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Subject: State Aid SA.61734 (2021/EV) – Italy
Evaluation plan of the State aid Scheme "Tax credit for research and development activities in the Mezzogiorno areas"

Excellency,

1. PROCEDURE

(1) On 28 January 2021, Italy submitted summary information pursuant to Article 11(a) of Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty[1] (hereinafter "GBER") on a tax credit scheme for R&D activities in the Mezzogiorno area (hereinafter "the aid scheme")[2]. The submission was registered as case SA.61611 (2021/X). This constitutes the first modification to the aid scheme SA.57798, which came into effect on 26 May 2020. The purpose of the scheme is to support investments of undertakings in research and development, including for projects in relation to COVID-19, in compliance with Article 25 of the GBER, in the Southern part of Italy. The targeted regions are Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily.

1 OJ L 187, 26.6.2014, p. 1.

2 *"Credito d'imposta per le attivita di ricerca e sviluppo nelle aree del Mezzogiorno"*

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(2) The national legal basis of the scheme are Article 1 (185) to (187) of Law No 178 of 30 December 2020, Article 244 of Decree-Law No 34 of 19 May 2020, Article 1(200) of Law No 160 of 27 December 2019 and Decree-Law of 26 May 2020.

(3) The aid scheme, initially registered as SA.57798, had an average annual budget of EUR 48.5 million. The modification of the scheme as communicated by the Italian authorities to the Commission on 28 January 2021 consists of a budget increase, following which the aid scheme's annual average budget, for the years 2021 and 2022, would amount to EUR 156 million[3]. As this amount exceeds the threshold of EUR 150 million set out in article 1(2)(a) of the GBER, and hence constitutes a large scheme in the meaning of this provision, the aid scheme would become a scheme subject to ex-post evaluation requirement.

(4) Pursuant to this provision, aid schemes are exempted only for a period of six months after their entry into force, unless a longer period of exemption is authorised by the Commission following the assessment of an evaluation plan for the scheme to be notified by the Member State concerned.

(5) Accordingly, the Italian authorities notified on 29 January 2021 an evaluation plan, registered by the Commission as SA.61734 (2021/EV). A meeting between the Italian authorities and the Commission services took place on 31 March 2021. On 24 April 2021, Italy provided additional information and submitted an amended evaluation plan.

(6) On 11 June 2021, Italy exceptionally waived its rights deriving from Article 342 TFEU, in conjunction with Article 3 of Council Regulation (EEC) No 1/1958[4], and agreed to have this decision adopted and notified in English.

2. DETAILED DESCRIPTION OF THE KEY ELEMENTS OF THE NOTIFIED EVALUATION PLAN

(7) As required by Article 2(16) of the GBER and in line with best practices[5], the evaluation plan is to contain the description of the following main elements: (i) the objectives of the aid scheme to be evaluated, (ii) the evaluation questions, (iii) the result indicators, (iv) the envisaged methodology to conduct the evaluation, (v) the data collection requirements, (vi) the proposed timing of the evaluation (including the date for submission of the final evaluation report), (vii) the approach for the selection of the independent body conducting the evaluation, and (viii) the modalities for ensuring the publicity of the evaluation.

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[3] The initial annual average budget of the scheme as indicated in the information sheet SA.57798 was EUR 48.5 million.

[4] Regulation No 1 determining the languages to be used by the European Economic Community, OJ 17, 6.10.1958, p. 385.

[5] Commission Staff Working Document on Common methodology for State aid evaluation, Brussels, 28.5.2014, SWD(2014) 179 final.

2.1. Objectives of the aid scheme to be evaluated

(8) The scheme is valid from 26 May 2020 until 31 December 2022. The average annual budget of the scheme for the years 2021-2022 is EUR 156 million. The relevant activities, namely fundamental research, industrial research and experimental development and the eligible costs are defined in Article 1(200) of Law No 160 of 27 December 2019, in accordance with the definitions given in point 15, letters (j), (m) and (q) of the Communication from the Commission as regards State aid for research and development and innovation[6].

