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NEW ITALIAN TAX REGIME FOR RETIRED PEOPLE ABROAD

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Foreword

This brochure aims to illustrate the introduction of a new tax regime provided by the Italian Government to attract foreigners and Italians in retirement living in foreign countries to move their residence to Southern Italy.

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The new Italian tax regime for pensioners

On the 30th of December, 2018, the Italian Financial Law has been approved by the Italian Parliament. That regards, the Financial Law contains a provision that aims to promote the moving of residency to the Southern part of Italy of retiree individuals holding foreign pension incomes.

It has been possible to opt for the new tax regime for Retirees since the 1st of January 2019.

The new flat tax regime for retirees, non-Italian resident individuals holding foreign pension incomes transferring their tax residency in Italy are allowed to elect for a flat tax on foreign source incomes that provides for relevant effects for individual direct tax purposes, wealth taxes and monitoring duties.

Stating the above, individuals:

- holding pension incomes and other similar remunerations paid by foreign subjects;
- who come from Countries having administrative cooperation agreements (e.g. DTA, TIEA, FATCA) in force with Italy;
- that have not been Italian tax resident for the 5 years preceding the one for which the option is effective;
- Who transfer their tax residency in one of the municipalities with a population not exceeding 20.000 inhabitants located in one of the regions of Southern Italy (Sicily, Calabria, Sardinia, Campania, Basilicata, Abruzzo, Molise and Puglia).

Can opt for a **7% flat tax rate** applied upon all their non-Italian sourced incomes.

Furthermore, individuals that opt for the new flat tax regime for retirees are exempt from:

wealth taxes levied on the value of financial assets ("IVAFA") and real estate properties ("IVIE") held abroad;

- Foreign assets reporting requirements within the i.e. "Quadro RW" of the yearly Italian individual income tax return, about the foreign assets.

The new regime could be opted for a maximum of 9 tax years. However, this could be chosen to exclude the application of the regime foreign income arising in one or more countries, in order to apply the general tax rules and benefits from the applicable treaty relief.

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The loss of the regime of pensioners

The election for the new flat tax regime for retirees shall be reported in the income tax return related to the tax period in which the tax residency has been transferred to Italy and it produces its effects for the next 5 years.

The option for the new flat tax regime for retirees ceases its effects:

- at the end of the ninth year;
- if revoked from the individual, without any prejudice to the effects produced in previous fiscal years;
- if the Italian Tax Authority challenges the lack of the requirements provided by Law;
- In case of omitted or partial payment of the 7% flat tax yearly due within the deadline.

In cases of a revoke, challenges from Italian tax Authority and partial or omitted payment of the flat tax due, a new option cannot be exercised. The individual opting for the new flat tax regime for retirees is allowed to carve out certain Countries from the application of the special tax regime (“cherry picking” mechanism). The taxable income produced in such Countries will remain subject to Italian ordinary taxation rules benefitting in principle from the applicable tax treaty protection and tax relief on taxes paid abroad (FTC – foreign tax credit).

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VISA for Non-EU residents

In the case of a pensioner who is interested in transferring to Italy and does not come from a UE member State, it's necessary to do some considerations about the Italian VISA in order to establish the residency in Italy.

Indeed, if the pensioner is an EU person, they can stay in Italy as long as they want, with their passport or national ID card, but it is necessary to inform the local central police station (the “Questura”), which will provide a permit in the event that they want to remain for more than three months.

On the other hand, if the pensioner is a non-EU person, they could not be resident in Italy without permission, except of the VISA for i.e. “residenza elettiva” (elective residency). In this case, indeed, the non-EU person who desired to live in Italy, if it shows that they are able to remain autonomously, without exercising any work activity (as a pensioner).

The foreigner has to provide adequate and documented guarantees regarding the availability of a dwelling to be elected as residence, and economic sources, expected also in the future. These personal resources has to come from the ownership of several incomes (pensions, annuities), or from the ownership of real estate properties, or from the ownership of stable economic-commercial activities or other sources other and different than work subordinate.

For the spouse, or to the minor children and to the parents living together a charge of the visa holder can be issued similar visa only on condition that the aforementioned financial capacity is adequate.

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