

1 What Tax do I pay?

There are two Italian tax regimes for short term rental income which is received otherwise than through some form of business activity. This article only deals with rental income from **residential** property received in a private capacity, ie. where you rent residential property on short term holiday lets. The two regimes are the:

- Normal income tax ([IRPEF](#)) regime
- Gross rent flat rate basis (*Cedolare secca*)

1.1 Standard Income Tax Rates

For individuals who are not carrying on a letting business, the IRPEF regime taxes rent received based on the [normal brackets](#), allowing a flat 5% deduction for expenses. So if your rental income received from your tenant in the tax year is € 12,000, you pay income tax (IRPEF) on Euro 11,400. No deduction is allowed for specific expenses, interest or depreciation of the property, regardless of whether it is let furnished or unfurnished, short term or long term. All you get is the 5% for expenses.

So if you are going to be incurring significant expense, such as the purchase and refurbishment of the property for letting, property/tenant management, insurance and maintenance then you should consider if some form of business tax regime would not be more appropriate.

Also if you are offering what Italian law considers to be ancillary services – such as bed linen, towels, drinks cabinet/cupboard meals etc. you may well need to register a business, as your activity, taken as a whole, will not be considered by law to be a simple residential property let, but a business activity in its own right.

1.2 Flat Rate “Cedolare Secca”

Under this regime you pay tax at 21% on the gross rent. There is a reduced rate for “protected tenancies” i.e. contracts where the tenant has special legal rights.

For long term lets (more than 30 days) this applies as an alternative to the normal income tax regime outlined above, whereas it is the default regime for short term lets. For long term lets (more than 30 days), the option needs to be exercised by indication as such in the rental agreement itself.

No deductions are allowed at all, not even for the fee you pay Airbnb/Booking.Com/Agency, or for cleaning expenses. It's 21% of the gross amount paid by the tenant.

Nice and simple.

2 How do I pay the tax?

2.1 Self Assessment & payment

Taxes on rental income are, on the whole, self-assessed in the annual return to be filed before the annual deadline, typically the 30 September of the following tax year. This deadline is often extended due to delays in issuing the forms or software – It was 31 October for 2017 and 2018, 2 December for 2019).

“Self-assessed” means that the taxpayer needs to report the income in his or her annual tax return and pay the tax over to the tax authorities via the Form 24. You can pay the tax at your bank or via your online banking if you have an Italian bank. “International” operators such as N26, Revolut or Transferwise do not, at the time of writing, have this facility.

Tax must be paid (usually – blanket extensions are sometimes given) on or before the 30 June of the year following the year in which the income was received (or was due under the tenancy agreement). At the same time you need to make payment in advance of the current year liability, leading to the “Double whammy” in year 2 of your activities. The advance payment is 95% of the total of the prior year tax. If the amount of the advance payment exceeds 257.52 euros, you can pay the advance in two installments: - First advance payment of 50% by 30 June; - Second advance payment of 50% by 30 November 40%);

Generally it is possible to pay late with a small uplift – the amount of which increases as time goes by. However steep penalties apply for a late payment which is assessed by the Tax Office.

2.2 Withholding Tax

The only exception to general principle that you pay your own tax is for short terms lettings (less than 30 days) made through agencies/web platforms. At the present time this withholding tax has - for the most part Italian agencies who withhold the tax at source, i.e. they deduct the tax from income paid by the tenant before passing on the proceeds net of tax to the landlord or landlady. Airbnb and other international agencies/platforms are, at the time of writing not applying the withholding tax and renters are paid there proceeds without deduction of tax (except tourist tax).

If your agent/web platform withholding tax at source they will give you a certificate at the end of the year (the CU). At this stage, you do not need to do anything more unless you think that you would be better off.

3 Running it as a business

Purchasing property which you can use in the running of a business activity gives you two principal advantages:-

- You can obtain an income tax deduction for expenditure such as
 - Costs of purchase, including taxes and professional fees (probably in terms of depreciation, although is fairly limited and tax relief will be spread over a number of years);
 - Refurbishment costs, again possible over a number of years by way of tax depreciation, especially for additions and improvements
 - Maintenance and running costs
 - Advertising, publicity and directly related entertaining and travel costs
 - Agency fees/commissions
 - Cleaning costs
 - Staff costs
- If you are running a hotel type business you can recover the VAT (value added tax) you pay for the purchase and on the various expenses mentioned in the previous paragraph.

Running has a business has a number of disadvantages though

- Additional administration accounting and tax compliance costs
- If you are running a hotel type VAT registered business you will need to add VAT onto your invoices (usually this means an uplift of 10% on the invoices you deliver).
- If you use a limited liability company there are “*società di comodo* – dummy company or alternative minimum tax rules that can operate to impose a deemed minimum annual income tax based on the presumed yield of the property if you do not make sufficient income – often a problem in early years. These same rules can operate to deny a carry forward of early losses and VAT credits.
- If the building is used in a business any gain on a future disposal will be liable to tax. Most residential, non business, property held by an individual for more than five years is not liable to tax on sale.

If you intend to purchase property to use in a business then you need to make the decision EARLY. It is in general not possible to backdate a business registration, so if you incur costs before being registered (or before the legal

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entity you are going to use to trade through is set up and registered) you may not be entitled to tax relief (or VAT credit) for the relative expenditure.

There are a number of ways of structuring a real estate business venture, each with its own tax regime such as:

- Running the business as a sole trader under
 - The rules applicable to agricultural undertakings/agriturismi
 - Running the business as a bed and breakfast, room rental e.g. *affittacamera* or *pesnione* or private lettings business
 - Self-employed under the flat rate regime. Under this regime a lump sum deduction (around 20-30%) deduction is given for costs and VAT is not recoverable.
 - Self-employed under the normal tax/accounting regime
- Running the business through a company, branch of a foreign company or a trust.

Which regime is appropriate/convenient will depend on a number of factors such as the type of property (agricultural or urban), the kind of business, the number of staff involved, if any, the forecast income and expenditure, the planning and building consents available for the kind of activity.

All of these factors need to be weighed up at the planning stage.

4 Indirect Taxes on rental contracts

A letting agreement, if for a period of more than 30 days, is subject to a registration tax of 2% of the gross rent on initial registration and each annual anniversary after that. Stamp Duty is also payable – 16 euro per each 4 pages of the agreement. No registration tax/stamp duty applies to short-term and holiday lets – the flat rate tax or “cedolare secca” avoids the need to pay the registration tax.

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