KPMG

Special tax regimes for individuals

Why moving to Italy is the ideal tax choice

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2020

Introduction

Italy has always been an attractive place in which to live, and even more so now.

The country is steeped in history and culture, has countless areas of outstanding beauty, and is home to some of the best food and drink in the world.

All of this now comes with a series of very attractive tax breaks, introduced over the last few years for individuals who move here.

This brochure summarizes the three forms of tax relief. It starts with the flat-tax package for HNWIs, takes a look at the special rules for inbound workers, and ends with the tax break for retirees. These opportunities help to make Italy one of the best and most enjoyable places to live.

Flat tax for High Net Worth Individuals (HNWIs)

Italy is welcoming HNWIs with open arms

In a bid to attract investment and human capital, Italy is offering a special package of incentives to HNWIs who become new residents.

If you are a HNWI and are planning to move because of Brexit or changes to foreign tax rules, or simply because you are keen to enjoy la dolce vita, this is the package for you.

Three things are on offer: a special flat tax for your foreign income, an inheritance and gift tax exemption, and fast-tracking of visas.

Special flat tax for foreign income

The flat tax is central to the package. Regardless of the level of your foreign income, you can opt to pay an annual flat tax of EUR100,000, and a lower amount of EUR25,000 for each family member, defined very broadly as your:

— spouse

— children

— brothers and sisters

— parents and parents-in-law

— sons and daughters-in law.

Why is the flat tax advantageous?

If you become a resident of Italy and opt for the flat tax, you will benefit in two ways:

— You will be able to remit foreign income to Italy without paying any additional tax.

— You will be exempted from tax monitoring obligations (RW Form) and wealth tax payments.

Essentially, you will be taxed in Italy only on your:

— Italian income

— capital gains from equity interests sold within five years of opting for the flat tax.

Does the scheme offer any flexibility?

Yes. You can cherry-pick countries and assets that you wish to exclude from the flat tax and include them in your Italian tax return instead. These items will be subject to the ordinary Italian rules on tax payments and foreign tax credits.

Am I eligible?

You are eligible for the flat tax if you have lived outside Italy for at least nine out of the 10 years before you move here.

To check that you qualify for the new package, it is best to apply for a tax ruling. In your application you must indicate where you used to live and where your foreign funds come from.

The tax authorities will check that you have not been tax resident in Italy for more than 12 months over the last 10 years. They have 120 days to reply to your application.

How long do the benefits last?

Once you have opted for the flat tax, the arrangement will remain in place for a maximum of 15 years, unless you wind it up early.

The arrangement will terminate immediately if you do not pay the flat tax, or pay only part of it, by the annual deadline.

What does the new residence requirement involve?

You must actually move to Italy in order to benefit from the flat tax.

Once you are here, you must enroll in the register of the resident population ('Anagrafe'), at your local town hall. Municipal authorities have been given a supervisory role and may remove an individual from the register if, after visiting their home at appropriate intervals, they cannot find the person at that address.

Are there any other tax implications?

Individuals who opt for the flat tax are also considered to be resident for **double tax treaty** purposes, unless the relevant treaty (e.g. Italy-Switzerland or Italy-USA) stipulates otherwise.

I own a foreign company. What should I know?

CFC rules

The CFC rules do not apply to payers of the flat tax. This is because CFC rules apply when income is produced in countries with a preferential tax regime, while the new flat-tax regime does not make any distinction between foreign states, based on levels of taxation.

Deemed residence

Under ordinary rules and under certain circumstances, a foreign company may be deemed to be resident in Italy. However, if you are the sole director of a foreign company and you change your residence and become a new flat taxpayer of Italy, this will not redefine your company as Italian. It will be redefined as Italian only if there is a board of directors, the majority of whom are resident in Italy without opting for the flat-tax regime.

Shell companies

If your holdings include a shell company, the income from it is normally attributable to the beneficial owner. However, if you opt for the flat-tax regime the income produced by the shell company will be taxed in Italy only if it is deemed to be Italian income; otherwise, it will be covered by the flat tax.

Inheritance and gift tax exemption

Any assets bequeathed or gifted by an Italian tax resident are normally subject to Italian inheritance and gift tax.

However, there are generous benefits for new flat-tax residents and you would be taxed only on assets and rights held in Italy; you could pass on foreign assets free of tax.

Fast-tracking of visas for non-EU citizens

If you are a non-EU citizen and intend to stay in Italy for more than three months you have to apply for a visa.

Individuals who move to Italy without working here generally apply for an 'elective residence' visa. To qualify for this type of visa, you must be able to show that you have both of the following:

— sufficient income to reside in Italy without working

— a home in Italy.

An 'elective residence' visa is valid for 12 months and must be renewed 30 days before it expires. After five years, on certain conditions, you can also apply for a European residence visa, which does not expire and allows you to move freely within the EU.

To facilitate this visa procedure, Italy offers new tax residents a fast-track procedure if you (and your relatives) also intend to:

- invest a minimum of EUR250,000 in an innovative start-up business
- invest a minimum of EUR2 million in Italian government bonds for at least two years
- invest a minimum of EUR500,000 in an Italian company, included listed ones, for at least two years
- donate a minimum of EUR1 million for philanthropic purposes in a sector that assists the Italian economy (scientific research, education, culture, etc.).

