Italy: Special tax regime for “inpatriates” available

Italy’s Minister of Economy and Finance issued a decree on 26 May 2016 that provides the implementing rules to allow qualifying taxpayers to benefit from a new special tax regime for “inpatriates” (i.e. certain individuals coming to Italy for work). The regime was introduced in September 2015 by the “Growth and Internationalization Decree”, which includes several provisions that aim to make the Italian tax system more attractive and competitive, some of which could have a significant impact on the international mobility of personnel. The measures relating to the special regime for inpatriates apply as from 1 January 2016.

Overview of special regime

The decree provides that, under certain conditions, and for a maximum of five years, only 70% of the employment income derived in Italy by employees who transfer their tax residence to Italy is subject to taxation, i.e. 30% of such income is tax-free.

The following conditions must be fulfilled to benefit from the tax exemption:

- The employee was not a tax resident of Italy in the five years preceding the year of transfer of tax residence, and he/she is engaged to remain in Italy for at least two years;
- The employee works in Italy under an employment contract with an Italian company, or a foreign company in the same group as an Italian company;
- The employee performs his/her employment activity in Italy for more than 183 days during the tax year; and
- The employee has a managing role or he/she has advanced qualifications or specialization, as defined.

The beneficial tax treatment also applies to certain EU citizens (i.e. those with a university degree who worked outside of Italy for at least 24 months before the transfer to Italy and those who studied outside of Italy for at least 24 months before the transfer, to obtain a graduate or post-graduate degree), regardless of whether the conditions above are fulfilled.

A beneficiary of the regime may lose the exemption if he/she fails to maintain an Italian residence for at least two years. In this case, previously exempted income will be subject to taxation, and penalties and interest may apply.

Comments

The new legislation may be attractive for both Italian nationals working abroad who wish to return to Italy and foreign nationals commencing an employment activity in Italy. Since the legislation does not restrict the employment contract to a contract with an Italian company (i.e. the contract may be with a foreign company in the same group), it is possible that foreign employees assigned to Italy could benefit from the new tax exemption (if they are assigned to an Italian company within the same group).

Numerous conditions must be fulfilled to qualify for the regime and coordination with other tax relief provisions (e.g. the exemption for professors and researchers returning to Italy) is necessary, so a case-by-case analysis should be undertaken for all individuals wishing to benefit from the regime.

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