Pirola Pennuto Zei & Associati
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THE ITALIAN ATTRACTIVE TAX REGIMES FOR EXPATS, HNWIs AND PENSIONERS

A short guide to tax incentives for new residents

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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). Italy can be a safe and tax efficient destination also for employees in "smart working".
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, last in 2021; it also applies to sportspersons;
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, which 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 the 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: 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 sourced 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 of euro 200.000 over three tax periods applies for self-employment and business income.

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 14% but can be lowered to 4.6%.

The regime is applicable for 5 tax periods but under certain conditions can be extended up to 10 tax periods; the facility is lost if the beneficiary fails to maintain an Italian tax residence for at least two 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 personal income tax return.

Who can be eligible?
Individuals eligible for the regime are those who have <u>not</u> been resident of Italy for at least 2 tax periods.

How the 5 years period can be extended and the facility improved?
<u>General rules:</u>
The regime is applicable for 5 tax periods, with a taxable income **reduced to 30%** (top individual tax rate about 13%).
<u>Extension:</u>
The regime is extended of additional 5 years, with a taxable income **reduced to 50%**, if alternatively:

- individual has at least one child;
- individual (or the spouse, partner, children) purchases a residential property in Italy.

<u>Additional Benefits:</u>
The regime is extended of additional 5 years, with a taxable income **reduced to 10%**, if the individual has at least three children.
Moreover, 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% also in the first 5 tax periods.
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 (top individual tax rate about 4.5%).

Smart working
The Regime is also applicable to individuals who moved to Italy to perform their activity in "smart working" mode for a foreign employee or for non-resident clients (if self-employer).

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, remittances to Italy are not taxable.

Moreover, Italy benefits from a wide range of tax treaties (e.g. compared to the Principality of Monaco, another location for HNWIs) and its beauty, climate, quality of life, strategic location, and free circulation in European Schengen area make 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 (e.g. financial, real estate and working activity income), even if remitted to Italy;
- conversely, Italian-sourced income is taxable under ordinary rules.

The regime lasts maximum 15 calendar years.

Nevertheless, an anti-avoidance rule is applicable to gains deriving from sales 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, individuals have to file a specific ruling with the Italian tax authorities, which can include family members. As an alternative to 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. As a consequence, potential estate reorganizations could be more efficient.

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 from 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, also including private pension plans;
- 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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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 66995610

e-mail: luca.valdameri@studiopirola.com