Enhanced tax break for workers who move to Italy

In 2019, important changes were made to the rules on workers who move to Italy. These changes will apply from fiscal year 2020.

This enhanced version of the existing tax break will be particularly advantageous for those whose income will derive mainly from an occupation in Italy rather than from foreign income.

The current tax break

If you transfer your residence to Italy in 2019, the existing rules will apply. These exempt 50 percent of employment or self-employment income from tax if you move to Italy and satisfy certain other conditions.

The tax break is valid for five years, starting from the fiscal year in which you transfer your residence to Italy.

You qualify for the tax break if you meet the following requirements:

— You must not have been a tax resident of Italy in the five years before you move to Italy and must undertake to remain here for at least two years.

— You must have employment or self-employment income, earned mostly in Italy.

— If you are an employee, you must work for a company that is resident in Italy.

— You must hold a management position or be a highly qualified or specialized worker.

The tax break is also offered to graduates who move to Italy and meet certain criteria.

The enhanced tax break

The new enhanced tax break will be more generous and will be available to a larger number of taxpayers when it comes into force in 2020.

What is changing

— The percentage of earnings exempt from taxation has risen from 50 to 70 percent.

— For sportsmen and women the exemption will still be 50 percent; however, they must now pay an additional contribution (0.5 percent of their taxable income).

— A 90 percent exemption will now be available to those who move to one of the regions in the South of Italy (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia and Sicily).

— The tax break is no longer restricted to income from employment, an equivalent occupation (e.g. directorship) or self-employment; income from a new business in Italy will now qualify too.

— Eligibility is no longer dependent on holding a management position or being a highly qualified or specialized worker.

— It is no longer necessary to work for an Italian company under an employment contract with that company or its (foreign) subsidiary, parent or sister company.

— The obligatory period of residence abroad, before moving to Italy, has been reduced from five years to just two.

What is staying the same

— The length of the tax break is still five years (possible extensions are explained below).

— You still have to work mostly in Italy.

— You still have to undertake to remain a resident of Italy for at least two years.

Eligibility

As a general rule, you can take advantage of the enhanced tax break if you meet the above criteria and move to Italy **from 2020**.

However, if you are an Italian citizen not enrolled in AIRE (the Register of Italians Resident Abroad) you now have two options:

— If you return to Italy by **31 December 2019**, you will be covered by the current rules. These can also be applied retroactively to any tax years still open to assessment, including any years for which you have been served with a tax notice that you still have time to challenge or that you are already contesting through the courts. You must have been resident in a country with which Italy has a double tax treaty.

— If you return to Italy **from 2020** you will be eligible for the enhanced tax break, provided that in the previous two fiscal years you have been resident in a country with which Italy has a double tax treaty.

On certain conditions, you can extend the five-year exemption for a second five years. In this second period, 50 percent of the employment, self-employment or business income will be exempted (instead of the 70 percent exemption available in the first five years).

This extension is available if you are a worker and:

— have, or are adopting, one or more children who are still minors or dependants (if you have three or more minors or dependants, the exemption rises from 50 to 90 percent for each of the extra five years);

— become the owner of at least one residential property in Italy, purchased after you move here or in the twelve months beforehand (the property can also be purchased by your spouse, live-in partner or children, even as joint owners).

Special tax break for university lecturers and researchers

You are also eligible for tax relief if you are a university lecturer or researcher and:

— have worked outside Italy in public or private universities or research centers for at least the last two consecutive years;

— come to Italy to work.

Ninety percent of your earnings from teaching or research work in Italy will be exempt from tax. This benefit runs for six years and can be extended up to a total maximum of:

— **8 years** if you have a child under 18 years old or purchase a residential property in Italy in the twelve months prior or subsequent to the transfer of your tax residence;

— **11 years** if you have two children under 18 years old;

— **13 years** if you have at least three children under 18 years old.

Retirement in Italy complete with a tax break

New tax rules make retirement in Southern Italy a golden opportunity

If you are a foreign retiree and decide to set up home in one of Italy's attractive southern regions, you will qualify for a six-year tax break and pay a substitute tax of just 7 percent instead of higher ordinary progressive personal income tax.

Like the scheme rolled out for HNWIs, this tax break is part of a drive to attract new residents. The thinking is that this is a win-win situation: newcomers will enjoy la dolce vita along with a generous tax cut, while the *Mezzogiorno* will benefit from the contribution these new arrivals can make towards its local economy.

Will all my income qualify?

All types of foreign income can be taxed at the 7 percent rate. However, Italian income is excluded.

Am I eligible?

