

Small taxpayers – Flat Rate Tax Regime 2017

A special tax scheme (Regime Forfettario) offers a flat rate on gross income for taxpayers looking to get themselves registered for VAT and start a self-employed business or profession for the first time in 2017.

The various schemes for small taxpayers (*the Regime dei Minimi/Regime Forfettario*) have seen a number of changes over the years and some of the old rules continue to apply to people who started out in earlier years. But from FY 2016 there is only one regime open to new taxpayers – the Flat-Rate Scheme.

The Flat Rate Tax Scheme is optional, so taxpayers (at least those who are not already registered under an older scheme) should indicate advance when registering for VAT, and must confirm the option in their first annual tax return after registering, whether they wish to take the benefit of the scheme. If they do not then they will be subject to tax on their net profit at the usual [scale rates](#).

Requirements for the flat rate scheme

To benefit the following conditions must be met:-

- 1) The gross income (i.e. the amount invoiced to clients, not taxable profit after deduction of costs) must not exceed the threshold set for the category of activity to be carried on.

Business sector	ATECO code	2016 income threshold	Coefficient
Food and beverage industries	10-11	€ 45,000	40%
Wholesale and retail trade	45 – (46.2 to 46.9) - 47.1 to 47.7) – 47.9	€ 50,000	40%
Itinerant trade in food products and beverages	47.81	€ 40,000	40%
Itinerant trade of other products	47.82 – 47.89	€ 30,000	54%
Buildings and real estate activities	41 – 42 – 43 – 68	€ 20,000	86%
Commercial Agents	46.1	€ 25,000	62%
Accommodation and catering services	55 – 56	€ 50,000	40%
Professional, scientific, technical, health, education, financial and insurance services	64 – 65 – 66 - 69 – 70 -71 - 72 – 73 – 74 – 75 – 85 – 86 – 87 – 88	€ 30,000	78%
Other economic activities	01 – 02 - 03 – 05 – 06 – 07 - 08 – 09 – 12 – 13 -14 – 15 -16 – 17 – 18 - 19 – 20 – 21 - 22 – 23 – 24 – 25 – 26 -27 -28 – 29 – 30 – 31 – 32 – 33 - 35 - 36 – 37 – 38 – 39 – 49 -50 – 51 – 52 – 53 -58 – 59 - 60 – 61 – 62 – 63 - 77 – 78 -79 – 80 – 81 – 82 – 84 – 90 - 91 – 92 – 93 – 94 – 95 – 96 - 97 – 98 – 99	€ 30,000	67%

If a taxpayer carries on more than one activity, the income threshold to be applied is higher or highest. The threshold should be

- 2) Staff related costs must be below Euro 5,000;
- 3) Deprecation of assets used in the business must not exceed Euro 20,000
- 4) Individuals who are not resident in Italy must have at least 75% of their income from sources within Italy;
- 5) Must not carry on business under any other special regime or under a special VAT regime (e.g. margin scheme of works of art second hand vehicles etc.);
- 6) Must not carry on business of the purchase and sale of real estate, developable land and new vehicles;
- 7) Must not be members of partnerships, professional associations nor must they be members of limited liability companies which have opted for the regime of imputation of taxable profits to the shareholders;
- 8) Must not have received income from employment (and that includes pension income) in excess of Euro 30,000 in the previous year, unless the employment has terminated.

Flat rate taxation

The flat-rate scheme provides for income tax at the rate of 15% tax on gross turnover reduced by the coefficient in the table above. So a self employed teacher will pay tax on 78% of gross earnings at a rate of 15% - an effective rate of 11.7% of gross income invoiced to clients.

The rate is reduced to 5% for a new business activity – defined as one being carried out for the first time and not an extension of a previous business carried out under the ordinary regime or a prior special scheme. This means an effective rate of tax of 3.9% of turnover.

