our engagement letter dated April 2<sup>nd</sup>, 2021 (the 'Letter of engagement'), a copy of which is provided in Appendix B of this report, we have pleasure in enclosing a copy of our draft Tax Due Diligence report prepared in connection with Project Moulding Star.

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalization of the report.

This report is confidential and has been prepared exclusively for Vimercati S.p.A.. It should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, other than in accordance with the terms included in the Letter of Engagement.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Vimercati S.p.A. for our work, our report and other communications, or for any opinions we have formed. We do not accept any responsibility for any loss or damages arising out of the use of the report by the addressee for any purpose other than in

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connection with Pj. Moulding Star.

Yours faithfully,

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01

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## Procedures, scope and limitations

# 01. Procedures, scope and limitations (1/2)

## Introduction

The present Report points out the results of our tax due diligence review of the company Progind S.r.l. (hereinafter also the “Company”) performed till the Report Date.

## Scope of our work

Our activity was aimed at reviewing the tax position of the Company for the Open Years. The aforesaid activity consisted in a formal and substantial examination of the documents made available, together with the additional information provided to us in different phone calls and exchanges of e-mails with the Company’s management and their advisors. Our tax review was not intended to give a complete description of all the tax issues arising from the documents and information provided, but just to point out and/or underline the main tax aspects and issues concerning the section “Tax Due Diligence” included in the Engagement Letter embedded in the Appendix B.

## Out of scope activities

This section does not include any tax analysis regarding the following areas:

- the computation of payroll taxes, social security contributions and fulfilments related to employees and agents, and the quantification of the so-called “*cuneo fiscale*”.
- substantial correctness of the application of the accounting principles used in drafting the Company’s financial statements.
- FY 2015 Company’s tax position (in this respect, we point out that in the light of a newly introduced law change, in case of tax assessments whose notification terms elapsed on 31 December 2020 – i.e. such as for FY 2015 - the terms for the notification are postponed to January 2022, provided that the underlying tax assessment deed has been completed - i.e. subscribed by the tax officer - before 31 December 2020).

FY 2020 has been checked only with reference to the ordinary periodical fulfilments, since the Company has not made available yet neither the corporate and regional yearly tax calculations nor the relevant tax returns (i.e. returns’ filing date by the end of November 2021).

## Assumptions of our work

We rely on the correctness and completeness of the information and of the documentation provided and we did not carry out any assessment concerning the correctness and completeness of the information and of the documentation provided.

We rely on the fact that no relevant information, defined as information which could change the results of our examination, was omitted or hidden.

The procedures that we have performed did not constitute an audit, examination or review in accordance with the generally accepted auditing standards.

We assumed that elements disclosed in the financial statements were correctly evaluated, recorded and classified and that they fairly represented the nature of the transactions to which they relate.

## Limitations of our work

Our tax analysis is limited to, and based on, the documentation and information provided by the Company and its advisors.

Our analysis is limited to the legal entity Progind S.r.l., not taking into consideration the tax position of any further related entity or person.

Due to the nature of our engagement, some areas concerning direct and indirect taxation have been checked by means of sample testing.

This Report does not constitute an in-depth investigation as would be expected in the course of a tax audit by the TA. Therefore, it cannot be excluded that in performing a more in-depth investigation we could have identified further issues to be reported.

We do not express or imply any assessment on any aspects covered by laws other than Italian tax laws and regulations, in force at the Report Date.

We accept no responsibility for events and circumstances occurring after the Report Date.

## Main documentation not provided

- Corporate income tax (IRES) and regional tax (IRAP) calculations for FY 2020.

# 01. Procedures, scope and limitations (2/2)

## Criteria used for the qualification of the potential tax liabilities

When possible, we quantified the penalties applicable to the potential tax liabilities arising from our findings on the basis of the general minimum and maximum rates provided by D.lgs. 471/1997 (generally ranging from 90% to 180%), unless in case specifically otherwise provided by Italian tax law.

We also considered the following:

- The provisions of D.lgs 218/1997, art. 2, par. 5 according to which penalties may be reduced to one-third of the minimum, in case of an agreement with the TA on the claims of a tax assessment (so-called “*Accertamento con Adesione*”).
- The provisions of D.lgs. 472/1997, according to which if the so-called “*Ravvedimento operoso*” procedure (i.e. spontaneous payment of the higher taxes) is performed after a notice of tax assessment is issued, the penalty is reduced to one-fifth of the minimum amount due. Note that the taxpayer is not obliged to settle all of the challenges raised by the TA.

Please consider that according to TA Circular Letters n. 31/E/2012 and n. 23/E/2010, in case of challenges based on failure to comply with the so called “accrual basis principle” (provided by Article 109, par. 1 and 2, ITC), if a company agrees to the TA’s initial claims or tax assessment, in addition to the above-mentioned penalty reductions, the higher tax due in a FY (arising from the undue recognition and deduction of a cost during said FY) may be offset against the lower tax that was in fact payable in another FY (i.e. the FY when such cost should have been recognized and deemed deductible according to the accrual basis principle). Therefore, in case of remarks related to “timing adjustments”, no higher taxes due have been calculated. In this case, only penalties equal to 60% according to art. 1, par. 4 of D.Lgs. 471/1997 would still be applicable.

Moreover, in our estimation of the penalties potentially applicable to the tax findings, we did not include the possibility to apply for the so-called “*cumulo giuridico*” according to art. 12 of Legislative Decree no. 472/1997 (reduction of penalties in case in which the same challenge is raised in more than one fiscal year).

The risks related to the tax liabilities disclosed in this report are defined as “**probable**” if there are reasonable grounds for believing that the outcome of a litigation with the TA would not be favorable for the taxpayer, “**possible**” if the outcome of the litigation with the TA cannot be predicted with reasonable certainty, “**remote**” if there are reasonable grounds for believing that the outcome of a litigation with the TA would be favorable for the company.

Our tax analysis focused on items exceeding € 15,000 in terms of tax impact for each fiscal year, any value below this threshold being considered as not material.

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## **Buyer's joint tax liabilities regime: Italian Statute of Limitations**

## 02. Buyer's joint tax liabilities regime: Italian Statute of Limitations (1/1)

### Joint tax liabilities' regime in a share deal

In a share deal, the buyer is fully and jointly liable for the whole inherited tax position of the company purchased, according to the ordinary Statute of Limitations.

In this respect, tax assessments (for IRES, IRAP, WHT and VAT purposes) can be notified within the 31 December of the fifth year following the one in which the relevant tax return is filed (i.e. tax year 2016 with the tax return filed in 2017: expiration term on 31 December 2022); the terms can be extended by two years in the case of omitted filing of the return; no double of the expiration term applies.

As a result, the years still open to tax assessment from the Italian TA with regards to the Company may be summarized as follows:

Fiscal Year	Year of tax return filing	Deadline for tax assessment	Fiscal year status
01/01/2015 - 31/12/2015	2016	31/12/2020	Closed
01/01/2016 - 31/12/2016	2017	31/12/2021	Open
01/01/2017 - 31/12/2017	2018	31/12/2023	Open
01/01/2018 - 31/12/2018	2019	31/12/2024	Open
01/01/2019 - 31/12/2019	2020	31/12/2025	Open
01/01/2020 - 31/12/2020	2021	31/12/2026	Open
01/01/2021 - 31/12/2021	2022	31/12/2027	Open

We cannot exclude that in the framework of the Covid-19 emergency the above-mentioned terms could be modified (i.e. extended) in the future by the Italian law-maker.