You will qualify for this new tax scheme, which kicked off on 1 January 2019, if you receive a foreign pension and:

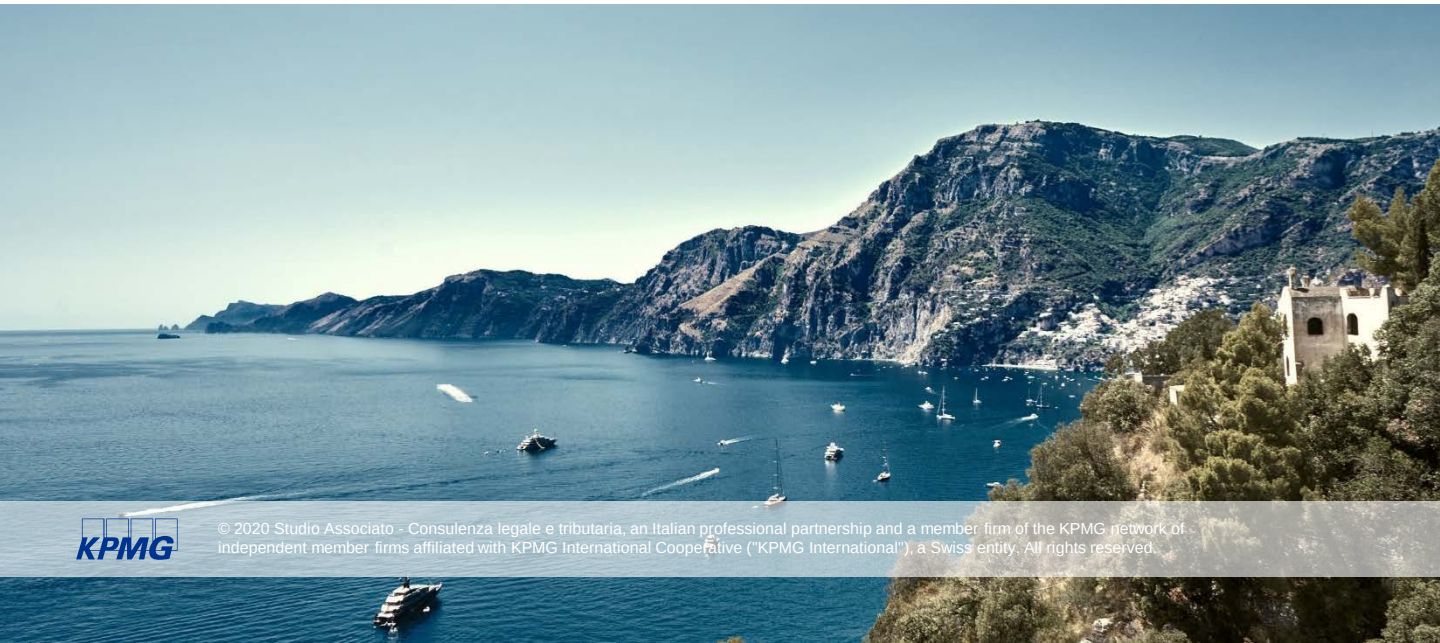
— become a tax resident of Italy (as defined in tax law) by moving to one of the approximately 2,300 towns or villages of Sicily, Calabria, Sardinia, Campania, Basilicata, Abruzzo, Molise or Puglia that have no more than 20,000 inhabitants;

— move there from a country with which Italy has a cooperation agreement (e.g. a double taxation treaty, TIEA or FATCA agreement);

— have not been a tax resident of Italy for a least five tax years before the year in which you opt for the scheme.

Does the scheme offer any flexibility?

Yes. When opting for the new scheme, or even afterwards, you can cherry-pick one or more countries and exclude the income produced there. That income will fall within the ordinary system of taxation and you will be entitled to a foreign tax credit (which you cannot claim for income taxed at the 7 percent rate).



Does it come with any other benefits?

Yes. While covered by the scheme, you will not have to fill in section RW of your income tax return (no tax monitoring) and you will not have to pay IVIE on foreign real estate or IVAFE on foreign financial assets (no wealth taxes on assets held abroad).

How can I opt for the new scheme?

You can opt for the new scheme in the income tax return for the year in which you move your tax residence to Italy. That tax year and the next five tax years will be covered.

You can change your mind at any time - you will not lose the tax benefits already taken in previous years.

Where could I live?

Many towns and villages across the South of Italy, including its islands, are attractive destinations for retirees seeking the things that the country is most famous for: sun, fine beaches, culture, landscapes steeped in history, and regional cuisine. The list of places covered by the tax break includes:

— the Amalfi and Sorrento coast

— the island of Capri

— the Salento peninsula

— Sardinia's Costa Smeralda

— the island of Maddalena

— the Ionian coast of East Sicily

— the Aeolian islands.

How we can help

Please do get in touch with us if you would like to discuss any of these interesting opportunities for new tax residents. We can help you with all of the following:

— Asset and income tax analyses
— Residence status tests for Italy and your country of origin
— Choice of tax break
— Tax-break eligibility checks
— Exit-tax checks
— Preparation and submission of your tax-ruling application
— Italian tax compliance while the package is in place
— Visa procedures
— Wealth and inheritance tax planning.

Contacts

Antonio Deidda
Head of Family Office
and Private Client in Italy
E: adeidda@kpmg.it
T: +39 02 6764 4762

Tomaso de Simone
Partner, Family Office
and Private Client in Italy
E: tdesimone@kpmg.it
T: +39 06 8096 3552

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