(9) The scheme aims to incentivise investments of undertakings in fundamental research, industrial research and experimental development in compliance with Article 25 of the GBER, including R&D projects related to the COVID-19[7], in the Mezzogiorno of Italy. The targeted regions are Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily. As highlighted by the Italian authorities, the level of private investment in research and development in the Mezzogiorno only amounts to 9.4% of the total private investment at the national level. Besides, the private investment in research and development in the concerned regions contributes only to 0.4% of GDP, below the national average of 0.9%. Supporting investment in those regions appears even more necessary in the light of the COVID-19 pandemic, which according to forecasts might lead companies to postpone their investment decisions.

(10) At the individual beneficiary and the regional levels, the aid scheme is expected to deliver the following outcomes:

a) Increase in investments in R&D&I and increase of total investments;

b) Increase of competitiveness of the concerned territories;

c) Improvement of productivity of businesses in the Mezzogiorno.

(11) The beneficiaries of the tax credit are selected based on two criteria, the location of their activities, as they must be carried out in one of the regions mentioned in recital (9), and their investments, which have to be dedicated to the activities enlisted in Article 1(200) of Law No 160 of 27 December 2019, e.g. fundamental research, industrial research, and experimental development.

(12) The aid, which will take the form of a tax incentive, will be automatically granted to the undertakings complying with the criteria mentioned in recital (11). The tax credit can only be used as a compensation, within the meaning of Article 17 of Legislative Decree No 241 of 9 July 1997. It corresponds to three equal annual instalments granted for the subsequent tax period after the eligible expenditures were incurred.

(13) The amount of aid granted for each categories of research and development activities, established in Article 1(185) of Law No 78 of December 2020 will,

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6 Communication from the Commission – Framework for state aid on research and development and innovation, C(2014) 3282, 21.5.2014.

7 As laid down in Article 1(185) of Law No 178 of 30 December 2020.

according to the Italian authorities, comply with the maximum aid intensities laid down in Article 25(5) of the GBER.

(14) The scheme intends to provide support to undertakings of all sizes, but the aid intensities, defined in Article 1(185) of Law No 178 of December 2020, will differ among large, medium and small enterprises:

- 25% for large enterprises with at least 250 employees and which have an annual turnover of at least EUR 50 million or a balance sheet total of at least EUR 43 million;
- 35% for the medium-sized enterprises, with at least 50 employees and have an annual turnover of at least EUR 10 million,
- 45% in the case of small enterprises, with less than 50 employees and whose annual turnover or annual balance sheet total does not exceed EUR 10 million.

(15) The Italian authorities do not expect significant negative effects of the aid scheme on the markets. A potential relocation effects could be excluded due to the limited time validity of the scheme and the context of the COVID-19 pandemic that might prevent undertakings to engage in relocation projects.

2.2. Evaluation questions and result indicators

(16) The notified evaluation plan identifies the issues to be addressed by the evaluation.

(17) The evaluation questions address both the incentive effect of the aid on the beneficiaries and the scheme's indirect effects (in terms of both positive and negative externalities). The result indicators are linked to the evaluation questions and to the objectives of the scheme. Both for direct and indirect effects, the indicators will be measured at individual undertaking level.

(18) The direct effects of the aid on the beneficiaries will be addressed by evaluation questions covering (1) the additional investments in R&D by the beneficiaries and (2) the impact of total investments by the beneficiaries.

(19) In relation to those evaluation questions, the following result indicators will be used: (1) growth rate of intangible fixed asset and (2) growth rate of tangible and intangible fixed assets.

(20) The indirect effects of the aid scheme (so-called *“second round”* effects) are to be captured by assessing: (1) the impact of the scheme on incremental job creation; (2) improvement of performance and productivity of the beneficiaries and (3) proportionality and appropriateness of the aid under the scheme.

(21) With regard to the evaluation questions on indirect effects, the following result indicators will be used: (1) the growth rate of the number of employees and (2) the growth rate of the value added per employee ratio.

