

EMPLOYMENT CONTRACTS IN ITALY: A BRIEF INTRODUCTION

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- Open-ended Contract
- Fixed-Term Contract
- Trainee/Apprentice Contract
- Internship

1. Open-ended /Permanent contract

The standard employment contract form in Italy is the open-ended or permanent contract (*Contratto a Tempo Indeterminato*). On one hand, it guarantees loyalty, flexibility, training period and fixed personnel costs per year; on the other hand, some provisions regarding the management of the employee are strictly regulated, such as:

- specific job title
- specific job description
- maximum weekly working hours: 40 (if part/time: less than 40)
- weekly ordinary working days from Monday to Saturday
- overtime wage rate higher than the basic pay, maximum overtime weekly hours: 8

Any change or variation must be written in the form of addendum to the basic contract. Since the open-ended contract is set for an indefinite period of time, any such contract may be lawfully terminated in various circumstances, including

1. resignation
2. retirement
3. ill-health
4. gross misconduct, which causes economic or visibility damages to the Company or to colleagues—i.e. stealing, fighting, drinking, poor efficiency (*giusta causa* or *giustificato motivo soggettivo*)
5. redundancy caused by closing down of Store or Department, job role suppression, heavy business decrease (*giustificato motivo oggettivo*)

In addition, an open-ended contract can come to an end when an individual negotiation is started between the employee, the Company and the most representative Trade Unions. The negotiation basically aims to an agreement on a golden handshake, the amount of which varies according to the employee's job role, seniority and previous wages. The termination of an open-ended contract by agreement is currently settled with a sum ranging between 2,5 to 24 months of salary depending on the dimension of the company, worker's seniority, reason of dismissal. In detail, with Mario Monti's government reform started in from July 2012, if the company has less than 15 employees, the range is between 2,5 - 6 months, while if the company employs more than 15 people, the range is between 12 and 24 months.

Each of the above cases provides for a variable notice period, which depends on the hiring conditions. The average notice is about 2 months.

Among the Italian labour contracts, the open-ended contract is the one with the highest cost for the Company. E.g. a full/time employee who works 40 hours per week with no supplementary hours or shift indemnity or extra-time, with a gross salary of € 1.600/month will pay taxes for the amount of about € 400, but the Company cost will be about € 2.350 as the Company too is taxable person for the employee. So, as an example:

- Net salary: € 1.200 (after taxes paid by the employee)
- Gross salary: €1.600 (before taxes paid by the employee)

- Total Company cost: €2.350 (before taxes paid by the Company)

Please note: the total Company cost already includes the TFR(end-of-employment payment), which is paid to the employee in only one solution at the end of the employment contract.

Both the Company and the employee pay taxes for social security (health, accident and industrial insurances).

In Italy there are two main government board of national insurance: Inps (public health insurance) and Inail (safety against accidents insurance). This means that, through labour taxation, the Government can supply pensions and health insurance to all Italian citizens. The Government gets most of its income from taxing employees with an open-ended contract.

2. Fixed-term contract

The fixed-term contract (*Contratto a Tempo Determinato*) is the main atypical employment contract form in Italy.

It shares many features with the standard open-ended contract, except for the duration, which is lawfully a set term. Under special circumstances, however, the fixed-term contract can be renewed (1 renewal).

The following terms and regulations are in common with the open-ended contract :

- hiring conditions
- specific job title
- specific job description
- maximum weekly working hours: 40 (for full time employees)
- weekly working days from Monday to Saturday
- overtime wage rate higher than the basic pay
- each change or variation in written form

The fixed term can be anticipated for the same reasons as for the open-ended above. In case of redundancy, the termination of a fixed-term contract mainly depends on the remaining length of the contract. Current case law is about severance pay ranging from 2,5 to 12 months of salary.

The one important law restriction for fixed-term contract is its duration: the maximum contract length is 36 months, including the possible renewal.

Fixed-term contracts are similar in cost with respect to the open-ended ones contracts. The greatest difference is fixed-term contracts do not cover private health insurance, while open-ended and apprentice contracts do.

3. Training and Work Experience/Apprenticeship contract

The Training and Work Experience contract (*Contratto di Inclusione*) and Apprenticeship contract (*Contratto di Apprendistato*) are the main work-training contract forms in Italy, and introduce a great opportunity for saving cost to the employer.

In particular, apprenticeship applies to young people aged 18-29 with no specific working/professional experience who need training to learn a job. The Italian Labour Law provides for 48-month contracts, with no possibility of renewal. A trial period is admitted, which can last between 45 and 60 working days, depending on the hiring level. According to the law, the apprentice's salary-scheme is two levels lower than the salary-scheme normally applied to that specific grade. Being a training contract, apprenticeship has restrictions regarding the working week: working in Sunday/public holiday is forbidden, as well as working before 6 a.m or after 10 p.m.

The training/apprenticeship contracts can terminate under the same circumstances that applies to the open-ended contract, and the cost of the termination is similar.

With regard to the Company cost, the Training and Work Experience contract and the Apprenticeship contract are far cheaper than open-ended or fixed-term contracts, as the contribution due on both sides (employee and Company) are halved.

E.g., an apprentice with the same job role as the permanent employee of the above example will get a gross salary of €. 1.350/month and will pay taxes for about €. 300, while the Company cost will be about € 1.850. That is to say:

- Net salary: €1.050 (after taxes paid by the employee)
- Gross salary: €1.350 (before taxes paid by the employee)
- Total Company cost: €1.850 (including the taxes paid by Company)

Comparing company costs of apprenticeship vs. open ended contract (see example above) for the same job role, the difference is € 500/month reduced by the obligatory yearly training (about € 1.000/year).

Tax reduction is applied for the duration of the trainee/apprentice contract. In case the employee is hired with an open-ended contract at the end of the training, tax reduction is applied for the first year of the open-ended contract.

4. Internship

The Internship (called *Stage* when supported by a school, and *Tirocinio* when supported by the Employment Service) is a contract of employment to allow a working experience to people with neither qualification nor professional skills.

There are no special rules or limits to hiring an intern or a trainee provided that he/she is not experienced.

Neither taxes nor social security costs are due.

The maximum length is between 4 and 6 months depending on the type of job contents and renewal is not possible.

This contract can be lawfully terminated any time, and no notice is to be given.

The only cost for the internship contract is a wage to be granted in the form of a reimbursement agreed on hiring. The pay normally ranges between €. 0 and €. 500, and this is the total cost for the Company, which contributes to covering insurance.

Please Note: this is a general introduction to Italian labour regulation and laws. It can't be strictly applied to all cases. Each case must be looked into. For any further information or doubt, feel free to contact me.

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