



ITALIAN TAX REGIMES TO ATTRACT FOREIGNERS

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1. Foreword

Throughout the years, Italy has implemented several favourable tax regimes aimed at attracting foreign individuals or at attracting back individuals that, even though resident abroad, were previously Italian residents or citizens.

In particular, the regimes currently in place are:

- the “resident not domiciled” (or “res non-dom”) regime, which provides for the payment of an annual substitute tax on income produced abroad by individuals who transfer their tax residence to Italy;
- the in-bound workers (“impatriates”) regime, which provides for an exemption of 70% (or 90% under certain conditions) on income derived from employment, self-employment and entrepreneurial activities carried out in Italy by taxpayers who transfer their tax residence to Italy and who undertake to reside in Italy for at least two years;
- the regime for foreign pensioners, which provides for a 7% substitute tax to be paid on income generated abroad for taxpayers who transfer their tax residence to certain municipalities in southern Italy;
- the regime which applies with respect to taxpayers with specific academic qualifications (professors or researchers) and who carry out some specific activities in Italy.

2. Res non-dom regime

The Italian legislator implemented, by means of Law no. 232 of the 11 December 2016, a regime for resident but not domiciled individuals in Italy. This regime was enacted through Art. 24-bis of the Presidential Decree no. 917/86 (“**TUIR**”) and came into effect on the 1st January 2017.

The regime mirrors other similar regimes that have been previously implemented throughout the world (e.g. the UK res non-dom regime) and the rationale behind it is to entice high net worth individuals to move their tax residence to Italy with the possibility of paying a substitute tax on the income sourced abroad.

2.1 Subjects in scope

The regime applies to individuals regardless of their nationality. First and foremost, it is necessary for the interested individual to transfer his tax residence from a foreign country to Italy. Secondly, the interested taxpayer must demonstrate that, for at least 9 of the last 10 tax periods, he/she has been resident outside of Italy.

The regime may also apply to Italian citizens, should they too have proof that for at least 9 of the last 10 tax periods they have been resident elsewhere and, upon application, are transferring their residence back to Italy.

The benefits of this regime may also be extended to family members (spouse, offspring, parents, in-laws, siblings) of the applicant. The same rules on the transfer of residence to Italy that apply to the applicant, also apply in this scenario.

2.2 Substitute Tax

The regime allows for an annual substitute tax to be applied on foreign earned income. Individuals benefitting from the incentive are subject to a substitute flat tax of 100,000 EUR for each fiscal year in which the regime applies. The payment of such flat tax covers all the foreign income derived by the relevant taxpayer and thus the latter does not have to pay any further tax in Italy on its foreign income.

Where the scheme is extended to the family members, there is the obligation to pay a substitute tax of 25,000 EUR for each and every member who wants to benefit from such regime.

The flat tax must be paid through a single payment within the deadline for the payment of the Income Tax (currently set on the 30th June of each and every year with reference to the previous fiscal year, e.g. on the 30th June 2022 falls the deadline for individual income tax payments referred to fiscal year 2021).

2.3 Basic functioning of the regime

In brief, the payment of the flat tax reported in § 2.2 above covers all the income derived in a given year that are considered to be sourced abroad.

In order to understand if an item of income is deemed to be sourced from abroad, the Italian regime requires to follow a specific approach. It is necessary to start the analysis from the Italian sourcing rule for foreigners which is laid down in Art. 23 of the TUIR. This rule indicates conditions under which income derived by Italian non-residents is considered to be sourced in Italy for tax purposes. In order to understand which income is sourced abroad (and, accordingly, is covered by the flat tax), it is necessary to apply the same connecting criteria set out in Article 23 of the TUIR but with an opposite reading.

Accordingly, the regime covers, among the others, income from self-employment generated from activities carried out abroad, income from business activities carried out abroad through a **permanent establishment**, income from employment activities carried out abroad, income from a property that the new resident owns abroad, interest from bank accounts paid by non-residents, as well as capital gains generated by the new resident following the sale of **portfolio shareholdings** in foreign companies.

