Italy – tax guide

Italian taxes for the geographically mobile

Individuals who are tax-resident in Italy for tax purposes are subject to Italian income tax on their worldwide income.

Tax Residence

The Italian Tax Code provides that an individual is considered to be resident if "for the greater part of the tax period (i.e. more than 183 days in the calendar year (184 for leap years), he or she is registered with the register of the resident population (anagrafe) or has their domicile or residence, as defined in the Civil Code, in the territory of the Italian state"

This means that a person is tax resident if, for more than 183 days in any tax year, that individual;

- is registered in the register of the resident population maintained by the local municipality ("Comune"); or
- has his or her "*domicilio*" - i.e. center of vital interests; or
- has his or her habitual place of abode;

in Italy.

This means that if you get registered resident before 3 July in any year you will be resident for the whole tax year.

It is possible to be resident in two countries as other countries have their own definition of resident which may not be in line with Italy's definition. If you are resident in Italy as well as another country under the relevant definitions of tax residence you need to turn to the double tax between the two countries and see if the "tie-breaker" clause applies to you. The tie-breaker if applicable can operate to make you tax resident in just one of the countries. Double tax treaties vary somewhat as they are all the result of negotiations between the two contracting states (albeit often based on a standard model) So typically the treaty tiebreaker clause will state that where a person is a tax resident of both Contracting States, then his or her residence status shall be determined as follows:

(a) s/he shall be deemed to be a resident of the country in which s/he has a permanent home available.

(b) if s/he has a permanent home available in both, s/he shall be deemed to be a resident of the Contracting State with which his personal and economic relations are closer (center of vital interests);

(c) if the state in which they have their permanent home or center of vital interests cannot be determined, they will be resident in the state in which they have their habitual abode;

(d) if the individual has a habitual abode in both Contracting States or in neither of them, s/he shall be deemed to be a resident of the Contracting State of which they are a national;

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(d) if s/he is a national of both Contracting States or of neither of them, the tax authorities of the two States shall settle the question by mutual agreement.

Non residents

An individual who is not tax resident in Italy will, in general, be liable to tax only on their Italian source income.

For the non-resident, most Italian tax liabilities will be satisfied by a way of withholding tax at source – thus the payer will deduct from any payment of income from employment or self-employment, investment income and pension income. The applicable rate of income depends on a series of factors, principally the type of income and whether a double tax treaty reduces (or even exempts) the withholding tax. Often the Italian tax withheld is treated as a final tax liability so that there is no need to file a tax return, but it depends on the kind of income. If you are tax resident outside Italy who may be well be required to declare the Italian income and account for tax on it. Typically, you will be able to claim for the Italian tax when calculating the amount of tax you owe the tax authorities in your country of residence.

One notable exemption to the withholding tax regime is rental income on Italian real estate that is rented out directly. An Italian tenant is not required to withhold tax, so the landlord will need to file a return and pay the on the rental income. Italy has introduced a law requiring payment platforms such as Airbnb and Booking.Com to withhold tax when paying the renter but many foreign platforms have not activated this yet.

Double Tax Treaties

Again, this is subject to the terms of the relevant double tax treaty which usually contain a series of clauses dealing with different types of income (business, income, capital gains, dividends, interest, royalties, employment and pensions) The clauses are designed to avoid residents of other countries being tax twice on the same income.

Italian Income Tax

The Italian Tax Code classifies Income into different categories and then sets out the rules for taxation of that kind of income. Most earned income (which includes pension income) is liable to income tax according to scale rates. The higher your taxable income the higher the rate.

However, there are a number of substitute tax/flat rat regimes - such as

- 5%/15% on gross income reduced by a coefficient for income from self-employment up to Euro 30,000 per annum;
- 9-15% for income paid by Italian approved pension funds;
- 12.5% interest on government bonds
- 21% of gross rents received for rentals of Italian real state
- 26% on investment income, dividends, interest and capital gains.

Some of these regimes apply regardless in certain circumstances while others will apply at the option of the taxpayers (usually to be me made in advance).

National income tax) IRPEF)

Income is subject to income tax at the national, regional and municipal levels the standard national income tax (IRPEF) rates are shown in the table below:

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Italian income tax bands (IRPEF)		
Lower amount (€)	**Upper amount (€)**	**Percentage rate**
0	15,000	23%
15,001	28,000	27%
28,001	55,000	38%
55,001	75,000	41%
75,001	-	43%

Regional income tax

As part of a programmer of devolution of tax raising powers to local authorities, Italy has instituted a regional income tax the rate of which can range from 0.7% to 3.3% of income depending on the Region in which you are resident, taxable income and family circumstances.