Moreover, we point out that in case of tax assessments whose notification terms elapsed on 31 December 2020, the terms for the notification are postponed to Jan 2022, provided that the underlying tax assessment deed has been completed (i.e. subscribed by the tax officer) before 31 December 2020, even if not notified to the taxpayer.

In case of filing of an integrative tax return (i.e. partially amending a return already filed to the TA), the years open to a tax assessment with only reference to the items amended are calculated starting from the year in which the integrative return is filed. You may refer to par. 10 (Formal checks) for a recap of the tax returns filing dates (not applicable, since no corporate, regional, VAT or WHT integrative returns have been filed in the Open Years).



03

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## Key issues

Issue	Impact/observation	Resolution/action required												
<b>Tax compliance status</b> <ul style="list-style-type: none"><li>• Checks on the ordinary/recurring fulfilments and yearly corporate and regional tax calculations</li></ul>	<ul style="list-style-type: none"><li>• The Company appears to be compliant with the ordinary tax fulfilments (such as the filing of the relevant tax returns and communications and periodical tax payments). Moreover, <u><b>in the course of our activity we have not found any significant potential liabilities as a result of the calculation of the yearly corporate tax (IRES) and regional tax (IRAP) basis.</b></u></li></ul>	<ul style="list-style-type: none"><li>• n/a</li></ul>												
<b>Tax flows</b> <ul style="list-style-type: none"><li>• Direct and indirect applicable taxes</li></ul>	<ul style="list-style-type: none"><li>• From a direct tax perspective, the Company is ordinarily subject to the standard corporate (24%) and regional tax (3.9%) rates. The tax calculations made available are in line with the P&amp;L structure and the business carried out.</li><li>• From an indirect tax perspective (VAT), the Company is in a structural credit position due to the mix of output VAT rates on sales (0% or 22%) and input VAT on purchases (mainly 22%). The Company usually off-set with other tax debts the VAT credit usually arising from the yearly VAT Returns.</li></ul>	<ul style="list-style-type: none"><li>• n/a</li></ul>												
<b>Tax audit, assessment and litigation procedures</b> <ul style="list-style-type: none"><li>• Status update</li></ul>	<ul style="list-style-type: none"><li>• On the basis of the information received, there are <b>no</b> pending tax audit, tax assessment or litigation procedures <i>vis-à-vis</i> the Italian Tax Authorities with reference to direct taxes, VAT and WHT tax.</li></ul>	<ul style="list-style-type: none"><li>• We suggest to keep the situation monitored and to ask the Seller to request to the TA a further and updated “tax certificate” showing the pending tax liabilities with the TA (i.e. Certificato dei Carichi Pendenti) at a date closed to the one of the change of control of Progind.</li></ul>												
<b>Tax risk area: VAT exemption on extra-EU supplies</b> <ul style="list-style-type: none"><li>• The correct and systematic collection of the documentation required to support and confirm the VAT exemption on export sales seems not properly managed</li></ul>	<div><div></div><div><table><tr><th>FY / €k</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th></tr><tr><td>Export (extra-EU sales)</td><td>405</td><td>426</td><td>540</td><td>624</td><td>579</td></tr></table></div></div> <ul style="list-style-type: none"><li>• Extra-EU supplies of goods are generally VAT exempted transactions. However, in order to apply for the VAT exemption regime, it is crucial that the seller provides proper and formal evidences of the effective delivery or shipping of the goods sold in the relevant extra-EU state.</li><li>• Depending on the applicable “incoterms” (e.g. so called “direct” on “indirect” exportations) the proof of export is made up, among the others, of the so-called “Exportation Complement Document” (in Italian “<i>Documento Accompagnatorio all’Esportazione</i>” or “<i>DAE</i>”), that includes the MRN (movement reference number) code or by the exit visa stamped by the Custom Office on the sale invoice.</li><li>• According to the VAT returns filed, total extra-EU sales carried out by Progind in the Open Years are equal to:</li><li>• We selected a sample of no. 25 export sales invoices and asked the Company to produce the relevant documentation supporting the exit of the goods from the EU territory and therefore the VAT exemption.</li></ul>	FY / €k	2016	2017	2018	2019	2020	Export (extra-EU sales)	405	426	540	624	579	<ul style="list-style-type: none"><li>• Since (i) the relevant supporting documentation has been only partially made available in the VDR and (ii) we understand that it does not exist a formal procedure aimed at properly and timely managing the area (circumstance that would decrease the risk of mistake), we <b>recommend</b> to:<ul style="list-style-type: none"><li>❑ <b>agree a proper protection in the SPA</b> in order to protect the buyer from any connected potential tax liabilities;</li><li>❑ for the past (i.e. the Open Years), collect and prepare a file including all the available relevant documentation aimed at supporting the effective exit from the EU of the goods sold;</li><li>❑ for the future, implement a <b>written procedure</b> aimed at collecting the proofs required to support the VAT exemption for sales to extra-EU customers (duly communicated within the Progind administrative department).</li></ul></li></ul>
FY / €k	2016	2017	2018	2019	2020									
Export (extra-EU sales)	405	426	540	624	579									

## Key issues (2/4)

Issue	Impact/observation	Resolution/action required
	<ul style="list-style-type: none"> <li>Despite our requests, the Company has only partially made available the relevant documentation: in many cases no evidence has been uploaded at all, in other cases it has been made available partial documentation or, even if in theory adequate (e.g. MRN, DAU) not completed or univocally linked to the single invoices included in the sample.</li> <li><b><u>It may be argued that (i) the collection of the relevant underlying documentation and (i) the connected risk management procedures are not properly managed by the Proqind's administrative department. As a result, even if it is clear that at least in some cases the Company would be able to support the VAT exemption in case of a tax audit, a potential risk should be taken into account (most of all in case of sales in which the export formalities are carried out by the customer).</u></b></li> <li>In this respect, in the framework of a tax audit, in case of missing capacity to provide the relevant proofs, the Company would be required to pay the applicable VAT on the originally VAT exempted invoices (i.e. mainly 22%) further to the applicable penalties (i.e. ranging from 50% to 180% depending on the underlying transactions; in any case, the assessment of the penalties must be evaluated on a case by case basis).</li> <li>Even if for this kind of procedures it is not possible to provide a precise quantification (i.e. further documentation may be provided in case of request within a tax audit procedure; moreover, from a statistical point of view, the sample analysed may be not fully representative of the overall situation), for mere exemplification purposes we may estimate a risk connected to the 50% of the export sales carried out by the Company from 2016 to 2020 (i.e. roughly speaking in line with the compliance to the required documentation found out in our sample analysis).</li> <li><b><u>According to such a rough estimation (as mentioned, for illustrative purposes) the potential risk would be equal to an higher VAT of €k 283 plus penalties ranging from €k 141 and €k 509 (please see par. 04 for further details).</u></b></li> </ul>	