An important exception is related to the sale of **non-portfolio participations** related to entities resident outside the Italian territory. Any capital gain related to such participation, even though considered to be sourced abroad, is not covered by the substitute flat tax if the relevant sale occurs within the first five in years in which the relevant taxpayer has moved to Italy.

All of the income produced in Italy by the taxpayer is not covered by the substitute flat tax and is taxed according to the ordinary tax rules in force for residents (i.e. with a progressive tax rate system having 43% as the highest brackets of the **Income Tax**).

In calculating its domestic tax burden, taxpayers benefitting from the regime provided for by Art. 24-bis of the TUIR may benefit from the deductions and allowances provided for by Italian law, on the conditions that they are functionally linked to the income, whether Italian or foreign, that is subject to ordinary taxation in Italy.

The regime also grants some other specific benefits, such as:

- it exonerates the taxpayer from reporting the assets held abroad (in the RW form of the Italian direct income tax return) and to pay some specific Italian estate taxes on foreign immovable properties and financial assets (**IVIE** and **IVAFE**);
- the Italian **CFC regime** does not apply with respect to the entities held abroad which fall under the scope of the regime;
- the Italian inheritance and gifts tax is due only with respect to assets located in Italy.

Based on the interpretation of Italian Tax Authorities, the taxpayer who benefits from such regime is considered to be a resident also under tax treaty law, hence it is allowed to benefit from the Italian tax treaty network.

2.4 Ruling request

Ahead of benefitting from the beneficial tax regime, the interested taxpayer can apply for a tax ruling from the **Italian Tax Authorities**. This way the taxpayer can have certainty on the presence of the conditions that are required in order to benefit from the regime.

The ruling request, which shall be replied to within 120 days, can even be filed ahead of the taxpayer moving his tax residence to Italy. However, it is not possible to submit a request for a tax ruling once the taxpayer has already benefitted from the regime.

Where a tax ruling has been obtained, the tax return needs only to include minimal information. In the absence of a tax ruling, the taxpayer shall have to provide proof of all the elements necessary to enable the Tax Authorities to verify the requirements provided for by the law. Should during the assessment, the Tax Authorities consider that the requirements for the regime to apply are not

met, then the option exercised by the taxpayer shall be considered invalid, with the consequences of tax recovery and penalties.

2.5 Duration

The substitute tax on foreign income shall commence in the first or second tax period that the taxpayer has moved his tax residence to Italy and shall cease to apply after 15 years. There is no possibility to renew the regime, thus, the foreign income would then become part of the total income of the (now) Italian resident taxpayer, and thus subject to the ordinary income tax rules.

The regime ceases to apply when the taxpayer fails to pay, in all or in part, the substitute tax at the relevant deadlines.

It should be noted that, at the end of the 15-year period, the benefits of the regime shall cease immediately for all the family members too, even where they started benefitting from the regime at a later date.

Since this regime is optional, the taxpayer may choose to revoke the regime at any time before the 15 years have expired.

Res non-dom regime

Main Features	
Eligible Taxpayers	Individuals who had their tax residence abroad for at least 9 out of the prior 10 fiscal years and some their family members
Benefits	<ul style="list-style-type: none"> • no taxation in Italy with respect to foreign sourced income; • no reporting duties with respect to assets held abroad (RW Form); • no wealth taxes on some assets held abroad; • Italian inheritance and gift taxes apply only with respect to assets held in Italy; • no CFC with respect to foreign entity falling within the scope of the regime.
Duration	15 years
Substitute Tax	100,000 EUR per year; 25,000 EUR for certain relatives

3. Inbound workers regime

In order to encourage the transfer of workers deriving employment, self-employment or business income, the Italian legislator implemented a beneficial regime that can be found under Art. 16 of the Legislative Decree no. 147/2015.

3.1 Subjects in scope

The regime is open to taxpayers who have not been resident in Italy in the two fiscal years preceding the transfer of residence to Italy and who commit to residing in Italy for at least two years. Furthermore, their work activity must be prevalently carried out in Italy.

Italian citizens that were not enrolled in the Register of Italian citizens residing abroad (**AIRE**) and who return to Italy may benefit from this regime provided that they have previously been resident in another State pursuant to the relevant tax treaty concluded between Italy and such State.