Municipal income tax

Depending on your Municipality (Comune) of residence, the additional municipal tax ranges from 0% to 0.9% of income,

Non-residents with a liability to income tax in Italy (e.g. on Italian source salary or pension) must also pay the Regional and Municipal taxes.

Pension and retirement income

The treatment of foreign pension income and income from foreign retirement accounts is problematic. In Italy it is the state (thought the national social security institute INPS that has traditionally catered for the citizen's pensions -company occupational pension schemes and private pension arrangements offered by financial institutions (the most common of which are life insurance based) make up a relatively small percentage of the overall pension provision.

The tax regime for standard Italian pension arrangements is to permit exclusion from taxable income for contributions made (both employer and employee income) and to subject to tax, as employment income, the pension receipt after retirement. There is a special regime for regulated Italian pension funds but there is little express legislation or tax authority guidance on the taxation of foreign pension arrangements, especially occupational schemes and little in the way of mechanisms to balance situations where foreign pension funds have been created

Capital Gains

There is no special capital gains tax. Capital gains on disposal of shareholdings and other securities and financial products are in general taxable at a flat 26% tax, often withheld at source if there is a financial intermediary involved, otherwise reportable in the annual tax return.

Capital gains from real estate are exempt tax if the real estate does not constitute of developable land and has been held for at least five years. Residential property occupied as a registered (with the Municipality/Comune) principal private residence in Italy is exempt from tax on any capital gain regardless of the period of ownership.

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Deductions and tax credits

There is a long list of expenditure which can be deducted from total income. Some of these are deductible from total income and some operate as a tax credit reducing the tax bill. Most of the expenditure is subject to a cap or limitation. The list includes:

- Social security (pension and welfare) contributions and certain contributions to supplemental pension providers.
- Alimony paid to a separated or divorced spouse resulting from a court order
- Expenditure for real estate agency fees;
- Contributions to ONLUS (charities), nonprofit organizations, research institutes and scholastic and religious entities;
- Medical and veterinary expenses
- Expenditure for international adoption of children
- Interest on the main mortgage, agricultural loans
- Fees and commissions paid to real estate agents
- Rent paid for a principal private residence
- Expenditure for renovation of buildings and energy saving or earthquake prevention measure
- Cost of high-efficiency energy kit (fridges, freezers dish-washers ovens heaters etc.), internet for young people,
- Cost agricultural machines, earth movers etc.
- Safety installations
- Life insurance premiums
- School fees
- Expenses for sporting activities of children
- Expenses for students living away from home
- Charges for caregivers
- Funeral expenses
- Public transport expenditure on (from 2018)
- Costs of purchase of musical instruments

Tax credits

Dependents

Italy has an extensive number of tax credits which can be taken as a deduction in computing the tax payable. These include a family tax credit for a resident taxpayer with a dependent spouse, children, or other relatives living with him or her provided that the annual income of the dependent does not exceed €2,840.51 per annum (likely to be €4,000 for FY 2019 for dependent children under 24 years). Tax credits vary from €750 to €1,200 per annum depending on the identity of the beneficiary and there is an uplift if the dependent has a disability. The tax credit gradually reduce to zero as taxable income increases so that the credits are withdrawn for taxpayers earning over €80,000 (€90,000 for dependent children).

Credits for Earned Income and Pensions

Italian tax law also provides a variety of other tax credits for earned income and pension income. Also, in this case the credits reduce gradually to zero as income hits €55,000.

These tax credits allow a person in full time employment or a pensioner to earn €8,000 per year without any liability to tax. A self-employed person can earn up to €4,800 annually without a tax liability. Obviously, these thresholds can be extended by the tax credits for family members and other deductions described above.

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Special Regimes

There is a special 90% exemption for teachers and researchers and a 50% for regime for employees and self employed coming to Italy from abroad to work for an Italian employer/client(s). A number of conditions apply.

Flat rate scheme for the self-employed - small businesses and start ups

There is a special simplified flat rate tax regime for small businesses, currently defined as those with an annual turnover of under Euro 30,000 but proposed to be increased up to Euro 65,000 for 2019. Taxpayers opting for this regime pay tax at a flat rate (15% for existing businesses, 5% for new business startups) on gross turnover minus a percentage on account of expenditure. The percentage varies depending on the type of business. Consultants teachers, and professionals pay tax on 78% of gross income. Taxpayers under this regime are absolved from keeping the usual accounting records, justifications for expenses etc. and although they are registered for VAT, they do not need to add VAT onto their invoices.