## Key issues (3/4)

Issue	Impact/observation	Resolution/action required												
<p><b>Tax risk area: VAT exemption on intra-EU supplies</b></p> <ul style="list-style-type: none"><li>• The correct and systematic collection of the documentation required to support and confirm the VAT exemption on intra-EU sales seems not properly managed.</li><li>• Nevertheless, the circumstance under which most of the carriages in intra-EU sales are managed by the Company (as per the information received), could simplify the collection and the underlying documentation.</li></ul>	<ul style="list-style-type: none"><li>• Intra-EU supplies of goods are generally VAT exempted transactions. However, in order to apply for the VAT exemption regime, it is crucial that the seller provides proper evidences of the effective delivery or shipping of the goods sold in the other EU state.</li><li>• The evidences required may differ depending on the subject responsible for movement of the goods (i.e. seller or purchaser). Moreover, specific new regulation enacted starting from 1 January 2020 must be taken into account. Supporting documentation includes: signed CMR road transport document; bill of landing; airfreight invoice; courier invoice; insurance policy for the transport of the goods; official documentary proof of arrival of the goods; written evidence of the transport from the customer; etc.</li><li>• According to the VAT returns filed, total intra-EU sales carried out by Progind in the Open Years are equal to:</li></ul> <table><tr><th>FY / €k</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th></tr><tr><td>Intra-EU sales</td><td>830</td><td>1.937</td><td>3.245</td><td>3.736</td><td>2.863</td></tr></table> <ul style="list-style-type: none"><li>• We selected a sample of no. 25 intra-EU sales invoices and asked the Company to produce the relevant documentation supporting the exit of the goods from the Italian territory and therefore the VAT exemption.</li><li>• In most cases the Company provided only a partial set of supporting documentation (e.g. CMR signed by the carrier but not by recipient), while in few other cases the relevant documentation was completely missing.</li><li>• Nevertheless, since most of the intra-EU sales carried out by Progind in the Open Years include incoterms different from the “ex-works” and the Company usually manages the relevant carriages, the collection of the required documental set needed to prove the effective exit of the goods from the Italian territory may be already in the Company’s records.</li><li>• As a result, <b><u>rather than quantify potential tax liability, we stress the concept of the need of a procedural improvement in the preliminary collection of the documentation required to support the VAT exemption. It would lead to a better management of a tax audit (if any) and decrease the risks connected to such a typical “tax risk area”.</u></b></li></ul>	FY / €k	2016	2017	2018	2019	2020	Intra-EU sales	830	1.937	3.245	3.736	2.863	<ul style="list-style-type: none"><li>• Even if we understand that the Company would be in theory in the position to collect further documentation in case of request from the TA (i.e. contracts, bank movements, declaration by a third party, etc.: most of all since we understand that a relevant part of the sales are not regulated by an EXW clause), we suggest to implement the following remediation actions:<ul style="list-style-type: none"><li>❑ agree a <b>proper protection in the SPA</b> in order to protect the buyer from any connected potential tax liabilities;</li><li>❑ for the past (i.e. the Open Years), collect and prepare a file including all the available relevant documentation aimed at supporting the effective exit from the Italian territory of the goods sold;</li><li>❑ for the future, <b>implement a written procedure</b> aimed at collecting the proofs required to support the VAT exemption for sales to intra-EU customers.</li></ul></li></ul>
FY / €k	2016	2017	2018	2019	2020									
Intra-EU sales	830	1.937	3.245	3.736	2.863									

# Key issues (4/4)

Issue	Impact/observation	Resolution/action required
	<ul style="list-style-type: none"> <li>Otherwise, in case the Company would be not in the position to provide the above-mentioned proofs on specific sales, the consequences may be quantified as follows: (i) recapture of the applicable VAT (generally 22%); (ii) application of penalties generally ranging from 90% to 180% of the higher VAT (even if the quantification of the penalties should be evaluated on a case by case basis).</li> </ul>	
<b>Tax attributes</b> <ul style="list-style-type: none"> <li>The Company, according to the last corporate tax return filed (i.e. FY 2019), accrued a residual amount of tax losses available for carry forward equal to €k 252</li> </ul>	<ul style="list-style-type: none"> <li>Progind in FY 2018 accrued tax losses available for carry forward for €k 432, partially off-set against 2019 taxable income for €k 180. <b><u>The remaining quota of €k 252 is available for off-setting against taxable income (i.e. 2020 and beyond) without any time limitation.</u></b></li> <li>The Company has not accrued any further tax attributes (other than the above mentioned tax losses) that may be used to offset and reduce future taxable incomes (such as excess of non deductible interest expenses and excess of ACE available for carry forward).</li> <li>Nevertheless, according to the last corporate tax return filed (i.e. FY 2019), the Company has generated an excess of EBITDA available for carry forward in order to deduct further interest expenses (i.e. so called “interest deduction capacity”, calculated on a yearly rolling basis) equal to €k 269. Indeed, in case of future increase of the net financial position, the interest expenses deductible quota may be increased accordingly (i.e. quantification to be periodically updated, since to be calculated on a year-to-year rolling basis).</li> </ul>	<ul style="list-style-type: none"> <li>n/a</li> </ul>
<b>Extraordinary transactions</b> <ul style="list-style-type: none"> <li>Status update</li> </ul>	<ul style="list-style-type: none"> <li>In the Open Years, the Company did <b><u>not</u></b> carry out any extraordinary transactions (such as mergers, demergers, contribution in kind of going concerns).</li> <li>In FY 2018 the Company, in joint venture with other entities, set up an Italian NewCo called “Icona S.r.l.” with a share capital equal to €k 600 and a capital reserve equal to €k 600. The equity cash contribution of Progind was equal to €k 100, partially allocated at corporate capital (€k 50) and partially to a capital reserve (€k 50). As result, Progind owns the 8.83% of the Icona S.r.l.’s share capital, whose social object is the development of a real estate project aimed at purchasing and restructuring an historical building named “Mattoni Rossi” in Ivrea.</li> </ul>	<ul style="list-style-type: none"> <li>Should the minority in Icona S.r.l. be part of the transaction, the negotiation of a <b>clause in the SPA</b> aimed at protecting the buyer from any potential tax liabilities connected to the tax position of Icona S.r.l. may be evaluated.</li> <li>In case of carve-out, an investigation on the tax consequences arising from the disposal of the participation is recommended (i.e. application of the so-called “participation exemption” regime, allowing the exemption of the 95% of the capital gain, if any),</li> </ul>
<b>Tax incentives</b> <ul style="list-style-type: none"> <li>Status update</li> </ul>	<ul style="list-style-type: none"> <li>In the Open Years the Company has <b><u>not</u></b> made use of specific material tax incentives (e.g. “R&amp;D” tax credit or the “Patent Box” regime).</li> </ul>	<ul style="list-style-type: none"> <li>In the post-deal, it may be suggested to investigate the possibility to access to one of the available tax incentives provided by the Italian tax law (i.e. among the others: R&amp;D credit, Patent Box).</li> </ul>

04

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## **Analysis: VAT exemption for extra and intra-EU sales**

## 04. Analysis: VAT exemption for extra and intra-EU sales (1/5)

### i) VAT exemption for extra-EU sales of goods

#### A) General background on the VAT regime for extra-EU sales

In a very few words, according to the Italian laws and regulation, extra-EU supplies of goods are generally VAT exempted transactions. However, in order to apply for the VAT exemption regime, it is crucial that the seller provides proper evidences of the effective delivery or shipping of the goods sold in the relevant extra-EU state.

