Italian Tax Facts

Introduction	Taxation in Italy occurs at a national level and at a regional and municipal level. The Italian tax regime has been subject to a significant review over the last few years with the aim of simplifying the Italian tax regime. The Italian tax system is administered by the Ministry of Economy and Finance.
Tax Year	1st January to 31st December.
Assessment Basis	Individuals meeting the Italian permanent residency criteria are taxed on their worldwide income and gains. Individuals are required to file a tax return unless their only income is from employment. Each individual is considered to be a separate tax payer, married couples are required to file separate tax returns.
Income Tax	Italian residents are subject to two principal taxes in Italy, namely IRPEF (Personal Income Tax) and IRAP (a regional tax on 'productive activity exercised'). A progressive scale is applied to successive portions of taxable income under IRPEF. Personal Income Tax rates range from 23% to 45%. In addition a regional tax ranging from 0.9% to 1.4% is levied under IRPEF together with a municipal tax on income of up to 0.5%. Although regions may adopt higher rates than those shown. IRAP is principally applied to self-employed individuals and is a regional tax. Under IRAP self-employed individuals are subject to a tax rate of 4.25% (although this may be increased by up to 1% by individual regions) applied to 'productive activity exercised' (broadly defined as the difference between compensation received and directly related business expenses). Individuals benefit from tax credits or allowances which depend upon their taxable income and are increased in respect of dependent relatives. In addition credits are given in respect of certain expenses (e.g. mortgage interest payments) and the credit is calculated as 19% of the expense.
Taxation of Investment Income	A withholding tax is applied to dividend and interest income received. Dividends are subject to a 12.5% withholding tax if the dividend is received by Resident individuals, Non-residents are subject to a 27% withholding tax on dividends. Interest payments are subject to 12.5% or 27% withholding tax dependent upon the source of the payment (e.g. 12.5% on interest from public bonds and 27% on interest from credit institutions) Royalties are payable with a withholding tax of 22.5% deducted if paid to non residents or 15% if paid to residents.
Tax on Property Rental Income	Income from property forms part of an individual's income when calculating IRPEF. Property expenses are not allowed as a deduction however a flat rate of 15% of income is allowed for tax purposes.
Wealth Taxes	There are no wealth taxes in Italy.
Capital Gains Tax	Any capital gain on shareholdings are taxed at a rate of 12.5% or 27% depending upon the significance of the shareholding sold by the individual, e.g. if more than 2% of the voting rights in respect of quoted shares are sold the higher rate of tax applies. Gains arising from the sale of a property may also attract capital gains tax if the property were not the individual's principal place of residence and was owned for less than 5 years.
Inheritance and Gift Tax	Inheritance tax and Gift Tax may be payable dependent upon the value of the assets involved and the relationship with the beneficiaries, for example no tax is payable in respect of assets passing to an individual's spouse or children or on the first €180,000 to any unrelated persons.
Regional and Municipal Taxes	Regional and Municipal income tax is raised through the Personal Income Tax. Such taxes are included in the Income Tax section above
Property Taxes	A municipal tax on property ('ICI') is raised against any individual who owns or has the right of usage of a property. The tax rate depends upon the municipality in which the property is situated and is in the range of 0.4% to 0.7% per annum.

Stamp Duty/Transfer Tax

A number of layers of tax are applied on the transfer or sale of a property.

If the seller is liable to pay Sales Tax then a Sales Tax of 20% will be applied, although reduced rates apply if the property is an individual's first main residence (4%) or in certain other circumstances a rate of 10% may be applied.

If the sale is not liable to Sales Tax then it is subject to a state Registration Tax. With regard to property the rate is generally 10% of the market value of the property, although this is reduced to 3% in respect of an individual's first main residence. Registration tax also applies to the registration of other deeds and legal documents in Italy with rates varying according to the nature of the document.

In addition with regard to the transfer of properties which are not subject to sales tax there are land registry fees, which may vary. If a mortgage is used to finance the purchase a mortgage tax, of up to 2%, may also be imposed.

Sales Tax

Sales tax of 20% is generally added to the sale price of goods. Some sales are exempt from sales tax or taxable at a reduced rate of either 10% or 4%.

Social Security Contributions

An employee is liable to pay social security contributions as a percentage of earnings. The rate depends upon the classification of the employer for social security purposes and the position of the employee (e.g. manager). Any social security contributions are deductible from taxable income.

Taxation of Expatriates Living in **Italy**

Expatriates living in Italy will be classified as Resident or Non-Resident. An individual is considered resident if:

- for a period of 183 days they are registered with the registry office of the Population Registry, or
- has their principal place of business or residence in Italy

When moving to the country an individual needs to register with the Population Registry and in turn cancel their name from the registry on leaving.

If an individual is resident in Italy for a part year then any tax credits or allowances are pro-rated based upon the period of time the individual is resident in the country during the year.

With regard to dividend payments an Italian resident individual may elect not to have the final withholding tax applied. In which case, the individual is required to include the dividend in their Italian tax return, which will then be subject to the IRPEF progressive tax rates. The individual is entitled to claim a tax credit against the corporation tax already paid.

In the case where part of a resident's income is generated overseas, foreign income taxes paid are allowed as a credit against Italian tax.

Italy has tax treaties with most developed countries.

With regard to self employed individuals living in Italy the taxation basis is different compared to employed individuals. Self-employed persons are subject to a 'regional tax on productive activities' (IRAP). Broadly the tax rate, typically 4.25%, is applied to the value of net production resulting from the business pursued within the relevant region. Such tax is required to be paid in advance based upon the previous year's tax return, with the final tax bill for the year being reconciled once the relevant tax return has been filed.

Italy has been implementing a series of tax reforms with the aim of simplifying the fiscal system within the country.

Taxation of 'Non-Residents' Living in **Italy**

The taxation basis for expatriates living in Italy but who are not classified as residents is different to the residents' basis detailed previously. Non-residents are only taxed on income and gains arising in Italy, compared to worldwide income and gains for residents.

Non- residents are subject to a higher rate of withholding tax, at 27%, on dividends, although the rate of withholding tax on interest is the same as for residents. In addition a non-resident does not qualify for the same range of tax credits in respect of expenses, although they do receive relief in respect of mortgage interest payments.

Withholding tax rates may be lower than those given depending upon whether the non-resident individual is resident in a state with which Italy has a double taxation agreement and depending upon the terms of that agreement

Expatriate **Financial Planning**

While, as a whole, the Italian tax regime for non-residents is less onerous than the regime for Residents, with only Italian sourced income and gains being subject to tax, an expatriate should take care over the number of days spent in Italy during any tax year and plan carefully when to register with the Population Registry.

In addition, if you are an expatriate currently living in or considering moving to Italy, you should review your finances with a suitably qualified financial advisor. In particular, if you are about to move to Italy, you should plan and review your finances before making the move. You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges are made, as well as considering options available to you for estate planning.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances they do offer a number of generic benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries.
- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products often feature a strong range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk. Offshore products also offer access to household name fund managers, including many international and specialist fund managers.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.