

The background of the slide is a scenic photograph of a coastal village, likely Cinque Terre in Italy. The village is built into a steep, rocky cliffside, with numerous colorful houses in shades of red, orange, yellow, and pink. The houses are densely packed and have small balconies. In the foreground, there is a stone wall with arches and some greenery. To the right, the sea is visible, with several small boats anchored. A pine branch hangs down from the top right corner. A large blue semi-transparent banner is overlaid across the middle of the image, containing the main title in white text.

FLAT TAX REGIME FOR NEW ITALIAN RESIDENTS (HNWI)



ABACO



Main Features of the Special Regime

- The Special Tax Regime for New Residents (the “**Special Regime**” or “**flat tax**”) is an elective and temporary (15-year validity) tax regime for individuals who decide to transfer their tax residence to Italy, introduced with effect from 2017.
- The Special Regime provides, upon payment of an annual EUR 100,000 substitutive tax (plus EUR 25,000 for each family member to whom the regime has been extended), the following tax exemption on foreign income/assets:
 - ✓ exemption from taxation of any foreign-sourced income, save for capital gains from the sale of “qualified” participations (i.e. participations entitling the holder to over 20% of the voting rights in or over 25% of the share capital of a company, respectively, 2% or 5% in case of listed companies) realised in the first 5 years of validity of the Special Regime;
 - ✓ no reporting obligations in relation to movable and immovable assets that are held/located out of Italy;
 - ✓ exemption from IVIE (tax on real estate property abroad) and IVAFE (tax on foreign financial assets);
 - ✓ exemption from inheritance and donation tax on foreign assets.
- Since its entry into force, the Special Regime has attracted the interest of many potential applicants and the Italian Revenue Agency has generally adopted a positive and friendly approach both in interpreting the statutory provisions and in dealing with the applications.

Eligibility requirements

- Eligible individuals are those meeting both of the following conditions:
 - ✓ transfer their residence for tax purposes from a foreign country to Italy; and
 - ✓ not have been resident for tax purposes in Italy for at least 9 of the 10 years preceding the election for the Special Regime.
- From 1 January 2024, resident individuals are those who, for the greater part of the tax year, including fractions of days, have their residence or domicile in Italy, or are physically present there. For these purposes, the term “residence” is defined in accordance with the Civil Code, while the term “domicile” is defined as the centre of the individual’s personal and familial relations, rather than their economic and professional interests.
- Italy uses a calendar year for individual income taxation. Therefore, in order to be considered resident in Italy for tax purposes starting from a specific tax year, an individual must begin to meet one of the aforementioned conditions no later than 30 June of the relevant year.
- Citizenship is not relevant. Both EU and non-EU citizens are eligible.

Income taxes

- The electing taxpayer is subject to an annual substitutive tax of EUR 100,000 **on any foreign-source income**. As a consequence, foreign income of any kind is not subject to any further taxation and no remittance rule applies. **On the contrary, any Italian-sourced income is subject to standard individual income taxation.**
- Italian rules apply in determining whether an item of income was produced abroad, regardless of how the other country classifies it. In particular, Italy would consider the following items of income, *inter alia*, as foreign-sourced:
 - ✓ income from real estate located abroad;
 - ✓ income from employment or self-employment carried out abroad;
 - ✓ dividends, interest, and capital gains from non-Italian entities (with the only exception regarding capital gains from “qualified” participations).
- In order to avoid possible abuses, capital gains from the sale of “qualified” participations realised within the first 5 years of validity of the Special Regime are not covered by the substitutive tax. Therefore, they are subject to standard income taxation (26% substitutive tax on the full amount of the gain).
- **The electing taxpayer can choose to opt out of the Special Regime for specific countries (cherry picking).** In that case, any income from those countries would be subject to standard individual income taxation. The opt-out can be made at any time, but it cannot be revoked.
- From an Italian perspective, the electing taxpayer is considered resident in Italy for double taxation convention purposes and, thus, entitled to treaty benefits (with an exception related to tax credits).