With specific reference to extra-EU supplies of goods, without claiming to be complete, we may highlight the following main cases:

1. **Direct exportation with transport or shipment of the goods carried out by the seller (art. 8, par. 1, let. a of DPR no. 633/1972)**: typically, the proof of export is made up of the so-called "Exportation Complement Document" (in Italian "*Documento Accompagnatorio all'Esportazione*" or "*DAE*"), that includes the MRN (movement reference number) code, that univocally identify the specific carriage with the "exit results" message registered in the National Custom IT System.
2. **Indirect of improper exportation with transport or shipment of the goods carried out by the purchaser (art. 8, par. 1, let. b of DPR no. 633/1972)**: the proof of export, since the DAE with the MRN is usually not in the availability of the seller, is normally made up of the exit visa stamped by the Custom Office on the sale invoice.

As a further comment, according to Italian tax law, in case of indirect exportation, the VAT exemption only applies if the export is completed within 90 days from the delivery of goods to the non-resident transferee. If the 90-day window is not respected, the goods are no longer exempt from tax and the national transferor must apply VAT to the transaction. If the situation is not rectified, a penalty ranging from 50-100% of the tax applies. Further penalties connected to the filing of the unfaithful tax return may be applicable.

This penalty is applied against the national supplier/transferor and not the non-resident transferee. In this respect, it is important to note that the 90-day term set forth by Italian law does not comply with EU laws. In December 2013, the European Court of Justice challenged the Italian law on the basis that it denies the benefit of non-taxability even when it may be demonstrated that goods indeed left the customs territory of the EU (but did so after the 90-day period had expired). As a consequence, the Italian Tax Authorities have changed their view, admitting that the non-taxability of exports is applicable when, among the other conditions, goods leave the EU territory after the 90-day term has expired, as long as proof of the export is obtained.

#### B) VAT exemption on extra-EU sales: Progind's case

According to the VAT Return filed for the Open Years, the whole amount of VAT exempted extra-EU supplies of goods carried out by Progind is equal to:

FY / €k	2016	2017	2018	2019	2020
Export (extra-EU sales)	405	426	540	624	579

In this respect, we checked the capacity of the Company to timely collect the required set of documents by means of a sample analysis on some selected transactions carried out in the Open Years (both direct and indirect exportations).

Despite our requests, the Company has only partially made available the relevant documentation: in many cases no evidence has been uploaded at all, in other cases it has only been made available partial documentation or, even if in theory adequate (e.g. MRN, DAU) not completed or univocally linked to the single invoices included in the sample.

It may be concluded that (i) the collection of the relevant underlying documentation and (i) the connected risk management procedures **are not properly governed** by Progind's administrative department. As a result, even if it we understood that at least in some cases the Company would be able to support the VAT exemption in case of tax a audit, a **potential possible risk should be taken into account** (most of all in case of sales in which the export formalities are carried out by the customer).

## 04. Analysis: VAT exemption for extra and intra-EU sales (2/5)

### C) Conclusions

In case of tax audit, the TA could require to the Company to provide the relevant documentation aimed at supporting the effective exit of the goods outside the European Union territory. The positive outcome of a tax audit would depend on the capacity of the Company to timely provide such supporting documentation on each invoice selected.

In case of missing capacity to provide the relevant proofs, the Company would be required to pay the applicable VAT on the originally VAT exempted invoices further to the applicable penalties.

Even if for this kind of procedures it is not possible to provide a precise quantification (i.e. further documentation may be provided in case of request within a tax audit procedure; moreover, from a statistical point of view, the sample analysed may be not fully representative of the overall situation), for mere exemplification purposes we may estimate a risk connected to the 50% of the export sales carried out by the Company from 2016 to 2020 (i.e. roughly speaking in line with the compliance to the required documentation found out in our analysis). **See chart beside for a detailed rough estimation of the potential tax liabilities.**

In this respect, we recommend to:

- ☐ agree a proper **protection in the SPA** in order to protect the buyer from any connected potential tax liabilities;
- ☐ for the past (i.e. the Open Years), collect and **prepare a file** including all the available relevant documentation aimed at supporting the effective exit from the EU of the goods sold;
- ☐ for the future, implement a **written procedure** aimed at timely collecting the proofs required to support the VAT exemption for sales to extra-EU customers (duly communicated within the Progind's administrative department).

### D) Potential tax liabilities chart

Progind S.r.l. - risk of recapture of VAT on exempted export sales						
€k	2016	2017	2018	2019	2020	TOTAL
Higher taxable basis* (VAT)	202,5	213,0	270,0	312,0	289,5	1.287,0
Higher VAT**	44,6	46,9	59,4	68,6	63,7	283,1
<b>Total higher taxes</b>	<b>44,6</b>	<b>46,9</b>	<b>59,4</b>	<b>68,6</b>	<b>63,7</b>	<b>283,1</b>
Minimum penalties (50%)	22,3	23,4	29,7	34,3	31,8	141,6
Maximum penalties (180%)	80,2	84,3	106,9	123,6	114,6	509,7
<b>Totale higher taxes + min penalties</b>	<b>66,8</b>	<b>70,3</b>	<b>89,1</b>	<b>103,0</b>	<b>95,5</b>	<b>424,7</b>
Totale higher taxes + max penalties	124,7	131,2	166,3	192,2	178,3	792,8
Total higher taxes + penalties min reduced to 1/3	52,0	54,7	69,3	80,1	74,3	330,3
Total higher taxes + penalties min reduced to 1/5	49,0	51,5	65,3	75,5	70,1	311,5
Risk	possible	possible	possible	possible	possible	
Deadline for tax assessment	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026	

\* For estimation purposes, we included 50% of the export sales as arising from VAT returns filed

\*\* We assume that the 22% standard VAT rate is applicable to all the transactions taken into account



## 04. Analysis: VAT exemption for extra and intra-EU sales (3/5)

### ii) VAT exemption for intra-EU sales of goods

#### A) General background on the VAT regime for intra-EU sales

In a very few words, according to the Italian tax law, intra-EU supplies of goods are generally VAT exempted transactions. However, in order to apply for the VAT exemption regime, it is crucial that the seller provides proper evidences of the effective delivery or shipping of the goods sold in the other EU state.

Up to FY 2019, the applicable regulations did not define the means of proof of transport/shipment in the territory of another EU State, creating a considerable number of difficulties between the economic operators.

According to the interpretations provided by the Italian TA, the following different and alternative proofs and evidences may have been provided in order to support the VAT exemption regime (clarifications applicable up to FY 2019, see *infra*):

- a) documents signed by the purchaser or a person authorized to act on his behalf, certifying the arrival of the goods in the member State of destination;
- b) documents relating to the carriage or shipment of the goods, such as a document or a "CMR" letter bearing the signature, a bill of lading, an air transport bill, an invoice issued by the carrier, an insurance policy relating to the carriage of goods or bank documents attesting the payment of the transport or shipment of the goods;
- c) official documents issued by a public authority, such as a notary, confirming the arrival of the goods in the other member State;
- d) a contract between the seller and the buyer or a purchase order in which the destination of the goods is indicated;
- e) the correspondence between the parties involved in the transaction in which the destination of the goods is mentioned;
- f) the VAT declaration of the buyer indicating the intra-EU acquisition of the goods.

Starting from 1 January 2020 a new set of regulation – so called "quick fixes" – have been enacted at the EU level. The mentioned new regulations refer - among the others - to the rules relating to the proof of intra-EU supplies of goods.

In this respect, the new EU regulation provides for specific guidelines on the documentation that taxpayers must keep available in their records as proof of the actual transfer of the goods in the country of destination (making even more relevant, starting from 1 January 2020, the need to implement effective *ad hoc* procedures in order to manage the area).

The new rules introduced a rebuttable presumption of intra-EU transport (i.e. VAT exempted) in case the supplier is in the possession of a minimum standard of evidential documents.