The regime cannot be extended to other family members, as is the case with the res non-dom regime analysed in § 2 above.

3.2 Benefits of the regime

The regime grants the taxpayer who transfers his residence to Italy the opportunity to exempt 70% of income earned from employment or similar, income from self-employment earned in Italy, and income from business activity from tax.

The exemption on taxable income is increased to 90% when the taxpayer opts to transfer his resi-

dence to Italy and reside in the regions of Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia, Sicily.

On the remaining taxable income, the ordinary tax rates and rules apply.

Sportspersons

The regime also applies to sportspersons meeting all the requirements reported under § 3.1 above. However, in this case, the regime only provides for a 50% reduction on the relevant taxable income.

In addition, as of fiscal year 2022, the application of the regime to sportspersons is limited by several additional requirements (e.g. the sport practiced needs to be recognised by the Italian Olympic committee, the relevant athlete needs to be older than 20 and some specific income thresholds apply). The previous regime (which does not provide for the limitation just described) still applies with respect to income stemming from contracts that were already in place on the 21st of May 2022 and until the expiration of the stipulated contractual period.

In order for such athletes to benefit from the regime they are required to pay a 0.5% tax which is calculated on the income that is taxable under the regime.

3.3 Duration

The benefits of this regime shall apply starting from the tax period when the transfer of residence to Italy occurs, and for the four subsequent tax periods. To benefit from the regime, the relevant taxpayer has to inform his employer/client that he meets all the requirements to benefit from it. In such cases, the employer/client will calculate and levy any withholding on the reduced tax base. Where this mechanism can not be put in place (e.g. the relevant employer is not resident in Italy and does not qualify as a withholding agent), the relevant taxpayer may benefit from the regime directly in his tax return.

The regime may be extended for a further five tax periods where the taxpayer has at least one minor or dependent child. The extension for another five tax periods also arises where the taxpayer becomes the owner (sole or shared owner) of at least one residential real estate unit in Italy, after his transfer to Italy or in the year preceding the transfer of residence.

Where the regime is extended for a further five years, the exemption on taxable income is reduced to 50% (with the exception of the case where the taxpayer has at least 3 minor and dependent children, where a 90% exemption on income in the following five years is allowed for).

In order to benefit from such extension of the regime, the relevant taxpayer has to pay a lump sum amount of 5% or 10% (depending on various factors) of the income earned in the last year of the regime.

Inbound Workers Regime

Eligible Persons	Benefits	Duration	Extension
Employee, Self-Employed or Entrepreneur	Taxable base reduced at 30%	Five years	Additional five years where the taxpayer: <ul style="list-style-type: none"> • has at least one underaged or dependent child (taxable base reduced at 50%); • acquires a residential property in Italy (taxable base reduced at 50%); • has at least three underaged or dependent children (taxable base reduced at 10%).
Employee, Self-Employed or Entrepreneur Resident in Southern Italy	Taxable base reduced at 10%	Five years	
Sportspersons	Taxable base reduced at 50%	Five years	N/A

4. Pensioner regime

This regime was introduced with the 2019 Budget Law, and came into legal effect under Article 24-ter of the TUIR as from the 1st January 2019. The law establishes an optional regime, whereby foreign sourced income derived by individuals entitled to pension payments and who opt to transfer their residence to Southern Italy are subject to a **substitute tax** at a rate of 7%.

This regime was introduced with the aim of attracting individuals to the regions in the South of Italy where there has been a decline in population over the recent years.

4.1 Subjects in scope

The regime for individuals receiving a pension from foreign sources is applicable to those taxpayers that satisfy the following requirements:

- the individual is entitled to pension payments from foreign sources;
- the individual has been tax resident abroad (in countries where an administrative cooperation agreement is in force with Italy) for at least 5 tax years before opting for the regime under Art. 24-ter;
- the individual has successfully transferred their residence to any municipality;
 - in the regions of Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sicily and Sardinia;
 - or
 - located in specific seismic areas;having a population of less than 20,000 inhabitants.

As with the regime for inbound workers, dealt with in § 3, this regime may not be extended to family members.

