THE ITALIAN HOME BUYER'S GUIDE

The definitive guide for expats and non-Italian residents to owning property in Italy.

NICOLÒ BOLLA

Contents

INTRODUCTION

It is a common feeling for non-Italians to find great ways to do business and make money easily in Italy. It is a big country, with a strong economy, and multiple opportunities.
After a good brainstorming session with your friends or fellow expats, you have finally found the next *big thing* in Italy, and you are 100% sure that you will make money off of it in a couple of years. You made the greatest business plan, and nothing – I literally mean, NOTHING – can stop your idea from being the next big thing.

Not too fast!

Your business plan did not account for two typical Italian features: high taxes and byzantine bureaucracy.
Then, you start wandering around different online groups and blogs and hear horrific stories about businesses which were choked by the horrendous greediness of the tax office as well as the overall lack of business acumen of the Italian public offices in general.

Those who made it have to face daily challenges and crawl through a complex, harsh, and unfriendly environment.

Despite the author's different take on the Italian business environment, this picture is far from being inaccurate as Italy tops the list of the countries with the highest taxation. This is discouraging, to say the least, if you want to start a business! Given that, there are multiple ways to deal through the system and prosper in this business environment, and Nicolò Bolla can guide you through the whole process of planning your tax expenditure wisely.
In this book, Nicolò Bolla will provide real life examples and case stories developed through his experience to help you understand how to make the most out of your income in a legal, honest, and safe way.

This book is structured in sections to allow the reader an easier understanding of the tax system.

Author

Nicolò Bolla is an international tax accountant (chartered in Italy and the UK) with a wide expertise on personal and business taxation issues across jurisdiction.
With a strong education background acquired in Italy and the USA, he proficiently helped thousands of taxpayers and investors in dealing with the Italian jurisdiction by minimizing their tax exposure and exploiting the most advantageous laws and treaties.
"Taxes should be fair" is his mantra.
Through seminars across Italy, he is developing a tax awareness mindset to help local and international entrepreneurs in finding the most efficient way to carry out their business in full compliance with the Italian legislation.

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Basics of the Italian Tax System

Let's figure out the basics of the Italian tax system.

1. CODICE FISCALE

The Codice Fiscale is your Italian tax identification number, used for individuals and companies. This concept exists in many jurisdictions: in the US they call it Social Security Number, in the UK they call it National Insurance Number.

If you are born in Italy, you are assigned your Codie Fiscale at birth; in every other case you must request one.

Despite you can easily calculate one, as the algorithm includes your personal details such as your full name, your date and place of birth, as well as your gender; you need to request an official code to use on your day to day activities.

You need your Codice Fiscale for almost everything in Italy, such as:

- Setting up a bank account;
- Sign a rental lease;
- Set up your utilities;
- Sign an employment contract;
- Set up a Partita IVA;
- Get Universal Health Care coverage;
- Enroll at school;
- Request residency in Italy.

As you can tell, getting a Codice Fiscale is a cornerstone of your life in Italy; without it, your life in Italy is pretty complicated.

How do you get a Codice Fiscale and where do you apply for it?
Requesting a Codice Fiscale is a quite simple and straightforward process. You need to fill a paper form disclosing your personal details (full name, date and place of birth, citizenship, and your domicile), and provide a valid ID.

In my experience, I always suggest to disclose your foreign address in order to avoid any confusion in regards to your tax residency in Italy. Filling the form exclusively an Italian address might, in very exceptional cases, be deemed as a declaration of residency for tax purposes. You can easily vow that unreasonable presumption at court, but you still need to start a litigation and win it.
You can get your Codice Fiscale personally or you can delegate someone to do it on your behalf; every Italian tax office as well as any foreign Italian consulate or embassy around the world can issue that instantly.

Having a Codice Fiscale has nothing to do with tax residency; everybody can request a Codice Fiscale and never visit nor pay tax to Italy; this is just an identification code, nothing more and nothing less.
If you plan to move to Italy, my keenest advice is to get the Codice Fiscale ahead of time: this allows you to save a lot of

time and start ahead to get personal and tax matters sorted swiftly.

2. Tax Residency and Worldwide Income

When speaking of basic tax rules, this is by far the most relevant one: tax residency.

Grasping this concept is essential in order to comprehend if you (or your company) have to pay taxes to Italy or not.

Italy considers as a tax resident every individual who, for the most part of the tax year (183 days or more), is either:

1. Registered as a resident in Italy;
2. Domiciled in Italy.

Criterion 1 is very easy to determine as you are either registered at the local *Comune* or not. Therefore, if you registered on/after July 3rd of any given year, you are not a resident of Italy for tax purposes.

Criterion 2 is far more difficult to determine as the concept of domicile is not formal but rather substantial, and its definition keeps evolving based on different tax ruling and the development and accrual of national and international legislation.

