



THE FAVOURABLE TAX REGIME OF NEW ITALIAN RESIDENTS

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Foreword

This brochure aims to illustrate the introduction of the new tax regime for the “new Italian residents” with the debut of a lump-sum taxation called “Flat tax”, granting an exemption of foreign investments from Italian taxation, called “non-domiciled tax resident”. The Italian Finance Bill for 2017 (hereinafter “Finance Bill”) introduced three important provisions to facilitate and attract foreign taxpayers to Italy as an attractive destination for workers and capital.

In particular, the new provisions are represented by: a special flat tax for foreign incomes owned by foreigner individuals, an inheritance and gift tax exemption; a special arrangement for employee or self-employed workers transferring their residence to Italy to work therein and a particular Visa for extra-UE investors.

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The international context

The rapid disappearance of tax havens instead the world economic crises gave a new direction, especially concerning the tax plan, to some European States in difficulties. In particular, Italy in these years has been in some difficulties concerning the estrangement of the foreign investors, the credit crunch, the failure of some important companies and economic scandals.

For this reason, the Italian government decided to establish some strategies to improve foreign investments and to retrieve some foreign investors who could enhance Italian economy.

These new provisions has been inspired by the successful experience of other States such as Great Britain with the regime of “*resident non-domiciled individuals*”, Spain with the law denominated “*Beckham Law*”, Portugal with the regime of “*Regime para Residentes Não Habituals*”, Switzerland “*imposition d’apres la depense*”, Malta “*High Net worth Individuals Rules*” and Monaco.

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Flat tax for new residents in Italy

According to the Italian Law, individuals with ordinary tax residency in Italy are taxed on a worldwide basis on their income wherever sourced and no exemptions to this general rule is provided.

Pursuant to the Finance Bill provisions, individuals who transfer to Italy their tax residency are now allowed to opt for a special tax regime for a maximum of 15 years (revocable at any time but, if revoked, cannot be restored), paying a lump-sum substitute tax (so-called “flat tax”) of EUR 100.000 per year, on all of their non-Italian sourced income, in lieu of the ordinary taxation (up to 43 per cent, plus local surcharges).

In this sense, a lower amount of EUR 25.000 is charged for each of their family members, defined broadly as: spouses; descendants; brothers and sisters; parents and parents-in law; sons and daughters-in law.

Any other Italian sourced income, produced under the qualification of non-domiciled tax resident individual, is subject to the ordinary taxation applicable to the kind of income considered. Under the regime, tax will not be due on the value of real estate and financial investments located abroad.

Indeed, the new residents who opt for the new regime can remit foreign income to Italy without paying any additional tax and are exempted from tax monitoring obligations and wealth tax payments.

The substitute tax must be paid by the usual Italian deadline for paying the balance of income taxes, which is currently the 16th of June of the year following the year relevant for the taxes (i.e. fiscal year).

Obviously, the regime is optional and subject to very few conditions in fact, first of all the individual must have been a non-Italian tax resident for at least nine out of the ten years preceding the first year of the regime, secondly the individual preliminarily files a ruling request to the Italian Revenue Agency asking to approving a prior election. In particular, the approval have to be granted before the deadline (i.e. 30 September) for the first income tax return under the regime. After having obtained a positive ruling (usually 120 days), the applicant must make an election to apply the regime before the deadline for the payment of the balance of income taxes on 30th of June.

However, there are exceptions to the mentioned flat tax in order to avoid abusive effects, indeed, capital gains realized during the first five years under the new regime on foreign investments and deriving from the sale of “qualified shareholding” in a company, hence it means an interest with more than 20 per cent of the voting rights in the company, or an interest of more than 25 per cent regardless of its voting rights. In the case of a publicly-traded company, it means an interest with more than 2 per cent of voting rights in the company, or an interest of more than 5 per cent regardless of its voting rights are not subject to the flat tax rather to the ordinary Italian taxation.

Furthermore, the Common reporting standard (hereinafter “C.R.S.”) and Foreign Account Tax Compliance Act (hereinafter “F.A.T.C.A.”) reporting obligations would still apply.

Italian tax resident are normally liable for gift tax and inheritance tax with respect to transfers of assets by way of life time gift or an inheritance or bequest at death, regardless of physical location in Italy or abroad. Indeed, as a general rule, succession duties apply at a rate ranging from 4 to 8 per cent on assets, wherever located. On the contrary the new regime provides tax relief to individuals on an elective basis, for successions and gifts taking place throughout the election period (15 years), inheritance and gift tax is indeed levied only on assets and rights situated in Italy.

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Special arrangement for workers transferring their residence to Italy

A mobility program has been provided for employed workers not residents and also extends the benefit to non-UE residents (in case of non-UE Countries for which an agreement against double taxation is in force, or an agreement on the exchange of information) who held a university degree and who have worked as an employee and/or self-employed or who have studied abroad in the last 24 months. If the company tax-equalizes their mobile workers, this could yield cost savings. It may be extended also to employees who transfer into Italy and have more significant financial investments abroad such as a company incentive plan. The regime provides, in particular, an exemption of 50 per cent, for five years, of the taxable income for managers and professional and an exemption of 90 per cent for three

year, of the taxable remuneration for professors and researchers on the following conditions: such persons must not have been resident in Italy in the past five years, and they must commit to remain in Italy for at least two years.

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Fast-track investor Visa for non EU nationals

The Finance Bill also introduced a new category of Visa called “Investment Visa” made up especially for Extra-UE investors who would like to invest at least one million Euro in Italy in company that has a legal seat in Italy, or two million Euros in Italian Public Bonds, or one million Euros as a donation aimed to support public projects in preservation of cultural heritage, immigration handling and organizations operating in the field of research.

Furthermore, the provision requested that the investments in Italian Public Bonds or Italian company must be granted for a minimum period of two years. In addition to fulfilling the investment requirement, an applicant for an investor Visa will also be required to prove possession of financial resources that are sufficient to support him or herself during the planned stay in Italy.

The investor Visa has an initial term of two years and, under certain conditions, it will be possible to obtain extensions of three years each.

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Advantages of the procedure

The new individual residents who decide to transfer their tax residence in Italy own different and important advantages for 15 years, in particular:

- A lump-sum substitute tax (so-called “flat tax”) of EUR 100.000 and a tax of EUR 25.000 for relatives on all of their non-Italian sourced income;
- No tax for foreign real estate, financial investments and wealth located abroad;
- inheritance and gift tax is levied only on assets and rights situated in Italy.

In case of a worker:

- an exemption of 50 per cent, for five years, of the taxable income for managers and professional;
- an exemption of 90 per cent for three year, of the taxable remuneration for professors and researchers.

In case of an investor:

- a fast-track Visa for two years and, under certain conditions, it will be possible to obtain extensions of three years each.

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