(22) The assessment of the appropriateness and the proportionality of the scheme will be carried out in a qualitative manner, through a comparison between the outcomes of the aid scheme and the results of previous studies analysing recent incentives to businesses in Italy.

2.3. Envisaged methodology to conduct the evaluation

(23) The direct effects of the aid scheme on the beneficiaries are to be identified by employing econometric methods, in particular a regression analysis of the type "Matching–Difference-in-Differences" (M-DID), as described in the Commission Staff Working Document on Common methodology for State aid evaluation[8].

(24) The Difference-in-Differences approach allows, by exploiting the longitudinal nature of the available data, to assess the difference in outcome after the implementation of the scheme between beneficiaries of the aid and non-beneficiaries which are part of the so-called "control group" (see recital 27). This approach is considered more robust to the presence of pre-existing and unobservable differences, not attributed to the aid measure, between both types of undertakings. It is assumed that the differences between both groups remain constant over time and that they are affected identically by common shocks (e.g. deviations from the mean) during the period.

(25) The constitution of the control group will be based on matching techniques. The beneficiaries of the scheme will be paired with similar undertakings which did not receive the aid, based on several indicators (sector, location, size, maturity of the enterprises, balance sheet variables and other forms of incentives) for the period preceding the granting of the aid. The impact of the policy will be assessed through the calculation of difference-in-difference estimator. This technique is deemed to be more robust and particularly appropriate due to the longitudinal nature of the available data.

(26) Following the constitution of the control group, the use of difference-in-differences estimators is deemed to be the most suitable method to avoid the risk of selection bias.

(27) The Italian authorities plan to establish two distinct control groups through matching procedures prior the granting of the aid. The first one would be composed of a random sample of the universe of companies belonging to the eligible sectors located in Central North, which do not have any production facilities in the Mezzogiorno regions. The second one would consist of a random sample of the universe of companies belonging to the eligible sectors and located in the Mezzogiorno, which have at least one production plant in the relevant regions but which do not benefit from the aid measure. The former is the preferred one, while the later would be used for robustness analysis.

(28) The Italian authorities also plan to conduct additional robustness exercises, such as placebo test, comparison of evolution of outcome variables during the period preceding the implementation of the scheme, and the use of alternative control samples.

2.4. Data collection requirements

(29) For the purposes of the evaluation, the Italian authorities will rely on several databases :

[8] Commission Staff Working Document on Common methodology for State aid evaluation, Brussels, 28.5.2014, SWD(2014) 179 final.

a) Database of Italian undertakings, run by the Ministry of Economic Affair and Finance - Department of Finance (MEF-DEF), which includes information from the tax declarations. This database contains information about all Italian undertakings.

b) Database of Italian limited companies, run by Cerved, an information provider, which contains balance sheet information, for all Italian limited companies with share capital.

(30) The data will be collected on an annual basis both for beneficiaries and non-beneficiaries, and will aim to obtain information on (i) tax returns and tax incentives (including R&D tax credit), and (ii) profits and losses accounts and balance sheets in relation to limited liability companies.

(31) Due to data scarcity, the choice of the R&D indicators mentioned in recital (19) are deemed to be particularly relevant for the purposes of the analysis, as the data related to intangible fixed assets are available for the three type of companies referred to in recital (14), including the limited companies.

2.5. Proposed timing of the evaluation, including the date of submission of intermediate reports and final evaluation report

(32) The Italian authorities will submit the final report for the period 2020-2022 by 31 December 2022. Due to the timing of the availability of budgetary and fiscal data which have to be collected at year + 1, few data will be available in 2022; therefore the nature of this final report will be mainly methodological and contain descriptive statistics (if available) as well as a detailed description of the data and the methodologies that will be used for the evaluation, which results will be presented in the additional report. This final report will be submitted to the European Commission, but it shall not be published (either by the Italian authorities or by the European Commission) in view of its provisional nature.

(33) The Italian authorities have taken the responsibility of continuing the evaluation beyond 2022. The data related to the tax declarations for the fiscal years 2021-2022 will be available and collected in the course of 2024. Subsequently, the Italian authorities will complete the evaluation and produce an additional evaluation report, which will be submitted by 30 June 2025 and will contain the final assessment of the scheme and the results of the evaluation.