The underpinning concept is the *main center of life interests* of an individual; this concept considers any personal, economical, and financial links the individual has with the

Italian jurisdiction (or the foreign one). There is not a single accepted standard used to determine one's residency; therefore, a combination of factors must be considered adopting the balance of probability approach (this principle is more familiar to those acquainted with the *common law* system).

The main elements to be considered are:

- Employment or self-employment located in Italy;
- Presence of family members;
- Availability of houses;
- Travels to and from any given jurisdiction;
- Tax returns filing and other tax information;
- Bank accounts and financial interests;
- Insurance and risk mitigation contracts;
- Sports and other recreational club memberships;
- Schools and courses attended;
- Investment portfolios and financial investment locations.

There is not a single predominant factor, or *one beats all*, instead it is the combination and the balancing of every observed factor to determine if an individual is deemed to be resident or not.

Additionally, the *tax residency* matter is becoming more and more sophisticated, and I am expecting this list to become more populated.

As you can tell, identifying the main center of life interests is not easy, and even if you can "clearly" prove it against the tax office, bear in mind that this might require you to start a tax litigation which is normally lengthy and costly.

The consequence of being a tax resident of Italy is one: you must pay taxes to Italy on your WORLDWIDE INCOME!

This means that if you have properties rented outside of Italy, foreign bank accounts paying you interest, investment portfolios that pay dividends or realize capital gains, you MUST pay taxes to Italy on that.
On top of that, you are also liable to pay *wealth tax* on your foreign held assets such as bank accounts, real estate properties, investment portfolio, shareholdings, certificate of deposits, cryptocurrencies etc.
Instead, if you are not a tax resident you have to pay taxes only for the Italian sourced of income.

During my career, I heard thousands of stories and personal anecdotal experiences about the tax residency. There is no nationality, number of days spent in Italy, house ownership or car plates that determines your tax residency in Italy.

Having said that, how can you be smart in regards to your tax affairs and become resident of Italy with a minimal or negligible impact on your income and wealth?

Simple! Tax planning.

Planning your tax residency and restructuring your income sources and wealth accordingly are the only two possible solutions to your tax problems; once you become resident of Italy, there is nothing much you can do to mitigate your position.

Despite this seems intuitive and "common knowledge" everybody should have, I can guarantee you this is the top mistake every expat does when relocating to Italy. This is the most common mistake, as well as the costliest one.

REMEMBER

Every individual can be a resident of a SINGLE country at a time; should two or more countries claim residency of an individual, the double tax treaty determines the tie breaker rules to finally ascertain where the individual is resident.

I will dig this concept deeper in the Double Tax Treaty section.

3. TAX CALENDAR

The Italian tax year is the same as the calendar year, starting from January 1st ending on December 31st; income is

generally taxed on the *cash basis*; therefore, only income paid during that time frame is taxable in that year.
Business income is the most common exception, it is taxed on the *accrual basis.*
In Italy, unlike other countries, you pay taxes BEFORE filing it. Yes, you read it right, in Italy you pay first and then you file your taxes.

The tax return deadline falls on November 30th of the following tax year; however, there is a further extension of 90 days for late filings carrying a penalty of € 25.00. Once these 90 days have lapsed, there is no possibility to file a return. No mitigating factors or amnesty programs can help you avoid the imposed fines.
A return filed after such date will carry a minimum general fine ranging from € 250.00 up to € 1,000.00 on top of a fine ranging from 120% to 240% of any tax liability resulting from the return itself.
Now, do you understand why it is imperative to know if you have to file your taxes or not?

Bear in mind that the tax office has eight years to investigate your personal position. Unfortunately, too many expats learn this lesson on their skin when it is too late to file. At this point the only advice is to keep your fingers crossed and hope the tax office will not audit your position for 8 years. Likelihood of being audited increases every year due to the development on international protocol exchanging tax and financial information among jurisdictions, and ultimately globally.

The first tax payment deadline is June 30th, while the second one is November 30th.
There are two tax deadlines because you pay taxes in ADVANCE; therefore, on June 30th you must pay the balancing payment for the previous tax year on top of a 40% advance payment. The remaining 60% falls due on November 30th.
Since the payments on account can create a cash outflow issue, it is possible to pay the June 30th payment in instalments falling due at the end of each month up until October 31st. On those instalments you will pay legal interest.

4. PARTITA IVA

The Partita IVA is the Italian VAT number; many of you are confused by the fact that it mentions the word IVA (IVA=VAT), implying that you must charge VAT on the supply of your goods and services.

This is far from truth. Depending on the tax regime you choose, you might charge VAT or not; nonetheless, you cannot trade without a Partita IVA. Whether you setup as a self-employed, sole proprietor, partnership, corporation, association and other nonprofits, you must request a Partita IVA to trade.

How do you get a Partita IVA and which information is required?

