The new Italian flat tax regime for new residents Retirees

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On December 30th 2018, the 2019 Italian Budget Law has been approved by the Italian Parliament. The Budget Law contains a provision that aims to promote the moving of residency in the Southern part of Italy of Retirees individuals holding foreign pension incomes.

This new regime could be considered as an "extension" of the lump sum tax regime for new residents already provided by article 24-bis of the Italian Tax Code and could be potentially joined by a wider audience of taxpayers due to a paltry tax rate applied to all the Retirees' non-Italian sourced incomes.

It will be possible to opt for the new tax regime for Retirees since January 1st 2019.

How the flat tax regime for Retirees works

Pursuant to the new flat tax regime for Retirees, non-Italian resident individuals holding foreign pension incomes transferring their tax residency in Italy are allowed to elect for a flat tax on foreign source incomes that provides for relevant effects for individual direct tax purposes, wealth taxes and monitoring duties.

Stating the above, individuals:

- holding pension incomes and other similar remunerations paid by foreign subjects;
- who come from Countries having administrative cooperation agreements (e.g. DTA, TIEA, FATCA) in force with Italy;
- that have not been Italian tax resident for the 5 years preceding the one for which the option is effective;
- who actually transfer their tax residency in one of the municipalities with a population not exceeding 20.000 inhabitants located in one of the regions of Southern Italy (Sicily, Calabria, Sardinia, Campania, Basilicata, Abruzzo, Molise and Puglia).

can opt for a 7% flat tax rate applied upon all their non-Italian sourced incomes.
Moreover, individuals that opt for the new flat tax regime for Retirees are exempted from:

- wealth taxes levied on the value of financial assets ("IVAFE") and real estate properties ("IVIE") held abroad;
- foreign assets reporting requirements within "Quadro RW" of the yearly Italian individual income tax return.

How to join the new flat tax regime for Retirees

The election for the new flat tax regime for Retirees shall be reported in the income tax return related to the tax period in which the tax residency has been transferred to Italy and it produces its effects for the next 5 years.

The option for the new flat tax regime for Retirees ceases its effects:

- at the end of the fifth year;
- if revoked from the individual, without any prejudice to the effects produced in previous fiscal years;
- if the Italian Tax Authority challenges the lack of the requirements provided by Law;
- in case of omitted or partial payment of the 7% flat tax yearly due within the deadline.

In cases of revoke, challenge from Italian tax Authority and partial or omitted payment of the flat tax due, a new option cannot be exercised.

The individual opting for the new flat tax regime for Retirees is allowed to carve out certain Countries from the application of the special tax regime ("cherry picking" mechanism).

The taxable income produced in such Countries will remain subject to Italian ordinary taxation rules benefitting in principle from the applicable tax treaty protection and tax relief on taxes paid abroad (FTC – foreign tax credit).

PwC Italy services

For the analysis and the election for the new Italian flat tax regime for Retirees,
our assistance could be structured as follows:

- preliminary feasibility assessment with the individual willing to transfer to Italy;
- analysis of the impact of the regime, highlighting the main consequences of the regime;
- day-by-day tax compliance of the individual and family office services;
- assistance with the relocation in Italy;
- drafting and filing of the annual Tax return of the individual.

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