

New Advantages for Foreign Investors

With the 2017 Budget Law, the Italian tax authorities have introduced advantages in order to provide incentives for foreign investment in Italy.

As of today, those who have been foreign residents for years may decide to transfer their residency to our country in order to benefit from the “Flat Tax on Scrooges”. Super-rich foreigners can meet the Italian tax system’s legal requirements by paying a flat tax of 100,000 euro per year, and rich foreigners willing to invest in Italy can easily obtain long-stay visas.

- These new policies are aimed at making Italy more attractive to foreign investors, and more competitive with other nations such as Spain and Great Britain, which over the years have been able to attract emirates, stars, football players and singers. The most important news, however, regards wealthy people from all around the world who may want to transfer their fiscal residence to Italy thanks to the “Flat Tax”. This is a favorable tax system for earnings generated abroad or for investment in Italy, which will allow the concession of the so-called “Investors” Visa.
- Let's look at the most important aspects regarding the application of the new “Flat Tax”. This regulation, introduced by the 2017 Budget Law, became operational on 8 March 2017. The instructions and checklist were prepared by the *Agenzia delle Entrate* (Italian Revenue Agency). It calls for an optional tax system that will substitute for the IRPEF (Tax on Earnings of Physical Persons), fixed at 100,000 euro. Physical persons (not companies) who transfer their fiscal residency (regarding earnings produced abroad) to Italy can opt for this system.
- The policy covers persons who, beginning with 1 January 2017, transfer their residency to Italy, and have not been fiscally resident in Italy for at least nine of the ten tax periods preceding the period of validity of the option. This is possible even for those who are residents of countries on the so-called “blacklist”.

Let's look at a foreign investor who transfers residency to Italy and has an income produced abroad of one million. This person would pay only ten percent in taxes. If their foreign earnings are even higher, the percentage of taxation will be progressively reduced. Just imagine foreign earnings of two, five or eight million: these would in each case face a fixed tax of 100,000 euro annually – in other words, respectively, 5%, 2% and a little more than 1% of what they earned abroad.

TABLE 1

Earnings produced abroad	1,000,000	2,000,000	5,000,000	8,000,000
Flat Tax	100,000	100,000	100,000	100,000
Percentage Impact	10%	5%	2%	1.25%

The advantages for those adhering to this policy are as follows:

- **Substitute tax equal to 100,000 euro** per year for earnings produced abroad, in place of the normal IRPEF rates and additional regional/local costs, to be paid in a single solution, without installments, for each tax period in which the option is taken. The system can, upon request, even be extended to family members. The maximum substitute tax for these is 25,000 euros.

TABLE 2

Earnings produced abroad by the “head of household”	2,000,000
Earnings produced abroad by 2 children of the “head of household”	1,500,000
Total earnings produced abroad	3,500,000
Flat tax on the “head of household”	100,000
Flat tax on 2 children of the “head of household” (25,000 x 2)	50,000
Total taxation in Italy	150,000
Percentage impact on total earnings produced abroad	4.29%

- Exoneration from the obligation of declaring foreign investments or financial activities producing earnings in Italy;
- Exemption from obligatory payment of taxes on foreign properties (IVIE) and taxes on foreign financial investments (IVAFE);
- Exemption from donation and succession taxes on goods and properties held abroad.

Accessing this system is simple: one simply needs to choose the appropriate box on the tax declaration, referring to the tax period in which the tax residency was transferred to Italy, or to the subsequent tax period. Those who moved to Italy in 2016 can therefore exercise the option in the 2017 declaration regarding the 2016 tax period. The option can be extended to family members possessing the requirements. All they need to do is check the specific box on their own tax declaration.

Foreign investors uncertain of whether they meet the criteria established by the *Agenzia delle Entrate* have the option of presenting a request for the financial administration’s approval.

Let's see how this appeals process works:

- The presentation may occur even before fulfilment of residency requirements;
- It should focus on showing that the subject did not have their vital interests centered in Italy during previous tax periods;
- There is no need to provide a detailed report of the earnings situation and foreign patrimony prior to moving;
- It becomes very important for those coming from countries included in the so-called “blacklist”.

Once the option has been exercised, it will be tacitly renewed each year, for up to 15 years. The taxpayer can freely select to opt out of the system simply by communicating this on their tax declaration.

Another attractive aspect for foreign investors is the “Investors' Visa”. This is an ad hoc rule, introduced by the Single Text on Immigration, regulating the requirements and procedures for concession of visas. This rule allows entrance and stay in our country beyond the quotas called for by article 3 comma IV of the T.U. (*testo unico*), for periods superior to three months, for those foreigners who want to invest at least two million euro in State bonds, to be held for at least two years; to invest at least one million euro in instruments representing capital, through a company set up and operating in Italy, which also should be maintained for at least two years; or to make a philanthropic donation of at least one million euro, to support a project of public interest in the sectors of culture, instruction, immigration management, scientific research, or restoration of cultural and scenic properties.

Foreigners need to show that they are the owners and beneficiaries of the amounts invested or donated. They must make a written declaration promising to carry out the investment or donation within three months of entering Italy, and must show that they have sufficient resources for their maintenance and that of their family for the duration of their stay in Italy.

The visa will be valid for two years and renewable upon further positive evaluation by the financial administration, which will ascertain the full use of the sum within three months of entrance into Italy, and its present investment in the financial instruments. Furthermore, the visa will allow the investor's family members to enter the country. They will be given a permit to stay for family reasons.

The new policies introduced by the 2017 Budget Law are aimed at making Italy more attractive to foreign investors. Investors can count on a more favorable tax system compared to the past, thanks to the “Flat Tax” and to bureaucratic flexibility regarding the granting of the so-called “Investors' Visa”.

– by Pierpaolo Vannucci



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