Inheritance and Donation Tax

- Under the Special Regime, a specific exemption from Italian inheritance and donation tax applies. In particular, with regard to successions opened and donations made during the validity of the Special Regime for the deceased or the donor, Italian inheritance and donation tax is due only on assets and rights located in Italy at the time of inheritance or donation. Therefore, if the deceased or donor has exercised the option for the Special Regime, his foreign assets and rights are not subject to Italian inheritance and donation tax.
- The exemption from Italian inheritance and donation tax also applies to other transactions - other than inheritances and donations - that are normally subject to inheritance and donation tax (e.g. contribution of asset in a trust).
- If the electing taxpayer opts out of the Special Regime for one or more jurisdictions, the opt-out is also relevant for Italian inheritance and donation tax purposes. Therefore, assets and rights located in those jurisdictions would be subject to inheritance and donation tax.

Net Wealth Taxes

- The Special Regime exempts the electing taxpayer from the payment of the tax on real estate property abroad (*“Imposta sul Valore degli Immobili situati all’Estero”, or “IVIE”*) and the tax on foreign financial assets (*“Imposta sul Valore delle Attività Finanziarie detenute all’Estero”, or “IVAFE”*). Generally:
 - ✓ According to Art. 19, paragraphs 13-17, of Law Decree No. 201/2011, IVIE applies at a rate of 0.76% on the value of foreign real estate assets.
 - ✓ According to Art. 19, paragraphs 18-23, of Law Decree No. 201/2011, IVAFE applies at a rate of 0.2% on the value of financial products, bank accounts, and savings accounts held abroad.
- **The exemption applies only with respect to assets located in countries in relation to which no opt-out has been exercised.**

How to apply for the Special Regime regime

The election for the Special Regime must be made:

- **in the tax return for the tax year** in which the electing taxpayer becomes resident in Italy
- **in the tax return of the year following** the year in which the taxpayer becomes resident in Italy
- the benefits of the regime apply from the year in relation to which the election is made.

The ruling request

- **Electing taxpayers may file a ruling request** to obtain advance clearance from the Italian tax authorities regarding the eligibility for the new regime.
- **The ruling is not mandatory, but is recommended** in most cases as it provides certainty on the applicability of the Special Regime.
- The ruling request may be made also before becoming a resident for tax purposes, and in that case the ruling is “conditional” upon the individual to become an Italian tax resident.
- The Italian tax administration:
 - must reply to the ruling request **within 90 days**
 - **may request further information or documentation**, and in that case the administration has an extended period of 60 days from the receipt of additional information or documentation.
- If the tax administration does not give an answer in the term provided above, the ruling is deemed to be approved.
- Within the context of the same ruling, the taxpayer may also request to obtain a confirmation from the Italian tax authorities regarding the “foreign income” to be considered for Special Regime purposes (in this case a different term of 90 days is provided instead of 120).

Check list

- According to the implementing rules, the applicant must file a specific “check list” of relevant information to be attached to the tax return in which the election is made or to the eventual ruling request
- The check list is mainly aimed at identifying any elements of connection with Italy in order to assess the requirement of “non-resident status” for at least 9 years in the previous 10 years, without requiring any disclosure in relation to foreign assets
- The burden of proof regarding the existence of the eligibility requirements differs depending on the strength of the applicants’ personal and economic connections with Italy as emerging from the checklist.



