

THE NEW ITALIAN ATTRACTIVE TAX REGIMES FOR EXPATS, HNWIS AND PENSIONERS

A short guide to tax incentives
for new residents

Drafted in July 2019 by:
Luca Valdameri
Federico Balbiano

In recent years, Italian Law introduced tax incentives and facilities to attract foreign resident individuals, that are very competitive compared to similar facilities applicable in other European countries (e.g. UK, Spain, Benelux).

Current facilities for individuals relocating to Italy are:

1. the “Impatriati” regime (**Expats tax breaks**), that has been introduced in 2016 and constantly improved over the years;
2. the “New Resident” regime (**Flat tax**), which is a special tax regime addressed to High Net Worth Individuals (HNWIs);
3. the “Retirees” regime (**Pensioners tax breaks**), which is a special tax regime addressed to pensioners and retired individuals.

The above regimes are linked to the acquisition of the Italian tax residence, that is acquired when one of the conditions below is met in Italy for more than 183 days in a calendar year:

- a registration in the register of resident population (Anagrafe), or
- physical presence, or
- the localization of a center of life interest in Italy.

Italian Immigration law has also been modified to ease immigration procedures for non-EU nationals that are interested in benefit from special tax regimes above.

1. “Impatriati” regime 2020: Expats tax breaks

The special tax regime for “inpatriates” (i.e. expats transferring to Italy for working reasons) offers a beneficial tax treatment to Italian source employment or self-employment income.

The regime is a combination of the famous 30% Dutch ruling, the French “impatriè” regime and the Spanish regime, but differently from those regimes, the Italian one has many interesting additional features (e.g. it is also applicable to “self-employed” workers).

Note that a cap on tax saving applies for self-employment and business income of euro 200.000 over three tax periods.

How the “Impatriati Regime” works?

The regime provides that, under certain conditions, just **30% or 10%** of the employment or self-employment income sourced in Italy, by individuals who transfer their tax residence, is taxable. As a consequence the maximum tax rate for personal income tax is about 13%, but can be lowered to 4.5%.

The regime is applicable for **5** tax periods but under certain conditions can be extended up to **10**; the facility is lost if the beneficiary fails to maintain an Italian residence for at least two initial years or does not perform a substantial activity in Italy.

How can an individual apply for the “Impatriati Regime”?

The exemption is directly operated by the employer that will apply income tax on the reduced taxable basis. An election to the employer is required.

Alternatively an election can be made in the individual tax return.

Who can be eligible?

Individuals eligible for the regime are those who have not been resident of Italy for at least **2 tax periods**.

How can the 5 years period can be extended and the facility improved?

For all individuals the regime is applicable for 5 tax periods, with a taxable income reduced to **30%** (top individual tax rate about 13%).

Should the individual relocate to a **southern Region of Italy** (i.e. Abruzzo, Molise, Campania, Apulia, Calabria, Sicily, Sardinia, Basilicata) the taxable income is reduced to 10% (top individual tax rate about 4.5%).

Moreover, the following extensions/improvements are possible:

- if the individual has at least one child, the regime is extended of additional **5** years, with a taxable income reduced to **50%**;
or
- if the individual (or the spouse, partner or children) purchases a residential property in Italy, the regime is extended of additional **5** years, with a taxable income reduced to **50%**;
or
- if the individual has at least three child, the regime is extended of additional **5** years, with a taxable income reduced to **10%**.

For example an individual who has 3 children and relocates to a southern Region of Italy will pay taxes on 10% of the income for 10 years.

Rules for professional sportspersons

The “impatriati” regime applies to sportspersons with the following limitation:

- duration is limited to 5 tax periods;

- the taxable basis is 50% and cannot be reduced;
- a 0.5% additional tax is due on the gross income.

2. Italian Flat Tax Regime for HNWIs

The Italian Flat Tax regime is inspired by the Swiss “globalist” and by the UK non-dom regimes, although, differently from the Swiss one, it does not preclude a working activity in Italy, and differently from the UK regime, any remittance to Italy is always not taxable. Also, Italy benefits from a wide range of tax treaties (e.g. compared to the Principality of Monaco, another location for HNWIs) and its beauty, quality of life, strategic location, and free circulation in European Schengen area makes it a natural destination for HNWIs.

How the Flat Tax Regime works?

The mechanism is very simple:

- new tax resident individuals who opt for the regime shall pay an annual flat tax of € 100,000, that absorbs and replaces any tax (income and wealth tax) on non-Italian sourced income and assets (both financial and income from a working activity), even if remitted to Italy;
- conversely, Italian-sourced income is taxable under ordinary rules.

The regime lasts maximum 15 calendar years.

Nevertheless, an antiavoidance rule is applicable to gains deriving from sale of significant holdings in foreign companies, within the last 5 years.

HNWIs that keep foreign entrepreneurial activities (e.g. through holdings) are not subject to CFC (look-through) and place of management rules.

HNWIs can also elect to exclude from the flat tax regime income sourced from selected Countries (“cherry picking”), that becomes fully taxable in Italy, thus benefiting from foreign tax credit rules.

Who can be eligible?

Individuals can elect to apply the regime if they have been resident out of Italy for tax purposes for 9 out of 10 of the previous calendar years (of course the regime applies to individuals that have never been resident in Italy).

Differently from UK or Switzerland, the regime is also applicable to Italian nationals.

What about family members?

Individuals applying for the regime can extend it, on a voluntary basis, to some or all family members (definition of family member

is quite broad): in this event, an additional flat tax of € 25,000 is due for each additional member.

How can an individual apply for the flat tax regime?

To apply for the regime individual have to file a specific ruling with the Italian tax authorities, which can include family members. Alternatively the ruling, an election can be made in the tax return. The ruling can be filed before becoming Italian tax resident and although is not mandatory is strongly advisable. Tax authorities provide an answer within 120 days.

What about Estate tax and Gift tax?

Italian Inheritance (Estate) and Gift Tax are not applicable to non-Italian assets, giving potential for efficient estate reorganizations. Please consider that the Flat Tax regime does not impact the Italian forced heirship provisions.

3. “Retirees” regime: Pensioners tax breaks

How does it work?

Retired individuals who relocate (starting 2019) to a southern Region of Italy (i.e. Abruzzo, Molise, Campania, Apulia, Calabria, Sicily, Sardinia, Basilicata) may elect to pay a flat 7% tax rate on their non-Italian sourced income (eg. foreign pension, financial income, rental income, etc.), for a maximum of 9 tax periods.

How can an individual apply for the regime?

The election for the regime shall be made in the individual tax return.

Who can be eligible?

Eligible individuals are retirees:

- who receive a pension or an annuity from a foreign entity;
- who has not been tax resident in Italy in the previous 5 years;
- who relocate to a municipality (Comune) of a southern Region of Italy (i.e. Abruzzo, Molise, Campania, Apulia, Calabria, Sicily, Sardinia, Basilicata) having a populations less than 20.000.

Additional Benefits

Individuals eligible for the Regime are exempted from Italian disclosure of foreign assets and they are not subject to the payment of Italian wealth taxes on foreign assets.

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The Firm has 10 offices in Italy, 1 in London, 1 in Beijing, 1 in Shanghai and 1 in Hong Kong; it acts independently with over 500 professionals as well as with worldwide correspondents.

We recommend that you seek professional advice to ensure the applicability of the above regimes.

Luca Valdameri

Pirola Pennuto Zei & Associati

Via Vittor Pisani, 20

20124 Milano

Tel. (+39) 02 66995290

e-mail: luca.valdameri@studiopirola.com