The flat rate scheme is attractive for many small businesses by reason of the reduced tax and accounting requirements, but may not necessarily be the best regime in pure tax terms. Indeed, going into a normal accounting regime for a self-employed person maybe more tax effective, even bearing in mind the higher compliance costs, due to the fact that family and working tax credits are not available under the flat-rate tax regime.

Flat-rate scheme to attract high net worth individuals

Italy has adopted a flat rate regime for new Italian residents – individuals regardless of nationality who have not been resident in Italy in any of the previous 10 tax years. The rules allow qualifying individuals to pay a flat annual tax of €100,000 in place of the usual tax at scale rates on non-Italian source income. The tax break can be extended to family members too. Coupled with an investor visa programme this represents an interesting opportunity

Tax Management

Filing of Returns

The Italian income tax return (the form "PF") must be filed with the tax authorities by the end of October after the end of the tax year (calendar year). A shorter form annual return (the "730") can be filed by individuals with simplified tax affairs such as those in receipt of just Italian source employment, pension and investment income and limited deductions and tax credits. The deadline for the filing of this form is the 23 July of the year following the tax year.

Payment of taxes

For most employees and pensioners (with Italian employers/providers) tax is withheld at source by the employer/pension provider and there may be no need to file a return unless the taxpayer has other income or special deductions that cannot be put the payroll. The self-employed (who anyway are subject to a flat rate 20% withholding tax where they are providing services to Italian business) and others with income that is not fully taxed at source will pay tax as follows:

- Approximately 40% of the prior year income tax liability in June of the current tax year on account of the current year;
- Approximately 60% of the prior year income tax liability in November of the current tax year on account of the current year;
- A final payment by way of the outstanding balance for the previous year June of the following year.

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This system means that especially for the self-employed starting up in Italy you will no tax payment deadlines in the first year, but in the second year, you will have a "double whammy", paying the tax due on the previous year's income at the same time as payments on account of the second year. You should set part of your income aside to be able to meet that tax liability.

Penalties

Failure to file a tax return under Italian constitutes a crime and severe penalties can apply. Similarly, strict penalties including criminal penalties apply to failure to make payment of tax of larger amounts. For smaller amounts the rules provide for administrative penalties and interest on late payment as well as a series of opportunities to self-disclose, mistakes, omissions from the tax returns and underpayments, subject to payment of penalties in a significantly reduced amount.

Corporate Income Tax (IRES)

Italian companies are subject to corporate income tax on their worldwide income. Non-resident companies are only taxed on their Italian source income, generally to the extent that the income is realized through a permanent establishment in Italy. The rate of corporate income tax is 24% (although higher rates apply to certain companies in the financial sector). The taxable base for IRES is the profit per the accounts adjusted in accordance with the specific rules governing taxable income and deductions.

Companies, like unincorporated businesses, are also liable to a regional production tax IRAP applicable at the rate of 3.9% (raised up to 5.9% for financial and insurance sector companies). IRAP is calculated on a defined gross margin basis - i.e. without deduction for most labor and finance costs. Part of the IRAP can be deductible in computing the IRES cost.

Residence

Companies having their legal seat, their principal place of effective management or principal place of business in Italy for the greater part of the tax year are considered to be resident in Italy for tax purposes and taxable on their worldwide income.

This means that an Italian resident individual controlling and effectively managing the business of a non-Italian company risks assessment by the tax authorities who may consider the foreign company to be tax resident in Italy and require that company to file a tax return and account for tax on its profits.

Income

Income for corporate income tax purposes includes the following items:

- Trading income
- Capital gains
- Dividend income: there is a 95% participation exemption for dividends received from Italian companies and companies resident in a country with which Italy has a double tax treaty
- Income from foreign sources may qualify for a tax credit for foreign source tax.
- Income from overseas branches may be exempt from tax.

Deductions and credits

The following items are generally deductible in calculating taxable income:

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- Interest expense subject to certain specific limitations.
- Tax depreciation on fixed assets used in the business.
- Entertainment and gifts subject to specific rules
- Other business expenses such as motor, telephone, travel, and other taxes paid.
- Special rules apply to limit the carry forward of losses

When foreign source income has been taxed abroad, a tax credit to be offset against the final tax liability is granted. This tax credit is the lower of the actual foreign tax paid or the proportionate share of the final Italian tax liability generated by the foreign income.

There are a series of incentives, generally in the form of a tax credit for R& D expenditure, patents and other investment programs.

Tax administration

Corporation tax returns must be filed nine months after the end of the tax year. An extension to 31 October was extended to all taxpayer for 2018.