4.2 Benefits of the regime

A substitute tax of 7% is allowed on foreign sourced income whilst the ordinary taxation rules and rates apply for income produced in Italy.

The tax shall be paid in a lump sum within the deadline for the payment of income taxes.

The regime exonerates the taxpayer from reporting the assets held abroad (RW form of the Italian direct income tax return) and from having to pay some specific Italian estate taxes on foreign immovable properties and financial assets (IVIE and IVAFE).

4.3 Income in scope

In order to fall within the scope of Article 24-ter of the TUIR, the relevant taxpayer must derive a foreign sourced pension. Even though the entitlement to foreign pension payments triggers the application of the regime, the substitute 7% tax applies with respect to all the foreign income derived by the taxpayer (even income different to pension payments). Income is deemed to be produced abroad on the basis of the same connecting criteria set out in Article 23 of the TUIR to identify income produced in the territory of that other State.

4.4 Procedure to opt-in

When opting for this regime, the individuals shall indicate the jurisdiction in which they were last resident for tax purposes before having transferred their residence to Italy. The taxpayer shall opt-in for the regime through the tax return related to the fiscal year when it acquired tax residence in Italy, and it shall be effective from that fiscal year.

4.5 Duration

The benefit is available for 10 consecutive fiscal years; however, the taxpayer always has the choice to revoke the regime at any time. That being said, once the taxpayer revokes or forfeits his right to opt for the regime, the Italian legislator precludes the taxpayer from re-applying in the future. In the case of revocation, the effects produced in the preceding tax periods shall not be affected.

The regime shall cease to be valid should any of the requirements cease to exist or in the event of the omission or partial payment of the substitute tax.

5. Teachers and Researchers

4.6 Interaction with tax treaties

Where the relevant pension derives from activities carried out in the private sector, the interaction between such domestic rule and the tax treaties can prove to be very beneficial for taxpayers. If the relevant tax treaty has a provision similar to Art. 18 of the OECD Model Convention, Italy will have the exclusive right to tax the pension received by its resident; as a result, such income will only be subject to tax at an overall rate of 7%.

On the other hand, if the pension payment is connected with government services previously rendered by the taxpayer, Art. 19(2)a) of the same OECD Model Convention grants the exclusive right to tax to the source State (but only to the extent that the taxpayer is not an Italian tax resident and citizen). Hence, Italy will be prevented from levying any taxes and pension payments will be subject to tax in the paying State.

This regime was first introduced by art. 44 of the Presidential Decree no. 78/2010 and has been repeatedly amended throughout the years.

5.1 Subjects in scope

The regime applies to taxpayers meeting all of the following criteria:

- they hold a university degree or similar;
- they have been carrying out teaching or research activities abroad (in public or private research centers or universities) for at least two consecutive years in a non-occasional fashion. Such two-year period should not necessarily precede the year in which they have moved their residence to Italy;
- they have to obtain the status of Italian tax resident;
- they have to carry out teaching or researching activities in Italy.

5.2 Benefits of the regime

The regime provides for a 90% exemption from Italian taxation on the income deriving from employment activities or self-employment activities. Accordingly, only 10% of such income is actually subject to the Italian progressive tax rates.

In addition, should the income qualify as income from self-employment, then it will be exempted from the Italian regional tax on productive activities (**IRAP**), should the requirements for such tax to apply be met.

5.3 Duration

The regime applies for six years, i.e. the year in which the eligible taxpayer acquires its Italian residency and the following five.

However, the regime can be extended to:

- eight fiscal years (i.e. the year in which the eligible taxpayer acquires its Italian residency and the following seven) where the taxpayer has, alternatively, a minor dependent child or has acquired a residential real estate property in Italy;
- eleven fiscal years (i.e. the year in which the eligible taxpayer acquires its Italian residency and the following ten) where the taxpayer has at least two minor dependent children;
- thirteen fiscal years (i.e. the year in which the eligible taxpayer acquires its Italian residency and the following twelve) where the taxpayer has at least three minor dependent children.

As the rule has been enacted several years ago and has been repeatedly amended throughout time (especially with respect to its duration), some specific rules apply with respect to taxpayers who have moved their residence to Italy in preceding fiscal years, especially when it comes to the possibility of extending the duration of such regime.

