



Mobility: Tax alert

April 2021

Italy

Extended period for the Inbound tax regime applicable to individuals who moved the tax residency in Italy before 30 April 2019

Executive summary

The recent 2021 Italian budget has introduced a five-year extension of the special tax regime for individuals who move to Italy applicable to those who have already established their tax residence in Italy prior to 30 April 2019. Before this change only individuals who arrived after this date could extend their eligibility for the special tax regime for five years.

Those wishing to take up this option must also make a lump sum payment of either 5% or 10% of the previous year employment income produced in Italy.

Background

On 27 June 2019, the Italian Government expanded the "Inbound tax regime" by introducing new favorable measures with the aim of attracting more highly remunerated workers to Italy.

The more favorable regime was applicable exclusively to individual who transferred their tax residence to Italy from April 30th, 2019 onwards, and met the conditions below:

- ▶ They qualified as non-tax resident in Italy for at least two years prior to the transfer to Italy
- ▶ They committed to remain tax residents in Italy for at least two fiscal years
- ▶ They worked mainly within Italy (i.e. most of the working days have to be performed in Italy)

The new regime provided:

- ▶ 70% reduction of taxable income for up to five fiscal years

- ▶ 90% reduction of taxable income for taxpayers who transfer their residence to certain regions of southern Italy for up to five fiscal years
- ▶ Special extension of the regime for a further five years where the taxpayer or a family member purchase real estate in Italy and for taxpayers with at least a dependent child (a 50% reduction applies for the extended period)
- ▶ Extension for further five years for taxpayers with at least three dependent children (a 90% reduction applies in the further five years)

However, the 70% reduction and the extension of the additional five-year period was not granted to those individuals who moved their residence to Italy before 30 April 2019. Such taxpayers were allowed to keep the benefit provided by the previous legislation: a 50% reduction for five fiscal years only but could not extend beyond that point.

New provisions introduced by the 2021 Italian Budget Law

The 2021 Budget Law seeks to equalize the tax treatment between individuals who arrived before 30 April 2019 and those who arrived after.

The new rules allow a five-year extension to individuals who:

- ▶ Were registered with "AIRE" - Italian record of population living abroad (if an Italian citizen) or are citizens of the European Union
- ▶ Had already moved their tax residence to Italy before 30 April 2019
- ▶ Had already benefited from the regime as of 31 December 2019

The option can only be exercised upon the payment of a lump sum equal to:

- ▶ 10% of the employment income subject to the tax regime and related to the tax period preceding the year when the option is exercised, provided that, at the time of exercising the option, the individual meets **one of the below conditions**:
 - ▶ The individual has at least one minor child also in pre-adoptive foster care **or**
 - ▶ The individual became the owner of at least one residential property in Italy in the 12 months prior to their arrival in Italy, or alternatively within 18 months from the date of exercising the option
- ▶ 5% of the income subject to the tax regime and related to the tax period preceding the year when the option is exercised, if at the time of exercising the option the individual meets **both the conditions below**:
 - ▶ The individual has at least 3 minor children also in pre-adoptive foster care **and**
 - ▶ The individual became the owner of at least one residential property in Italy in the 12 months prior to their arrival in Italy, or alternatively within 18 months from the date of exercising the option

The amount of the lump sum contribution also affects the value of the tax reduction that is obtained for the additional 5 years. Those paying a 10% lump sum receive a 50% tax reduction and the reduction is 90% for those who pay a 5% lump sum.

Specific guidelines released by the Italian Tax Authorities clarified that the payment of the 10% or 5% must be made by:

- ▶ 30 August 2021 for individuals who moved their tax residence to Italy in 2016
- ▶ 30 June of the year following the end of the eligible first five-year period for individual who moved their residence from 2017 to 30 April 2019.

Once the payment is performed, employees must present a self-declaration to the employer in order to benefit from the regime through payroll while self-employed individuals can benefit from the regime through the annual income tax return.

Key steps

It is expected the new option will affect a significant number of employees and self-employed individuals who moved the tax residence to Italy before 30 April 2019.

The procedures for applying the option requires detailed tax and legal planning. Eligibility requirements, the payment of the 10% or 5% contribution and deadlines to exercise the option must be carefully analyzed in order to assess how the new rules affect any one individuals' tax position.

Since the tax regime can be applied directly by the employer through the payroll process, companies should ensure that they are aware of the new guidelines and seek professional advice to assess whether this new option can be granted to their employees.

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EYG no. 002806-21Gbl

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