Corporation tax is paid on the following dates:

- 40% of the prior year liability is due at the end of the 6th month of the current tax year.
- 60% of the prior year's liability is due at the end of the 11th month of the current tax year.
- Any final balance of tax due is payable at the end of the 6th month in the following tax year.

Penalties apply for late payment.

Local Property Taxes

Italian homeowners or occupiers are liable to IUC (Imposta Unica Comunale – Single Municipal Tax). This tax comprises three different local taxes, all of which are paid to the local municipality (commune):

IMU (Imposta Municipale Unica – local municipal tax)
This is a tax on the value of the real estate derived from cadastral (land registry values) Exemption is generally available for a principal private dwelling at which the owner is registered as resident.

TARI (Refuse/Garbage Tax)

TASI (Municipal tax for local authority services)

Your municipality's web site should contain details of these taxes. Depending on your municipality you may not receive a reminder or notice to pay these amounts until they have fallen past due.

Inheritance/Gift tax

Italy operates a tax on inheritance and gifts. The tax applies on the transfer of certain non-exempt assets from one individual. The rate at which it applies and the threshold over which it applies depend on the relationship between beneficiary and the deceased or donor.

In summary, where the transfer is made in favor of:

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- a spouse or a child, the tax is imposed at the rate of 4% on the value of the assets in excess of the tax-free threshold of €1 million per heir or per gits;
- a sister and brother, the tax applies at the rate of 6% on the value of the gift or inheritance exceeding €100,000 per heir/gift;
- other family members up to the fourth degree, tax applies at the rate of 6% on the entire value;
- other beneficiaries not mentioned above the tax applies at the rate of 8% on the entire value transferred.

Special rules apply to value to real estate and there is a list of assets, including government bonds and the benefit of life insurance policies which are outside the scope of the tax.

Foreign asset reporting and taxes on foreign assets

Italian resident taxpayers must report foreign assets including real estate, bank accounts and and financial assets in the section RW of the annual PF tax return. Penalties for failure can be steep.

In addition to the reporting requirement there are two taxes on foreign assets. There are sometimes as described as wealth taxes, although the primary intention is to ensure that there is no tax incentive for Italian residents to invest abroad.

IVIE (tax on the value of foreign real estate) applies to IVIE is payable at the rate of 0.76% of the value as defined. The rate is reduced to 0.4% for buildings used as a main residence. The value or tax base depends on the location and type of property but typically is a foreign land registry value or purchase cost rather than market value.

IVAFE applies to foreign bank accounts. For current and savings accounts held abroad the rate is a fixed Euro 34.20 per foreign account. No tax is due if the average liquidity over the year shown in the bank statements is lower than Euro 5,000 taking into consideration all accounts held abroad with the same financial institution.
Other financial assets held abroad, are liable to tax at a 0.20% rate on the market value. However, the tax only applies to "financial products" i.e. tradeable assets and typical investments to which a 0.2% stamp duty would apply if the asset were purchased through an Italian financial intermediary.

Social security contributions

Social security contributions for employees are in due in the range of 30% to 40% of gross remuneration with the employee responsible for 9-10% of the total and the employee for the balance. The self-employed are liable to social security at a rate of around 25% on profit (or notional profit if they are taxed on a lump sum regime

Value-added tax (VAT)

Italian VAT applies to the supply of goods and services in Italy. A VAT registered business adds VAT onto its invoices at the relevant percentage – the standard rate is 22%. The VAT collected

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form the customer/client when the bill is paid, must paid over to the government within certain deadliness. From the VAT payable to the government, the taxpayer is allowed to deduct the VAT paid on supplies or goods or services purchased for use in the business. Thus, the tax due to the government is the difference between the tax on invoices issues (the outputs) less the VAT paid on invoices received (inputs). The total of outputs minus inputs represents the value added and the basis for the tax payable.

As mentioned, the standard VAT rate is 22%. Reduced rates are provided for specific supplies of goods and services, such as:

- 4% for basic essentials - food, bread, and agricultural products.
- 10% for hotel, restaurant and tourist services, domestic energy utilities , pharmaceuticals and certain real estate refurbishment costs.
- Certain supplies of goods and services are exempt from VAT (e.g. public postal services, hospital and medical care, education, financial and insurance services). Businesses making exempt supplies cannot recover the input VAT on their services.

People who are on a lump-sum regime although registered for VAT are not required to charge their customers/clients with VAT. They cannot recover the VAT paid on purchases.

This is a summary guide and is not intended to be legal advice. Tax laws change rapidly and although all due has been taken to ensure that this guide is accurate at the time of writing it may not necessarily be so at the time of reading. It also represents a simplification of some complicated issues. Always seek up to date advice from a professional.

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