2.6. Selection of an independent body to conduct the evaluation, or criteria for its selection

(34) The evaluation will be conducted by a team of economists with experience in the field of public policy evaluation of the Department of Economics and Statistics of the Bank of Italy.

(35) The functional and governance structure of the Bank of Italy reflect the need to prevent external influence, and the Italian authorities explain that the national and European laws guarantee its necessary autonomy and independence.

(36) The researchers involved in the evaluation will perform the necessary analysis within the scope of their institution economic research work, without requiring additional funding.

2.7. Modalities for ensuring the publicity of the evaluation

(37) The results of the evaluation of the aid scheme will be made public through Bank of Italy's working papers, and might also be submitted to academic reviews and scientific journals for external publication.

(38) In addition, the involvement of stakeholders outside of the administrations involved of the scheme will be ensured by workshops and technical meetings.

(39) The evaluation results will be used for the design of future similar schemes.

(40) The collected data for the purpose of the evaluation will be used for future studies and analyses, in accordance with the national legislation in force.

3. ASSESSMENT OF THE NOTIFIED EVALUATION PLAN

(41) The correct application of the GBER is the responsibility of the Member State. The present decision on the evaluation plan does not assess whether the aid scheme to be evaluated was put into effect by the Member State in full respect of all applicable provisions of the GBER. It does therefore neither create legitimate expectations regarding the lawfulness and compatibility of the scheme, nor does it prejudge the position the Commission might take regarding the conformity of the aid scheme with the GBER or other applicable provisions and its lawfulness and compatibility when monitoring it, or assessing complaints against individual aid granted under it.

(42) Pursuant to Article 1(2)(a) GBER, certain large aid schemes[9] within the meaning of Article 2(15) GBER, with an average annual State aid budget exceeding EUR 150 million, are subject to evaluation. The Commission notes that the annual average budget of the aid scheme concerned (i.e. EUR 156 million) exceeds the threshold of EUR 150 million in 2020 laid down in Article 1(2)(a) GBER. Chapter I and section 4 (Article 25) of Chapter III of the GBER constitute the legal basis for the aid scheme to benefit from the exemption from notification provided for in Article 108(3) of the TFEU. However, in the absence of a positive Commission decision on the notifiable evaluation plan, pursuant to the provision in Article 1(2)(b) GBER, the exemption expires six months after the entry into force of the measure, and may continue to apply for a longer period only if the Commission decides to authorise the exemption explicitly by the present decision.

(43) As explained in recital 8 of the GBER, the evaluation of large schemes is required "[I]n view of the greater potential impact of large schemes on trade and competition". The required "[E]valuation should aim at verifying whether the assumptions and conditions underlying the compatibility of the scheme have been achieved, as well as the effectiveness of the aid measure in light of its general and

[9] Schemes under Sections 1 (with the exception of Article 15), 2, 3, 4, 7 (with the exception of Article 44), and 10 of Chapter III of this Regulation (Article 1(2)(a) of the GBER). 'Aid scheme' means any act on the basis of which, without further implementing measures being required, individual aid awards may be made to undertakings defined within the act in a general and abstract manner and any act on the basis of which aid which is not linked to a specific project may be granted to one or several undertakings for an indefinite period of time and/or for an indefinite amount (Article 2(15) of the GBER).

specific objectives and should provide indications on the impact of the scheme on competition and trade." State aid evaluation should in particular allow the direct incentive effect of the aid on the beneficiary to be assessed (i.e. whether the aid has caused the beneficiary to take a different course of action, and how significant the impact of the aid has been). It should also provide an indication of the general positive and negative effects of the aid scheme on the attainment of the desired policy objective and on competition and trade, and could examine the proportionality and appropriateness of the chosen aid instrument.[10]

(44) In the light of these considerations, Article 2(16) of the GBER defines as evaluation plan "a document containing at least the following minimum elements: the objectives of the aid scheme to be evaluated, the evaluation questions, the result indicators, the envisaged methodology to conduct the evaluation, the data collection requirements, the proposed timing of the evaluation including the date of submission of the final evaluation report, the description of the independent body conducting the evaluation or the criteria that will be used for its selection and the modalities for ensuring the publicity of the evaluation."[11]

(45) The Commission considers that, as described in section 2 of this decision, the notified evaluation plan contains these minimum elements outlined in Article 2(16) of the GBER.