Two options may be selected to satisfy the new proof of cross-border movement for goods to qualify for a VAT exemption:

1. **The supplier is responsible for the movement of the goods**: the supplier must retain two pieces of non-contradictory evidence that the goods were transported to the customer's member state. See list of documents below; or
2. **The customer is responsible for the movement of the goods (e.g. ex-works incoterm)**: the supplier must obtain written evidence of the transport from the customer, supported by two pieces of evidence as detailed below.

The new rules specify two lists of documentary evidences. Suppliers must retain: 2 documents from list A; or 1 from list A plus 1 from list B:

- **List A**: Signed CMR road transport document; bill of Lading; airfreight invoice; courier invoice.
- **List B**: Insurance policy for the transport of the goods; official documentary proof of arrival of the goods; or receipt by operator of receiving warehouse in country of arrival.

Moreover, with Circular n. 12/2020, the TA clarifies that the new regulations applicable starting from FY 2020 establishes a "relative" presumption of transport and/or shipment, which does not prevent operators from using different means of proof, as identified by national practice even prior to the entry into force of the Regulation itself (in this respect, a CRM duly signed by the foreign recipient represents a fair standard for their purposes).

## 04. Analysis: VAT exemption for extra and intra-EU sales (4/5)

More in details, the TA explained that the amended EU regulation applies in addition to the guidelines already existing in Italy. In line with their previous guidance, the TA confirm that if the supplier cannot obtain the evidences of intra-EU transport set out starting from 2020, the more flexible local practices regarding proof of transport continue to apply in Italy; in this case, the level of sufficient proof of intra-EU transport for purposes of obtaining VAT-exempt treatment will be subject to evaluation by the TA on a case-by-case basis.

### B) VAT exemption on intra-EU sales: Progind's case

According to the VAT returns filed for the Open Years, the whole amount of VAT exempted intra-EU supplies of goods carried out by Progind is equal to:

FY / €k	2016	2017	2018	2019	2020
Intra-EU sales	830	1.937	3.245	3.736	2.863

In this respect, we checked the capacity of the Company to collect the required set of documents by means of a sample analysis on some selected transactions carried out in the Open Years.

Based on the documentation made available, we found out that with reference to this sample:

- all invoices received, except one, highlight the information that the shipping has been arranged by the seller (i.e. Progind);
- the Company for the most relevant part of the invoices made available in the VDR only partially the supporting documentation required to univocally prove the carriage of the goods outside from the Italian territory (e.g. usually the transport document signed by the foreign recipient has not been made available);
- in limited cases, no supporting documentation at all has been uploaded in the VDR.

### C) Conclusions

As mentioned, the set of proofs made available in the VDR **was in most cases only partial and not sufficient to univocally prove the carriage of the goods sold outside the Italian territory** (i.e. absence of a CMR note signed by the recipient, lack of the invoice issued by the carriage operator, etc.).

Nevertheless, on the basis of the information received by the local management, the sample analysed (i.e. in which for the large majority of the transactions the transport is managed by Progind, i.e. the seller) is in line with the contractual standard mostly used by the Company. Such a circumstance simplifies the collection of the documentation required to support the exit of the goods from the Italian territory, since the transport has been managed by the Company, which is in control of the underlying administrative documentation.

As a result, rather than a quantified a potential tax liability, **we stress the concept of the need of a procedural improvement in the collection of the documentation required to support the VAT exemption**. It would allow a better management of a tax audit (if any) and a decrease of the risks connected to the intra-EU sales exempted transactions (i.e. a typical tax risk area).

In this respect, in case of tax audit by the TA, it could be required to the Company to provide alternative proofs (in respect of those made available in the VDR) in order to support the effective shipping of the goods to a EU country different from Italy.

The positive outcome of a tax audit would depend on the capacity of the Company to provide such supporting documentation on each invoice selected (and not only in respect of the sample analysed). If the company will be unable to prove the effective exit of the goods from the Italian territory, it could be subject to penalties, so it is recommended to implement a written procedure aimed at collecting the supporting documentation underlying the intra-EU sales of goods.

Even if we understand that the Company would be in theory in the position to collect further documentation in case of request from the TA (i.e. contracts, bank movements, declaration by a third party, etc.: most of all since we understand that a large part of the sales are not regulated by an "EXW" clause), **we suggest to implement the following remediation actions:**

- ☐ agree a proper **protection in the SPA** in order to protect the buyer from any connected potential tax liabilities;
- ☐ for the past (i.e. the Open Years), collect and **prepare a file** including all the available relevant documentation aimed at supporting the effective exit from the Italian territory of the goods sold;
- ☐ for the future, implement a **written procedure** aimed at collecting the proofs required to support the VAT exemption for sales to intra-EU customers.

## 04. Analysis: VAT exemption for extra and intra-EU sales (5/5)

### D) Quantification of the potential tax liabilities

As mentioned, as a result of the analysis carried out, we have not quantified a specific potential liability linked to selected invoices for which it is certain that the Company is not in the position to collect, in case of request from the TA, the different proofs that may be used to support the VAT exemption on intra-EU transactions.

Nevertheless we highlight that, in case the Company would be not in the position to provide the above-mentioned proofs on some specific invoices, the consequences may be quantified as follows:

- recapture of the applicable VAT (in most cases 22%);
- application of penalties generally ranging from 90% to 180% of the higher VAT (the factual application of the penalties should be evaluated on a case by case basis).

**We recommend in any case, in case of completion of the deal, a specific post-deal assessment aimed at clearly define the procedures required according to the best practices in order to minimize future risks in case of tax audits.**

05

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## Investment in “Icona S.r.l.”

## 05. Investment in “Icona S.r.l.”

### Investment in Icona S.r.l.

- On 16 March 2018, Progind in joint venture with other companies set-up an Italian newco (i.e. named Icona S.r.l.) with an overall share capital equal to €k 600 further to capital reserves equal to €k 600.
- The equity cash contribution of Progind was equal to €k 100, partially allocated at corporate capital (€k 50) and partially to a capital reserve (€k 50). As result, Progind owns the 8.83% of the Icona S.r.l.'s share capital.
- The Icona S.r.l.'s object is the development of a real estate project aimed at purchasing and restructuring an historical building named “Mattoni Rossi” in Ivrea.
- We have been informed that in the Open Years there have not been economic transaction among Progind and its subsidiary.

### Main tax consequences

- The investment in the Italian company Icona S.r.l. has not generated any significant tax consequences for Progind.
- In case of holding of the participation, the Company – in its role of minority shareholder and investor - will be pro-quota responsible for any challenge and potential tax liabilities arising from a tax audit on Icona S.r.l. (if any).
- In case of carve out of the investment before the take-over of Progind, the capital gain (if any) realized by the Company will be alternatively (i) tax relevant from IRES purpose (24%) for the entire amount or (ii) exempted for the 95% of the amount in case of application of the so-called “participation exemption” regime provided by art. 87 of the Italian tax income code (the applicable regime would depend on certain objective requirement to be met both at the Progind and at the subsidiary level).
- We recommend, in case of completion of the deal and effective carve-out, a specific assessment aimed at ascertain the requirements for the application of the “participation exemption” with reference to the investment in Icona S.r.l.

