



Mobility: Tax alert

January 2024

Italy

Significant changes to the special tax regime for inbound workers moving to Italy

Executive summary

On 19 December 2019 the Italian Government approved the legislative decree that will limit the existing inbound tax regime by restricting the requirements to be eligible for it and placing a cap on the maximum amount of income being exempted from taxation.

The new regime will be applicable to individuals who will become tax resident of Italy in 2024. A grandfathering clause is introduced for individuals who enrol with the Italian Registry for the Resident Population ('Anagrafe') by 31 December 2023.

Background

The inbound special tax regime currently allows a 70% reduction (90% for taxpayers who transfer their residence to certain regions of southern Italy) in taxable employment and self-employment income derived from duties performed in Italy. This tax incentive can apply for an initial period of five fiscal years and, under certain conditions, can be extended for additional five fiscal years.

This special regime is available to employees who meet specific requirements and maintain their tax residence in Italy for at least two fiscal years.

The new tax regime - requirements and benefits

Under the new rules, taxpayers are eligible to benefit from the special tax regime if they meet the following conditions:

- ▶ They qualify as non-tax resident in Italy for at least three years (instead of the previous two years) prior to transferring to Italy
- ▶ They commit to stay in Italy for at least four years (instead of the previous two years) and to work mainly in the territory of Italy
- ▶ They must possess a high-level qualification or specialisation as defined by legislative decrees 108/2012 and 206/2007

Benefits of the regime can be summarized as follows:

- ▶ A 50% reduction in taxable income for up to five fiscal years with a yearly limit of €600.000
- ▶ A 60% reduction in taxable income with a yearly limit of €600.000 for taxpayers who transfer their residency with a dependent child or a new-born or adopted minor

Employees who move to Italy in 2024 can benefit from the special regime for an additional 3 fiscal years (after the initial five-year period) if they become the owner, by 31 December 2023 and, in any case, within the twelve months prior to the transfer to Italy, of a residential property in Italy which is used as their main abode.

For employees moving to Italy to work for the same current employer or with an entity of the same corporate group, the minimum period of non-residency requirement prior to the relocation to Italy is increased as follows:

- ▶ Six years, if the worker has not been employed in Italy by the same employer or by an entity of the same corporate group
- ▶ Seven years, if the worker, prior to his transfer abroad, has been employed in Italy by the same employer or by an entity of the same corporate group

An entity is deemed to belong to the same corporate group if:

- ▶ The entities are connected by a relationship of direct or indirect control as per article 2359 of the Italian Civil Code
- ▶ The entities are directly or indirectly controlled by the same third entity

Next steps

It is expected that the new legislative decree will restrict the number of cases in which the special tax regime is applicable for inbound workers.

The process for applying to for these benefits will require detailed tax and legal planning. Eligibility requirements, domestic tax law, current assets and estate structure should be carefully analysed in order to assess how the new rules may impact individuals' tax positions and overall tax costs for both the employee and the employer.

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