(46) The evaluation plan gives a concise description of the key objectives of the scheme concerned and provides sufficient information to understand the underlying “intervention logic”. The scope of the evaluation is defined in an appropriate way.

(47) The evaluation questions are designed in a way as to assess the direct effect of the scheme on the beneficiaries compared to non-beneficiaries in order to measure the incentive effect of the scheme. The evaluation questions addressing indirect effects are linked to the specificities of the aid scheme, both in terms of objectives and aid instruments.

(48) The evaluation plan identifies and justifies result indicators that integrate the evaluation questions for the aid scheme concerned, and explains the data collection requirements and availabilities necessary in this context. The data sources to be used for the evaluation are described clearly and in detail. The Commission notes that the evaluation body will be able to take advantage of several different databases, gathering a more complete set of information.

(49) The evaluation plan sets out and explains the main methods that will be used in order to identify the effects of the scheme, and discusses why these methods are likely to be appropriate for the scheme in question. The proposed evaluation methodology sufficiently allows identifying the likely causal impact of the scheme itself.

(50) The proposed timeline of the evaluation is reasonable in view of the characteristics of the scheme concerned.

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[10] See Staff Working Document referred to in footnote 8 above.

[11] Further guidance is given in the Staff Working Document referred to in footnote 8 above.

(51) The proposed modalities for the publication of the evaluation results are appropriate and ensure transparency. In particular, the Commission takes note of the commitment to disseminate and make publicly available the results of the additional evaluation report.

(52) In view of the above, the Commission considers that the evaluation plan meets all requirements laid down in the GBER, is established in line with the common methodology proposed in the Staff Working Document, and is suitable given the specificities of the large aid scheme to be evaluated.

(53) The Commission notes the commitment made by the Italian authorities to conduct the evaluation according to the plan described in the present decision. The Commission also notes that the Italian authorities will submit a final evaluation report for the period 2020-2022 by 31 December 2022, and an additional evaluation report by 30 June 2025. The nature of the final evaluation report will be mainly methodological, the additional evaluation report will present the results of the completed evaluation. The Italian authorities are invited to inform the Commission without delay of any element that might seriously compromise the full and timely implementation of the evaluation plan.

(54) The Commission notes the commitment made by the Italian authorities to take into account the evaluation results for the design of potential subsequent aid measures with a similar objective.

(55) The Commission emphasizes that the application of the exempted scheme has to be suspended if the final evaluation report is not submitted in good time and sufficient quality.

(56) Therefore, pursuant to Article 1(2)(a) of the GBER, the Commission decides that the GBER shall continue to apply to the aid scheme for which the evaluation plan was submitted, for a period exceeding the initial six months after the scheme at hand was applied, until the end of its validity, and as from the date of the notification of this decision to Italy.

(57) The Commission recalls that alterations to the evaluated scheme, other than modifications which cannot affect the compatibility of the scheme under the GBER or cannot significantly affect the content of the approved evaluation plan, are, pursuant to Article 1(2)(b) of the GBER, excluded from the scope of the GBER, and must therefore be notified to the Commission.

4. CONCLUSION

(58) The Commission has accordingly decided:

- to exempt the scheme under the GBER from the date of notification of this decision to Italy until 31 December 2022;

- to publish this decision on the Internet site of the Commission.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site: http://ec.europa.eu/competition/elojade/isef/index.cfm.

Your request should be sent electronically to the following address:

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Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President

CERTIFIED COPY
For the Secretary-General

Martine DEPREZ
Director
Decision-making & Collegiality
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