06

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## Tax attributes

## 06. Tax attributes (1/2)

### Tax losses available for carry-forward

#### Applicable rules under Italian tax law

According to Italian tax law, tax losses may be carried forward and can be used to off-set taxable income for IRES profits of following periods. The carry forward is unlimited in time, but is limited in the amount. In this respect, tax losses can be off-set with future profits for an amount not exceeding 80% of the taxable income. Thus, corporations are required to pay IRES on at least 20% of taxable income. Losses arising in the first three years of activity can be off-set with 100% of taxable income.

No tax losses can be carried forward for IRAP purposes.

Specific (anti-avoidance) rules limit the carry forward of tax losses in the joint event of (i) change of control and (ii) an effective change of the main activity performed by the company carrying forward the tax losses. The aforementioned changes must occur together in order for the limitations to be applicable. Moreover, the change of the main activity is relevant for these purposes if it takes place in the tax period in which the change of control occurs or in the two subsequent or preceding periods.

In Italy tax losses cannot be carried back.

Specific anti-abuse provisions are also applicable to the carry forward of tax losses in case of mergers or demergers.

#### Progind's case

According to the last corporate tax return filed (for FY closed as at 31 December 2019), the Company has accrued tax losses available for carry-forward equal to €k 252. No relevant info has been made available in respect of the off-set (if any) carried out in FY 2020 (tax calculations not available).

### Excess of non-deductible interest expenses or gross operating margin available for carry-forward

#### Applicable rules under Italian tax law

According to Italian law, interest expenses are fully tax deductible up to the amount of interest income. Thereafter, the excess of interest expenses is deductible at up to 30% of the gross operating margin (so called "interest deduction capacity") relevant for tax purposes (before 2019, reference had to be made to gross operating margin as reported in the financial statements). In this respect, gross operating margin is defined as the difference between operating revenues and expenses excluding depreciation of tangible and intangible assets based on their tax value.

Net interest expenses in excess of the yearly limitation are carried forward in the following fiscal years.

Therefore, net interest expenses not deducted in previous years can be deducted in the future fiscal years as long as total interest in that year does not exceed 30% of the gross operating margin.

If an excess of gross operating margin arises, this amount can be carried forward to increase the company's interest deduction capacity of future five fiscal years (before 2019 indefinitely).

Starting from 2019, interest income exceeding interest expenses can be carried forward to off-set future interest expenses in any future FY.

#### Progind's case

According to the last corporate tax return filed (for FY closed as at 31 December 2019), Progind has not accrued any excess of non-deductible interest expenses available to carry-forward.

In the same corporate tax return filed for FY 2019, Progind declared an excess of gross operating margin available for carry-forward equal to €k 269 (i.e. so called "future interest deduction capacity").

## 06. Tax attributes (2/2)

### Excess of allowance for corporate equity (so called “ACE”)

#### **Applicable rules under Italian tax law**

The allowance for corporate equity (ACE) is a tax deduction from IRES taxable basis (after using any available tax losses) that corresponds to the net increase in the equity employed in the entity, multiplied by a specific rate differently determined on an yearly basis. The relevant increases are determined mainly by the equity contributions, the coverage of losses, and the retained earnings (with the exception of profits allocated to a non-disposable reserve).

Any excess of ACE generated in a FY and not off-set against a positive taxable income (e.g. due to a tax loss position) may be carried forward and used to off-set future positive incomes without any time limitation.

#### **Progind's case**

According to the last corporate tax return filed (for FY closed as at 31 December 2019), the Company has not accrued any excess of ACE available for carried forward.



07

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## Tax compliance status

# 07. Tax compliance status (1/4)

## Introduction to the Italian direct tax system

### **A) Italian direct taxes: IRES (corporate tax) and IRAP (regional production tax)**

Italian corporate entities are subject to Corporate Income Tax (IRES) and to Regional Production Tax (IRAP). The rates are the following:

- IRES: 24% (i.e. 27.5% up to FY 2016 included)
- IRAP: generally 3.9% (even if the rate may vary depending on the business sector and the Italian region in which the business is carried out).

IRES taxable basis is determined according with the “world-wide taxation principle”: to the extent that the income is legally attributable to an Italian tax resident entity, that income must be taxed in Italy, regardless of the location where the income is yielded. IRES is charged on the total net income reported in the financial statements, duly adjusted according to the specific tax rules.

Key principles applicable in the determination of the taxable income are:

- positive and negative items of income are, respectively, taxed and deducted on an accrual basis (accrual principle);
- to be relevant for IRES purposes, costs and proceeds have to be certain and objectively determined or determinable in their amount (certainty and objective determination principle);
- costs and expenses are generally deductible if related to proceeds concurring to the determination of the taxable income of the year (“inherence to business” principle) and are accrued in the relevant P&L accounts (“imputation” principle).

The tax base of IRAP, for commercial and manufacturing companies (such as Progrid S.r.l.) is broadly represented by the gross margin resulting from the financial statements. Accruals, interest income and expenses as well as provisions for bad debts are not part of the IRAP taxable basis.

### **B) Filing and payment requirements**

Italian companies must file on an yearly basis (i) a Corporate Income Tax Return (IRES) and a (ii) Regional Production Tax Return (IRAP). Italian Companies file the mentioned returns within the end of the eleventh month of the year following the one the return refers to (deadline at the end of the tenth month for FY 2017 and 2018 and at the end of the ninth for FY 2016).

For IRES and IRAP purposes, the law provides for both advance payments and settlements payments. Advance payment is split into two instalments according to the so-called “historical method”: (i) the first is equal to 40% of the overall advance payment due and it is actually due for payment within the 30<sup>th</sup> day of the sixth month following the previous tax period closing date; (ii) the second instalment is equal to 60% of the overall advance payment due and is due for payment within the end of 11<sup>th</sup> month following the previous tax period closing date. Settlement payments are due within the 30<sup>th</sup> day (16<sup>th</sup> day up to FY 2017) of the sixth month following the tax period closing date which they refer to.

Please consider that in FY 2020 deadlines may vary according to the emergency rules issued in the light of the Covid-19 emergency.

## 07. Tax compliance status (2/4)

### A) Progind direct taxes calculations: corporate income tax (IRES) and regional tax (IRAP)

In the Open Years, the Company in the corporate and regional tax returns filed always declared a positive income (except in the IRES Return filed for the FY 2018, in which a tax losses has been recorded) taxed according to the applicable rates (i.e. 27.5% for FY 2016 and 24% for FYs 2017-2019 for IRES purposes and 3.9% for IRAP purpose) according to the figures highlighted in the chart below:

#### Corporate Tax (IRES) base: Progind S.r.l.

Corporate tax (IRES) - Progind S.r.l./ €k	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019
<b>Pre-tax results from the P&amp;L</b>	<b>131</b>	<b>271</b>	<b>-340</b>	<b>340</b>
<b>Net results from P&amp;L</b>	<b>81</b>	<b>188</b>	<b>-252</b>	<b>254</b>
Entertainment expenses	10	9	9	15
Non deductible taxes	62	102	34	105
Car expenses	30	27	27	23
Other non-deductible costs	3	4	11	8
<b>Positive tax adjustments</b>	<b>105</b>	<b>142</b>	<b>81</b>	<b>151</b>
Deductible IRAP 10%	3	3	2	2
IRAP on personnel cost	23	19	19	7
Super-depreciation	36	80	113	136
Non-taxable income	22	24	23	0
Deffered tax asset	0	0	104	35
<b>Negative tax adjustments</b>	<b>84</b>	<b>126</b>	<b>261</b>	<b>180</b>
<b>Off-set of taxable income through tax losses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>180</b>
<b>NID</b>	<b>56</b>	<b>20</b>	<b>0</b>	<b>40</b>
<b>Taxable basis</b>	<b>46</b>	<b>184</b>	<b>-432</b>	<b>5</b>
<b>Current corporate tax (IRES)</b>	<b>13</b>	<b>44</b>	<b>0</b>	<b>1</b>
<b>Effective tax rate - IRES (current taxes / pre-tax results)</b>	<b>10%</b>	<b>16%</b>	<b>0%</b>	<b>0%</b>

