The magazine for those who live in Tuscany – or wish they did
Owning a Property in Italy

Tax Deductions for Projects of Renovation & Energy Upgrading

Non-resident foreign citizens in Italy frequently decide to acquire property for personal use in our country, sometimes for vacationing and sometimes even to create income by renting it out. Often this property needs renovation, maintenance, or energy efficiency upgrading. In such circumstances it's important to know that the costs of extraordinary maintenance or renovation allow even non-residents to take advantage of special, important tax deductions.

Let's consider, then, how much and under what conditions one can benefit from these deductions.

It is well known that non-residents who have produced earnings or own property in Italy are in general required to pay taxes to the Italian State. However, in order to avoid double taxation, there are exceptions defined by certain agreements stipulated between the Italian State and the country of residence. Earnings produced in Italy and thereby subject to Italian taxes are those that originate on Italian soil, deriving from:

- properties (lands and buildings) in Italy
- employment as a dependent or autonomous worker or employed by a business
- retirement and similar pensions

We should also consider that properties (lands and buildings) situated in Italy are defined as productive of revenue even if they are not rented out, and at the same time they are subject to various taxes and fees. We will not analyse here the various local fees deriving from the possession of property (for example IMU, TASI and TARI). Instead we will concentrate on the tax (IRPEF) levied on the earnings produced by property held in Italy, and on the corresponding deductions allowable in the case of expenses for renovation, extraordinary maintenance or energy upgrading of such properties.

In terms of Art. 24 of the DPR n. 917/1986, even non-residents can deduct the expenses for renovations made on the buildings in their possession, and for the energy upgrading of these buildings (in terms of 16-bis of the same decree).

In particular, for the years 2015 and 2016 one can benefit (with a maximum expense for each individual building equal to 96,000 euros) from the IRPEF deduction of 50% for renovations, as well as the deduction of 65% for energy upgrading and interventions regarding anti-seismic measures. Beginning in 2017 (unless the rules change once again), benefits will be reduced. The maximum allowable expense will become 48,000 euros and the allowable deductions 36%.

This expense can be deducted in equal amounts over a ten-year period. Using an example, let's see how the deduction works.

A foreign citizen, not fiscally resident in Italy, acquired a property in Italy in 2014 and in 2015 initiated and completed renovating this property for 50,000 euros, with an energy upgrade of 10,000 euros, for a total expense of 60,000 euros in 2015.

In 2015, following completion of the renovation, the property was rented only for six months, resulting in earnings of 9,000 euros. In 2016, though, the property was rented for the entire year, resulting in earnings of 18,000 euros.

Let's see the fiscal effect on the owner for the years 2015 and 2016, considering that the overall expenses amounted to 60,000 euros and are therefore below the maximum level (96,000 euros) admitted for deductions by the law.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>2015</th>
<th>2016</th>
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<tbody>
<tr>
<td>Gross earnings to declare in Italy</td>
<td>9,000</td>
<td>18,000</td>
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<td>Standard property earnings reduction (5%)</td>
<td>-450</td>
<td>-900</td>
</tr>
<tr>
<td>Taxable earnings</td>
<td>8,550</td>
<td>17,100</td>
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<tr>
<td>Gross tax (IRPEF)</td>
<td>1,966.50</td>
<td>4,017</td>
</tr>
<tr>
<td>Renovations &amp; energy upgrading deduction (one-tenth per year)</td>
<td>3,150</td>
<td>3,150</td>
</tr>
<tr>
<td>TAX TO BE PAID</td>
<td>0</td>
<td>867</td>
</tr>
</tbody>
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The fiscal deductions described above allow us to obtain a noticeable reduction in taxes. On the other hand, we should emphasize that if the deduction is larger than the tax due (as in year 2015 in the example above), this cannot be carried over to successive years and is definitively lost.

Finally, we should note that the possibility of benefiting from the fiscal deductions shown here requires respecting some formal regulations and requirements that need to be analysed and studied with the help of professionals who have expertise in fiscal matters.

– by Vannucci & Associati