

# Tax regimes aimed at attracting “human capital” in Italy

di Mario Tenore –Pirola Pennuto Zei & Associati

[www.pirolapennutozei.it](http://www.pirolapennutozei.it)

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**With the entry into force of the so called flat tax regime (also known as “regime dei neo-residenti”), introduced in 2017, Italy became part of those jurisdictions which entail a favorable tax regime for 'High Net Worth Individuals'.**

**Italy’s international appeal has been strengthened by the subsequent 'introduction of an ad hoc regime for foreign pensioners who transfer their tax residence to the South of Italy and with the amendments of the so-called 'impatriate regime', which have broadened the range of beneficiaries (including professional sportsmen) and have increased the threshold of non-taxable income (which can reach up to 90 per cent).**

The flat tax regime and the impatriate regime are the most widely applied by taxpayers who relocate their tax residence to Italy. The two regimes, whose benefits cannot be cumulated, operate in a specular manner: the flat tax regime benefits foreign source income and assets held abroad, while the impatriate regime benefits income sourced on the Italian territory.

The **flat tax regime**, also known as regime of the so-called 'Paperoni', intends to encourage - on an optional basis - the transfer of tax residence to Italy by 'High Net Worth Individuals', with the aim of encouraging their

investments in Italy. As acknowledged by the Italian Revenue Agency, the regime is inspired by similar tax regimes available in other jurisdictions (e.g. Portugal or the United Kingdom). The regime is available to taxpayers of any nationality who transfer their residence to Italy from abroad and who have been resident abroad for at least nine tax periods in the ten-year period preceding the acquisition of Italian residence.

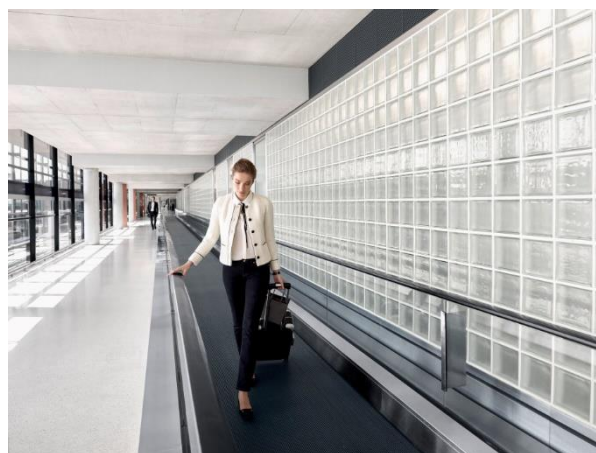
The regime does not require a minimum number of days of presence of the taxpayer on Italian territory. Income from foreign sources is subject on a yearly basis to a fixed substitute tax of

€100.00 that applies in lieu of IRPEF and related surcharges (reduced to €25,000 if the option is extended to the taxpayer's family members). By way of example, foreign source income includes dividends paid by foreign companies, income from employment if related to work performed outside the territory of the State (including stock options), or remuneration received as director in foreign companies (even if related to interposed companies). On the other hand, capital gains realised in the first five years of application of the regime and deriving from the sale of qualifying shareholdings in foreign companies (e.g., for unlisted companies, shareholdings exceeding 25 per cent of the capital or conferring at least 20 per cent of the voting rights) are excluded from the application of the flat tax. Such capital gains are subject to the ordinary 26 per cent tax.

With respect to assets held abroad, the regime also provides significant advantages, namely the exemption from IVIE and IVAFE and from the tax reporting obligations. Finally, for assets held abroad the regime also entails an exemption from inheritance and gift tax. The regime has a non-renewable maximum duration of fifteen tax periods. In the event of revocation or withdrawn in advance of the termination, the taxpayer is precluded from exercising a second option in order to fall in the scope of the favourable regime a second time.

Finally, the taxpayer is entitled to file an advance ruling request with respect to the confirmation of the subjective requirements regarding the tax residence as well as other aspects related to the application of the regime, such as the confirmation of the foreign source of an item of income or the interposed nature of a corporate vehicle owned or attributable to the taxpayer. The submission of a ruling request, which must be accompanied by adequate supporting documentation, is strongly recommended as it places the taxpayer in a position of greater legal certainty with respect to future tax audits. Finally, as clarified by the Revenue Agency, access to the regime following the transfer of residence in Italy should not affect the foreign residence of corporate vehicles in which the

taxpayer holds a capital participation or is a director.



Under the **impatriate regime**, income from employment, income assimilated to employment income, self-employment income and business income of individuals who transfer their tax residence to Italy (starting from the tax period 2020), is included in the taxpayer's overall income for thirty per cent (30%) of its amount, provided that the beneficiary of the regime

- was resident for tax purposes abroad during the two tax periods preceding the transfer of tax residence to Italy and remains resident in Italy for at least two tax periods; and
- works in Italy for at least 183 days in each tax period.

For taxpayers earning self-employment income and business income the application of the regime must respect the “de minimis rule”, i.e. the tax benefit cannot exceed a maximum threshold of euro 200.000 throughout three tax periods.

The regime therefore operates in a specular manner with respect to the flat tax regime in that it benefits income from activities carried out on Italian territory (rather than foreign source income).

Finally, the additional benefits of the flat tax regime, such as the exemption from reporting obligations and from IVIE and IVAFE, are not provided for.

The benefits of the impatriate regime are applicable for five years. The regime can be

extended for a further five tax periods if one of the following alternative conditions is met, i.e. the employee has a minor or dependent child, including a pre-adoptive foster child; or the employee has become the owner of at least one residential property in Italy (including in the 12 months preceding the transfer).

With regard to the tax periods covered by the extension, the income is included in the overall taxpayer's income, for 50 per cent or even 10 per cent of the amount (where the worker has at least three minor or dependent children, including in pre-adoptive foster care).

The benefits of the impatriate regime are withdrawn in case the taxpayer does not maintain his/her residence in Italy for at least two tax periods. In order to benefit from the benefits provided for by the impatriate regime, the taxpayer may submit to his/her employer (or principal) a declaration in which, inter alia, he declares to meet the requirements for the benefits of the relief. The employer (or the principal), acting as withholding agent, shall withhold the taxes on the reduced taxable base. The benefit can also be taken at the end-of-year adjustment or in the tax return.

As of the tax period 2019, **professional sportspersons** may benefit of an ad hoc regime that provides for a 50 per cent reduction of the tax base for the first five tax periods (with no possibility of extension).