#### Regional Tax (IRAP) base: Progind S.r.l.

Regional Tax (IRAP) - Progind S.r.l./ €	31 Dec 2016	31 Dec 2017	31 Dec 2018	31 Dec 2019
<b>Regional Tax (IRAP) base</b>	<b>844</b>	<b>1.026</b>	<b>387</b>	<b>970</b>
<b>Current IRAP</b>	<b>33</b>	<b>40</b>	<b>15</b>	<b>38</b>
<b>Effective tax rate - IRAP (current taxes / pre-tax results)</b>	<b>25%</b>	<b>15%</b>	<b>n.a.*</b>	<b>11%</b>
<b>TOTAL EFFECTIVE TAX RATE - IRES + IRAP</b>	<b>35%</b>	<b>31%</b>	<b>n.a.*</b>	<b>11%</b>

\* Current IRAP burden, since levied on a taxable basis different from the "pre-tax result" is positive notwithstanding the pre-tax loss

## 07. Tax compliance status (3/4)

### Introduction to the Italian indirect tax system

#### Italian indirect taxation: VAT

The Italian VAT rates on supply of goods or provisions of services are either standard (22%) or reduced (4% or 10%). When a special provision in terms of reduced VAT rate is not provided, the standard rate applies.

A VAT exemption (0% rate) applies to specific transactions (i.e. healthcare, education, insurance, etc.)

Italian VAT shall apply to the supplies of goods and services carried out in Italy by entrepreneurs, professionals or artists. Transactions relevant for VAT purposes must:

- refer to supplies of goods or services;
- be carried out by an entrepreneur, an artist or professional, in the exercise of their activity;
- be carried out in Italy.

These three requirements are defined in the Italian VAT Law. In the event that one of them is missing (e.g.: the supply of goods is carried out by a private person), the transaction is not subject to VAT and remains outside the Italian VAT scope.

An exemption is foreseen for transactions that, in the view of their international nature, are deemed to be consumed outside from Italy. Upon certain conditions, these supplies – among the others - are exempted from VAT:

- intra-community supplies of goods;
- export;
- certain transactions related to international transports;
- transactions related to international trade (VAT warehouses);
- transactions with San Marino and the Vatican City.

A taxable person generally has the right to deduct from the VAT due the amount of the input VAT incurred on purchases of goods or services. The right to deduct the VAT is restricted to goods and services pertaining to the business activity and used to perform VAT taxable output supplies.

Moreover, a resident company may acquire the status of “habitual exporter” for VAT purposes if it makes zero-rated supplies (exports, EU supplies, international services, etc.) that account for more than 10 percent of its total turnover. An “habitual exporter” is entitled to purchase VAT-free services and goods from Italian suppliers (exceptions apply for immovable property and further specific transactions) up to the amount of the zero-rated output supplies made in the previous calendar year or previous 12 months. Specific documental obligations, procedures and limitations apply.

#### Progind's case

- Progind's sales are mostly subject to the ordinary 22% VAT rate and to the 0% rate exemption in case of intra-community supplies of goods and exports to extra-EU countries.
- Progind's purchases are subject to the ordinary 22% VAT rate; however, the Company is qualified as “habitual export”, therefore a fraction of its purchases are subject to the 0% VAT rate, within the limit of the annual “plafond” (i.e. the total amount of eligible exempted transactions made in the previous calendar year).
- The mix of VAT rates applicable to sales and purchases leads to a structural VAT credit position, since the input VAT systematically exceeds the output VAT. The yearly VAT credit is usually off-set with other taxes and social contribution debts.
- Please refer to the chart included in the following slide for a recap of the input VAT, output VAT and VAT credits as arising from the VAT returns filed for the Open Years.

## 07. Tax compliance status (4/4)

The following chart represents the VAT credit positions as arising in the VAT returns filed for the Open Years (i.e. for FYs 2016-2020) by Progind

VAT: Progind S.r.l.

Year / € - Progind S.r.l.	2016	2017	2018	2019	2020
TOTAL OUTPUT VAT	936.350	1.005.372	539.113	501.705	428.427
TOTAL INPUT VAT	-1.153.636	-1.189.233	-962.833	-752.685	-544.096
Credit from previous years (after any off-set)	0	0	0	0	0
VAT payments	0	68.713	0	0	0
Infra-year periods off-set	0	0		0	0
VAT DEBIT AT YEAR END	0	0	0	0	0
VAT CREDIT AT YEAR END	-217.286	-252.574	-423.720	-250.980	-115.669

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## Formal checks

## 8. Formal checks (1/3)

### Corporate Income Tax Returns (IRES) and Regional Tax Returns (IRAP)

With respect to the Open Years, we checked the following areas having regards to the Companies:

1. the timely filing of the Corporate Income Tax Returns and Regional Tax Returns (based on the relevant filing receipts);
2. the timely payment of IRES an IRAP (where applicable); and
3. that the amounts due (resulting from the relevant tax returns), were in fact paid (according to the F24-payment receipts).

No specific issue arose with regards to points sub. 1. and 2.

The following charts highlight the filing dates of the Corporate Income Tax Returns (IRES) and Regional Tax Returns (IRAP).

Income Tax Return	Filing Date
FY2016	18/10/2017
FY2017	11/10/2018
FY2018	21/11/2019
FY2019	16/10/2020

Regional Tax Return	Filing date
FY2016	18/10/2017
FY2017	11/10/2018
FY2018	21/11/2019
FY2019	16/10/2020

## 8. Formal checks (2/3)

### VAT Returns

Italian taxpayers are required to file a yearly VAT return by the end of April of the year following the one the return is referred to.

With reference to FY 2016, however, this term was set on February 28<sup>th</sup>, 2017.

In relation to the emergency linked to Covid19, the deadline for sending the VAT Return for the year 2019 has been postponed to 30 June 2020.

With respect to the Open Years, we checked the following areas:

1. the timely filing of the yearly VAT returns (based on the relevant filing receipts);
2. that the amounts due (resulting from the relevant VAT returns), were in fact paid (according to the F24-payment receipts).

No specific issue arose with regards to points sub. 1., 2. and 3.

The following charts highlight the filing dates of the VAT returns drafted by Progind (i.e. timely filed)

VAT Return	Filing date
FY2016	17/02/2017
FY2017	02/03/2018
FY2018	01/03/2019
FY2019	03/03/2020
FY2020	01/03/2020



## 8. Formal checks (3/3)

### WHT Returns

Withholding agents that, during a FY, paid amounts subject to withholding tax (e.g. fees for professional services) have to draw-up a WHT return (so called “770” form).

The two mentioned forms have been unified starting from 2016.

With respect to the Open Years, we checked:

1. the timely filing of WHT returns, based on the relevant filing receipts;
2. on sample analysis that the amounts due (resulting from the relevant WHT returns), were in fact paid (according to the F24-payment receipts).