Other Advantages of the special regime

Apart from the reduced rate of tax the regime offers the following advantages:

- 1) No VAT needs to be charged on invoices issued and there is no VAT reporting/compliance – e.g. no annual VAT return, statutory VAT ledgers;
- 2) Simplified bookkeeping – no need to register invoices and receipts, purchase and sales invoices in statutory registers;
- 3) There is no need for clients to withhold tax on payments of fees – this represents;

- 4) Exemption from the “Spesometro” – the rules that work to stop excess tax deductions for costs in relation to gross income and the parameters deriving from industry sector studies;
- 5) Exemption from sector study reporting;
- 6) Exemption from reporting transactions with tax havens;
- 7) Exemption from regional production tax (IRAP).

Social security

The new regime does not provide any reduction in the rate of contributions. Social security will be applied at normal rates to the gross income reduced by the coefficient.

Social security contributions are deductible from the taxable income on a paid basis – i.e. contributions on last year's income are deductible from this year's taxable base, **after** reduction of the coefficient.

Potential Disadvantages of the regime

- 1) You cannot deduct actual costs sustained. There is a lump-sum deduction according to the coefficients;
- 2) You need to attach a 2 Euro stamp to each invoice issued if it exceed Euro 77,47. There is a way to do this online but it is administratively burdensome for people issuing only a few invoices a year;
- 3) You cannot recover VAT on items your purchase . This means that the VAT on purchases of e.g. stationery, IT equipment, telecommunications etc. cannot be reclaimed and become a cost. That VAT is of course not deductible for tax purposes as there is a lump-sum deduction in the coefficient for expenses;
- 4) The VAT treatment of cross border services is not clear - it appears that INTRASTAT forms still need to be completed for intra EU supplies and it is possible that a reverse charge needs to be applied on purchases from VAT registered businesses outside Italy;
- 5) You cannot claim deduction for expenses available for deduction (e.g. alimony, medical and vets bills, mortgage interest, and the various home improvement, energy refurbishment incentives) unless you have other income. This is because the flat-rate regime gives rise to a substitute tax and not IRPEF;
- 6) You can benefit from other tax reliefs (e.g. the patent box reduced rate of tax on income from intellectual property). An important exception to this rule is the 20% tax credit for investment in fixed assets located or to be located in Italy's Mezzogiorno which remains available.

- 7) If you suffer withholding tax at source – ie. where your customer is in a jurisdiction that requires your customer to withhold tax on payments to contractors, you can get credit for that tax but the foreign tax needs to be reduced in line with the coefficient in the table on page 1.

Is the flat rate scheme for you?

Since you cannot deduct expenses the first thing to check is whether your tax deductible costs exceed the lump-sum deduction included in your applicable coefficient. For many in the Italian gig economy, expenses on the whole will be limited. Given that many costs are anyway subject to statutory limitations (e.g. telephony/internet, training, vehicle costs), the flat-rate deduction will typically be more attractive. A similar analysis applies to VAT. The irrecoverable VAT is not a cost that you can deduct when computing your income tax liability, as, again you have the flat-rate deduction.

The flat –rate scheme is therefore not appropriate for taxpayers with large cost structures, numerous employees, or who require premises or substantial plant and machinery to carry on their business. It may also not be beneficial for contractors billing or paying expenses to clients and suppliers outside Italy.

In practical terms you should forecast the volume of turnover and expenditure to determine whether it is appropriate to apply the flat-rate scheme or stay within the ordinary system.

Another element to consider is the bureaucratic simplifications provided for by the flat-rate scheme: reduced bookkeeping and tax reporting requirements.

So for self-employed professionals, especially those starting up a new business for the first time the flat rate scheme will be attractive. This scheme however does not make a lot of difference in social security terms. You should discuss with your customer/clients as to whether you can add on an extra 4% to your invoices to cover this, and if you are a citizen of a country other than Italy you should explore whether you are entitled to remain within your home country's social security system, especially if you intend to remain in Italy for a short period.

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Assago, 25 September 2017