

CLIENT MEMORANDUM

Transfer of Tax Residence to Italy

March 27, 2017

AUTHORS

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A new provision has been recently introduced in the Italian Income Tax Law aimed at attracting non-resident wealthy people to Italy.

The new special tax regime has introduced a **substitute tax** on income generated abroad by foreign individuals transferring their tax residence to Italy. The new tax regime, which is at the taxpayer's option, can be summarized as follows:

- **Amount of tax**: €100,000.00 per year, regardless of the amount of income received throughout;
- **Income subject to the substitute tax**: foreign source income, i.e. income generated out of Italy. Italian source income is subject to the ordinary income tax regime;

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- **Income excluded from the application of the substitute tax**: Italian source income is subject to the ordinary income tax regime. In addition, the substitute tax does not cover certain capital gains¹ made in the first five tax years of validity of the option, which shall remain subject to the ordinary tax regime;
- **Individuals to whom the new regime applies**: individuals who transfer their tax residence to Italy, provided that they have not been resident in Italy for at least nine out of the ten tax years before the beginning of the validity period of the option;
- **How to make the option**: the option for the substitute tax shall be exercised (i) directly in the individual's annual income tax return relating to the tax period in which the residence is transferred to Italy or, alternatively, (ii) after obtaining a favorable response to a specific requested ruling submitted to the Revenue Agency, within the term for filing the tax return relating to the tax period in which the residence is transferred to Italy and it is effective as of that tax year. This second solution may be advisable in order to have official confirmation that the tax payer is entitled to the application of the new tax regime;
- **Validity of the option**: the option for the new tax regime may be revoked at any time and in any case shall expire after fifteen years;
- **Extension of the option to family members**: the option can be extended throughout the option period to one or more family members, provided that they meet the conditions for the application of the new tax regime. The annual amount of the substitute tax is equal to €25,000.00 for each family member;
- **Inheritance and gift tax**: during any taxable periods of validity of the option, the Italian tax on inheritance and gifts only applies to goods and rights existing in Italy at the time of the inheritance or the gift. All assets located outside Italy are exempted.

¹ Capital gains on disposal of "qualified" holdings, i.e. holdings exceeding 20% of voting rights or 25% of the share capital of a company (2% of the voting rights or 5% of the share capital in case of listed companies).

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