Payment of substitute tax

- Under the “flat tax regime” the new residents must pay **an annual substitute tax of EUR 100.000 regardless of the amount of foreign income tax realised**
- **The tax is a one-time payment that follows the term generally provided for the final payment follows of income taxes (end of June of the year following the relevant tax period).**
- In case of withholding taxes levied during the tax period in which the applicant moved to Italy but before the “flat tax” regime took effect, the taxpayer may:
 - i. Offset such taxes with Italian source income, or
 - ii. Request a refund
- **The flat tax may not be offset in any way**

Extension to family members

- The Special Regime is also available to family members of the electing taxpayer that satisfy the eligibility requirements. Qualifying family members are spouses, children, parents, siblings, children-in-law and parents-in-law.
- The electing taxpayer must extend the regime to his family members in the tax return referring to the year in which his relative becomes resident in Italy or to the following year. The family members must also opt for the regime in their tax return, reporting all the relevant data for the assessment of the eligibility requirements.
- In case of extension of the Special Regime to family members, each of them must pay an annual EUR 25,000 substitutive tax.

Reporting obligations

- The electing taxpayer must file a tax return for his first year of residence in order to apply for the Special Regime. In subsequent years, he will only have to file a tax return, if (i) he realises any Italian-source income, which is subject to standard individual income taxation; or (ii) in the first five years of validity of the regime, he holds “qualified” participations in foreign companies.
- In general, according to Art. 4 of Law Decree No. 167/1990, Italian resident taxpayers have the obligation to report all the assets held abroad by filling in a specific form (“*Quadro RW*”) of the income tax return. The following is a non-exhaustive list of assets to be reported: real estate assets located abroad; valuables and works of art held abroad; yachts and other vehicles subject to registration in foreign public registers; participations in non-resident entities; foreign bonds and treasury bonds; units of foreign funds; foreign currencies; foreign deposits and bank accounts; financial contracts with non-resident counterparties (e.g. loans, repo agreements) and foreign derivative contracts; insurance policies with foreign insurance companies; stock options issued by foreign companies.
- In this latter respect, as a further exemption provided under the Special Regime, the electing taxpayer does not have to report his foreign assets or investments in his income tax return, with the exception of “qualified” participations in foreign companies in the first 5 years.

Duration and Termination

- The “flat tax” regime is **automatically renewed every year and terminates after 15 years**
- Termination of the “flat tax regime” may occur (also for the specific family members):
 - **In case of revocation** of the taxpayer in the tax return
 - **In case of the failure to pay** (or incomplete payment of) the substitute tax
 - **In case of transfer** of the taxpayer abroad
- Generally, the main **applicant’s termination applies also to the family members** to whom it has been extended
- However **family members may exercise a new different election** to carry on to benefit from the “flat tax” regime.
- **After the termination or revocation**, the main applicant **can not apply for the “flat tax” regime again**.
- If the main applicant dies during the special “flat tax” regime, the heirs may confirm the election and pay the substitute tax.

Update on the "Impatriates regime"

	Transfers of residence from 30.4.2019 to 2023	Transfers of residence from 2024 (except transitional arrangements)
Previous foreign residence	2 tax periods	3 tax periods (6 or 7 tax periods if the service is in favour of the same foreign subject or in favour of a subject belonging to the same group)
Commitment to maintain residence in Italy	2 years	4 years
Subsidized income - Nature	Employment and similar income, self-employment income, business income of the sole trader	Income from employment, income from "professional" self-employment
Subsidized income - Entities	No limit	Annual limit of €600,000
Extent of the facilitation	<ul style="list-style-type: none"> - Taxable income at 30% - Taxable income at 10% for taxpayers moving to southern Italy - Taxable income at 50% for sportsmen 	<ul style="list-style-type: none"> - Taxable income at 50% - Taxable income at 40% if you have a minor child
Duration of the subsidy	5 tax periods (possibility of extension for a further 5 tax periods)	5 tax periods (5+3 tax periods with civil registration in 2024 and purchase of a residential property before 31.12.2023)
Work carried out mainly in Italy	Not necessary to discontinue the activity carried out before moving (with the exception of the hypothesis of secondment)	The service can be carried out in favour of the same foreign subject or in favour of a subject belonging to the same group with an increase in the period of previous foreign residence
Qualification or specialization	None	Possession of the requirements of high qualification or specialization



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THANK YOU FOR YOUR ATTENTION

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