5.4 Interaction with tax treaties

The Italian tax treaty network provides for several tax treaties that, similarly to what the current Art. 20 of the OECD Model Convention provides for scholars and business apprentices, grant an exemption from taxation in the other State (in this case, the host State) where teachers and researchers carry out their activities to the extent that the activity in the host State is limited in time.

Accordingly, if the activity that a non-resident teacher or a researcher has to carry out in Italy will be of a temporary nature, the application of tax treaty law could be more beneficial than the regime at stake.

Regimes Comparison

Main Features				
	Res non-dom	Inbound workers	Teachers and Researchers	Pensioners
Eligible Persons	Individuals transferring their tax residence to Italy who have not been resident therein for at least 9 out of the 10 previous years	Individuals transferring their tax residence to Italy who have not been resident therein for the previous 2 fiscal years and who carry out their work activity mainly in Italy	Individuals transferring their tax residence to Italy who have carried out research or teaching activities abroad for at least two years meeting some specific education criteria and carrying out researching or teaching activities in Italy	Individuals transferring their tax residence to some specific areas of Italy who have been tax resident abroad in an eligible country for at least 5 fiscal years and are entitled to pension payment sourced abroad
Main Benefits	100,000 EUR flat tax	Reduction in the computation of taxable income (at 10%, 30% or 50%)	Taxable base for the computation of employment and self-employment income is reduced at 10%	Tax rate of 7%
Income in scope	Foreign sourced income	Italian sourced income	Italian sourced income	Foreign sourced income
Duration	15 years, not renewable	5 years with the possibility to extend it for another 5 where some criteria are met	6 years with the possibility to extend it (to 8, 11 or 13 years) where some criteria are met	10 years, not renewable

6. Glossary

AIRE

Register for Italian citizens living abroad. Enrolment is mandatory if the person resides abroad for more than 12 months.

Controlled foreign companies

Controlled entities mainly deriving passive income and whose effective tax rate is lower than 50% of the Italian one.

Income Tax deadlines

Italian Income Tax (IRPEF) payment deadlines fall on 30 June (balance of the previous year and first advance payment for the year) – such payment can also be made in the following 30 days with a 0.40% interest – and on 30 November for the second advance payment.

Tax returns must be filed within 30 November of the following year.

Income Tax rates and brackets

Italian Income Tax (IRPEF) has the following rates and brackets (2022):

- 23% (0 to 15,000 EUR);
- 25% (15,001 to 28,000 EUR);
- 35% (28,001 to 50,000 EUR);
- 43% (over 50,000 EUR).

IRAP

Regional tax on productive activities levied on companies and, until 2021, individual businesses at 3.9% rate (which may vary depending on several factors).

Italian Tax Authorities (“Agenzia delle Entrate”)

Agency, under control of the Ministry of Finance, which performs all the functions and tasks assigned by the law in the field of tax revenue and tax duties.

IVAFE

Wealth tax on financial assets held abroad, levied at a 0.2% annual rate.

IVIE

Wealth tax on immovable properties held abroad, levied at a 0.76% annual rate.

Non-portfolio participations

Shareholdings other than portfolio participations (Art. 67(1)(c) of the TUIR).

Permanent establishment

Fixed place of business as defined under Art. 162 of the TUIR. This definition is substantially consistent with Art. 5 of the OECD Model Tax Convention.

Portfolio participations

Shareholdings that grant up to the 20% of the voting rights, or up to the 25% of the share capital (2% or 5%, if listed in a stock exchange) (art. 67(1)(c-bis) of the TUIR) of a given company.

Substitute Tax for HNWI

Annual flat tax of 100,000 EUR for high net-worth individuals who transfer their tax residence to Italy (Art. 24-bis of the TUIR).

Substitute Tax for pensioners

Annual substitute tax of 7% for pensioners who transfer their tax residence to Italy (Art. 24-ter of the TUIR).

TUIR (“Testo Unico delle imposte sui redditi”)

Italian Income Tax Code, enacted through Presidential Decree no. 917/1986.