No specific issue arose in respect of points sub 1 and 2.

**The following chart highlights the filing dates of the WHT returns (for self-employees purposes) drafted by Progind (i.e. timely filed)**

WHT Return	Filing date
FY2016	29/07/2017
FY2017	17/10/2018
FY2018	17/10/2019
FY2019	19/10/2020

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# Appendices

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# A. Glossary of terms

## General terms

<b>ACE</b>	Allowance for capital equity (i.e. deduction from corporate income taxable basis)
<b>Company</b>	Progind S.r.l.
<b>D.Lgs.</b>	Legislative Decree
<b>DPR</b>	Presidential Decree
<b>FY(s)</b>	Fiscal Year(s)
<b>IRAP</b>	Italian regional production tax
<b>IRES</b>	Italian corporate income tax
<b>ITC</b>	Italian Tax Code
<b>Report</b>	The present memorandum
<b>Report Date</b>	10 May 2021

## General terms

<b>Progind</b>	Progind S.r.l.
<b>TA</b>	Tax authorities
<b>VAT</b>	Value added tax
<b>VDR</b>	Virtual data Room
<b>€</b>	Euro
<b>€k</b>	Euro thousand

# B. Letter of engagement



## Vimercati S.p.A.

Tax Due Diligence assistance

214/2020



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FAO: Mr. Brijesh Aggarwal

Milan, 02/04/2021  
Ref: BITETTI/TENCALLA – 214/2020

### RE: PROPOSAL FOR PROFESSIONAL SERVICES

As agreed, please find below our letter of engagement, which sets forth the scope, terms and conditions of the professional services proposed by Bernoni & Partners (hereinafter also "Bernoni Grant Thornton", "we" or the "Firm") in favour of Vimercati S.p.A. (hereinafter also the "Client").

#### Offer

##### Our understanding

The Client is considering the opportunity of investing in Progind S.r.l. (hereinafter, also referred to as the "Target"), an Italian player operating in the manufacturing of moulds for plastic material and sheet metal. In order to investigate the potential investment in Target, the Client is willing to perform a Tax Due Diligence review.

The detailed scope of work pointed out hereinafter (Section "Scope of Work") is provided according to the following guidelines and principles, in the lights of the aims and of the procedures discussed and agreed:

- ✓ the scope of our assignment shall be to analyze the potential tax liabilities concerning the income taxes (IRES and IRAP) and the VAT, with regard to the fiscal years from 2018 to 2020, based on the documentation provided to us by the Target.
- ✓ Our scope of work, conversely, does not include any detailed transfer pricing analysis and certain indirect taxes (e.g. IMU, registration tax, custom duties, excise duties and other minor taxes).

#### Scope of work

The scope of our proposal will include the following analysis with regards to the tax position of Progind S.r.l. in connection with fiscal years for which the statute of limitations for notices of tax audit is not expired according to art. 43 of the Presidential Decree 29 September 1973, n. 800 (i.e. from FY 2018 included).

#### Corporate Tax (IRES) and Regional Production Tax (IRAP) - direct taxes

- Review, from a formal point of view, of the tax compliance status (in particular, the check of timely and duly filing of tax returns and payment of IRES and IRAP).
- Analysis of the substantial correctness of the main tax adjustments performed for the calculation of the taxable income



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# B. Letter of engagement



based on the relevant financial statements, trial balances and details provided and analysis of the main possible material areas of tax risks emerging from the examination of financial statements, tax returns and other requested tax documents made available with regards to IRES and IRAP.

## VAT

- Review, from a formal point of view, of the VAT compliance status (in particular, the check – on a sample basis – of timely and duly filing of VAT returns and relative payment, if any, and of the communication of the periodic VAT settlements).

## Withholding taxes related to fees recognized to self-employees

- Checks, on sample basis, regarding the timely filing to the Italian tax authorities of the Withholding Tax Agent Return.
- Checks, on sample basis, that the amounts due (resulting from the relevant Withholding Tax Agent Return) were in fact paid according to the payment receipts.

## Tax litigation

- Review of any dispute pending with the Italian Tax Authorities both from CIT and VAT taxation perspective (including *inter alia* tax audit reports, notices of assessment, requests for information and relevant answers, tax judgments, tax claims, rulings, etc.) and estimation of any connected potential tax liabilities.

## Extraordinary Transactions

- Review of the extraordinary transactions that involved the Target (if any).

## Transfer pricing – Review

- Review of the transfer pricing documentation (if any) and assessment regarding its compliance, from a qualitative point of view, with the Italian transfer pricing rules.
- Review of the main intercompany agreements and check (on a sample analysis basis) of the correspondence among (i) the substantial characteristics of the I/C transactions carried out and (ii) the provisions included in the mentioned intercompany agreements.



Service Line	Partner	Principal/ Senior Manager	Manager	Senior Consultant	Assistant	Analyst
Business Tax Services	300,00	225,00	200,00	175,00	150,00	125,00
Tax Advisory	350,00	280,00	220,00	175,00	150,00	125,00
Advisory	350,00	280,00	220,00	175,00	150,00	125,00
Legal services	400,00	300,00	250,00	200,00	175,00	150,00

## Billing terms

Fees, expenses and VAT will be invoiced upon delivery of our draft Tax Due Diligence report. Invoices will be paid by remittance to the bank account on the invoice within no longer than 30 days since the date of issue of the invoice. Late payment interest will apply in compliance with Legislative Decree 231/2002.

## Level of Complexity of the Assignment

In accordance with art. 9, para 3, Law Decree no. 1, dated January 24, 2012 "Urgent provisions in matter of competition, infrastructure development and competitiveness", the fees due to Bernoni & Partners (i) take into consideration the importance and the level of complexity of this assignment, as thoroughly explained to the Client and (ii) are determined on the basis of the time needed and of the work performed. According to our experience the level of complexity of this assignment is medium.

## Our Team

Mr. Gianni Bitetti will be the Partner with overall responsibility for this engagement. He will be assisted by Mattia Tencalla who will be responsible for the day-to-day conduct of the engagement and the detailed work under Partner supervision. Work may be delegated to more members of staff where this is deemed appropriate.

## Validity of the proposal

Our offer will be valid for 60 days since the date of issuance. After this date, confirmation of the Client's delayed acceptance will be at our own sole discretion.

## Duration

The parties agree that the contract herein will be effective as of acceptance of the proposal by the Client and it will be in full force and effect until completion of the scope of work.

If you need any further information or clarification, please feel free to let us know.

Kind regards,

Gianni Bitetti

For Bernoni & Partners

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## B. Letter of engagement



Signed by Client in acceptance

Company name VIMERCATI S.P.A.  
Legal representative MR. BRIJESH AGGARWAL  
Office or position held PRESIDENT  
Date 06/04/2021  
Signature [Signature]

Pursuant to and for all pertinent purposes of articles 1341 and 1342 of the Italian Civil Code, the Client expressly accepts the following terms and conditions as under the appendix "General Terms and Conditions" below: Section 3 (Scope of the Engagement Letter and Liability), Section 4 (Client's obligations), Section 8 (Claims), Section 12 (Force Majeure), Section 14 (Fees), Section 15 (Late payment), Section 16 (Withdrawal), Section 17 (Automatic termination), Section 21 (Governing Law, Jurisdiction and Competent Court) and Section 22 (Agreement of terms).

Signed by Client in acceptance

Signature

[Signature]  
VIMERCATI S.P.A.  
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