ITALIAN INCENTIVE TAX MEASURES FOR INDIVIDUALS MOVING TO ITALY

After the entrance into force of the 2017 Finance Bill, the Italian tax framework foresees two main alternative incentive tax regimes optionally eligible by individuals who transfer in Italy their fiscal residence, which are aimed at reducing the tax burden:

1. on the incomes gained outside Italy (which could be of main interest for high net worth individuals); or, alternatively,
2. on the employment income (which could be of main interest for top managers).

1. SUBSTITUTE TAX REGIME FOR FOREIGN SOURCED INCOME

1.1. Individuals who transfer their residence in Italy and were not resident in Italy for tax purposes at least in nine of the previous ten years can opt for a flat taxation due yearly in the lump sum of Euro 100.000,00 (the "**Flat Tax**") which is substitute of:

- the Italian individual income tax applicable to the foreign sourced income and related local surcharges[1] ("**IIT**"); and of
- the tax on real estate assets held outside Italy ("**IVIE**"); and of
- the tax on foreign financial assets ("**IVAFE**"); and of
- the inheritance and gift tax on the foreign assets.

1.2. In order to evaluate the convenience for the Flat Tax regime, it has to be considered that (i) IIT applies with progressive rates up to 43% (for the global taxable income exceeding Euro 75.000,00), plus local surcharges due with an overall proportional rate up to around 2,5% (varying from regions and municipalities) and, in lieu of IIT, financial income (capital gains, with certain exceptions, and income from capital such as dividends and interest) is usually subject to a 26% flat proportional rate; (ii) against these taxes, a tax credit is acknowledged in relation to taxes paid abroad; (iii) the flat IVIE rate is currently 0,76%, the flat IVAFE rate is currently 0,2%, and they apply (in general) on the value of the relevant foreign assets. Below is a numerical example comparing the ordinary Italian tax regime with the Flat Tax, whereby an individual holds bond and stocks abroad for an overall amount of Euro 10.000.000,00, exempted from taxation abroad (i.e., no tax credit):

[1] Foreign sourced income has to be identified adopting criteria symmetrical to those applicable for identifying Italian sourced income in case of tax payers resident abroad, and include the following: (a) income from real estate (lands and buildings) located abroad; (b) income from capital paid by foreign entities (there including foreign Countries); (c) income deriving from employment activities carried out abroad; (d) income deriving from professional activities carried out abroad; (e) business income derived from permanent establishments abroad; (f) capital gains deriving from the disposal of participations in resident companies resident abroad (with the exclusion of capital gains realized in the first five years of application of the Flat Tax regime and deriving from the disposal of qualified shareholdings, i.e. the disposal, during a 12 month lapse of time, of participations or rights giving title to participations exceeding 20% of ordinary voting rights or 25% of equity – reduced respectively to 2% and 5% for participations held in listed companies – starting from the time in which the seller holds a stake exceeding these percentages); (g) other income deriving from miscellaneous activities carried out abroad and assets located abroad.

Item	Amount	Italian ordinary taxation	Flat Tax
Interest on bonds	€ 100.000,00	€ 26.000,00	-
Dividends from non qualified shareholdings	€ 200.000,00	€ 52.000,00	-
Capital Gains	€ 250.000,00	€ 65.000,00	-
Foreign investments (stocks, bonds)	€ 10.000.000,00	€ 20.000,00	-
Total		**€ 163.000,00**	**€ 100.000,00**

1.3. Furthermore, the option for the Flat Tax regime relieves the tax payer from the reporting compliance for the foreign investments generating the income subject to the Flat Tax regime.

1.4. This Flat Tax regime can be extended also to certain relatives[2], with the payment of an additional yearly lump sum amount of Euro 25.000,00 per relative.

1.5. The payment of the Flat Tax amount is due within the time for payment of the balance of income taxes (usually 30 June of the year following the one of reference).

1.6. The option for the Flat Tax regime:

- can be exercised in the income tax return regarding the year of transfer of residence or the following one; and
- is subject to the previous positive ruling by the Italian Revenue, concerning the occurrence of the foreign residence requisite, which must be obtained before the statutory term for the filing of the first Italian income tax return regarding the Flat Tax regime (even if the implementing regulations issued by the Italian Revenue treat the filing of the ruling as discretionary – rather than mandatory – and allow the issuance of the response even after the tax return expiration term).

  The request of ruling must contain (*inter alia*) the indication of the foreign Countries of last residence and a filled check list regarding certain kind of relationships between the taxpayer and Italy. The Italian Revenue has a 120 day period to provide its response, during which it will exchange the information contained in the ruling with the relevant foreign tax authorities.

1.7. The Flat Tax regime lasts for fifteen years, but expires in advance (without possibility of renewal) starting from the year affected by a (even partial) failure of the payment of the yearly lump sum amount, from the year in which the taxpayer decides to revoke it or from the year of transfer abroad of the tax residence.

1.8. During the period of option, the taxpayer can decide to exclude from the Flat Tax regime the income deriving from one or more foreign Countries. These incomes, therefore, will concur to the ordinary IIT taxation regime and could give title to a tax credit.

[2] Sons, daughters, grandchildren, parents, grandparents, daughters or sons in law, parents in law, brothers and sisters.

2. BENEFICIAL TAX REGIME FOR EMPLOYEES OR PROFESSIONALS MOVING TO ITALY

2.1. Alternatively to the Flat Tax regime, employees and professionals moving to Italy can exempt 50% of their employment or professional income for IIT purposes for 5 years, starting from the one of moving of residence.

2.2. The requisites for the application of this benefit are the following:

- during the five preceding tax years, the tax payer must have been resident outside Italy (in a Country entered into a convention for avoiding the double taxation on income or regulating an exchange of information with Italy) and undertakes the obligation to stay in Italy for at least two consecutive years; and
- the professional or employment activity is mainly carried out in the Italian territory.

For employees there are the two additional requisites:

- they must have managerial roles or must be highly skilled or highly qualified (graduation and carrying out outside Italy in the last 24 months of employee, professional or business activity, or superior study and graduation or post graduation specialization); and
- the activity is to be carried out in favor of an Italian resident enterprise and the employment agreement is entered into with this company or with the controlling entity, a controlled entity or with an entity controlled by the same entity controlling the former.

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