The process to get a Partita IVA is quite straightforward; you can do it in person at the tax office or delegate an accountant to get your Partita IVA online; the procedure takes normally 24 hours to be completed.
Once you have your Partita IVA on hand you can start trading!

In order to get a Partita IVA you must provide some information to the tax office, such as:

1. Your full name;
2. Codice Fiscale;
3. Residency address;
4. Type of activity performed;
5. Bookkeeping registered address (it can be your accountant);
6. Day on which you started trading.

I would like you to focus on point n. 4; this is by far the most important choice and where you need to get a tailored

advisory of the matter; choosing the right activity performed is critical and it reverberates its consequences forward.
First of all, if you are opting for a special tax regime, some activities might be disqualified.
The activity code affects the INPS (National Insurance Contribution) regime you adopt, as well as require you to register at the Chamber of Commerce or not.
The most important part is that different activities attract different controls from the tax office, as they fall into different categories.

Despite you can change, add, or amend the activity code down the road, starting off with the right foot is always a better idea.

Once again, your tax advisor can help you out at this stage!

5. Business Setup

In order to understand how to efficiently start your business, you must be aware of the different options available in Italy. This decision is fundamental, and it will affect your subsequent decisions and your tax liabilities going forward. Leaving on the right foot is a great advice, especially when it comes to tax decisions, but let’s dig deeper.

PARTITA IVA INDIVIDUALE

This is the easiest form of trade adopted by freelancers, self-employed, and sole traders.
The Partita IVA can be requested online and, depending on the type of activity, a Chamber of Commerce registration might be required.
Trading under the Partita IVA is relatively easy as the accounting requirements are simplified compared to other more sophisticated structures.
The undeniable advantages of trading as a Partita IVA are:

- No notary required for the setup;
- No paid-up capital requirements;
- No board of trustees meeting as well as ordinary and extraordinary general meeting;
- No annual account filing as well as no mandatory books and registrars required;
- No wound up required once the business is ceased;
- Less bureaucracy involved.

This is the preferred structured adopted for early stage trades and for individuals who are not keen to adopt more complex business organizations. However, it is also important to highlight the main disadvantages associated with this simplified structure:

- The individual trader carries unlimited liability for the trade, putting his/her personal wealth at risk;

- The individual can be declared bankrupt;
- There is no possibility of delegating decision making (and the subsequent responsibilities);
- The individual credit score cannot be split from the business one; therefore, the trader can jeopardize the personal credit score;
- The individual pays income taxes regardless of the cash flows (often time you end up paying income taxes on income you did not even cash yet!);
- There is no wealth segregation;
- The tax office can audit your business AND your personal income at the same time.

Are you still sure you want to trade as a sole proprietor?
In my experience people tend to listen to the good part (advantages) and often times they forget about the bad part (disadvantages); if you want to be smart about your taxes, you must ALWAYS plan according to the worst-case scenario!

SOCIETÀ DI PERSONE

In other jurisdictions they are called Partnerships. In fact, partners are taxed on the income generated by the Società depending on the shareholding they own.

A *Società di persone* is setup by a notary deed who drafts the article of associations and the memorandum of association. There are two main types of partnerships:

- Società in nome collettivo (SNC);
- Società in accomandita semplice (SAS).

EVERY partner in SNC carries unlimited liability, while SAS has two categories of partners, limited liability and unlimited liability ones.

The day to day running of the business must be carried by the partners who bear unlimited liability.

SAS is therefore a hybrid partnership, and it is normally preferred to the *SNC*. For tax purposes, both partnerships are passthrough entities and, unlike *società di capitali* (see below), they have simplified accounting regimes that do not require to file the accounts annually to the Chamber of Commerce.

SAS and *SNC* can also appoint managing directors. This does not make any difference in terms of taxation the director pays; however, the business can claim tax deductible expenses such as refunds and daily tax-free wages which are not taxable on the directors tax return.

Being a passthrough entity means that the income is taxed on the partners based on their personal tax rates; the partnership does not pay any corporate tax, and there is no double taxation at company and individual levels.

A *società di persone* is more preferable than a Partita IVA Individuale for one main tax perk I will explain through an easy calculation.

Imagine that you make around € 100,000 of taxable income per year; in such case you will be a higher rate taxpayer.

If a partnership has the same taxable income, but this is spread equally between the two partners, both of them will pay tax on € 50,000 instead of € 100,000, this reduces immediately the total taxation suffered.

The main drawback is the unlimited liability suffered by the partners, and there is no mitigation of that.

SOCIETA' DI CAPITALI

A *società di capitali* is a limited company. Italy has two types of companies:

- Società a responsabilità limitata (SRL);
- Società per Azioni (SPA).

The first one is a regular limited company, while the second one is a public company.

In order to set up an SRL, you need at least one shareholder and a minimum paid up capital of € 1; this form of company is often time preferred to partnerships because of the shareholders protection against any potential creditors claim. You cannot lose more than the paid-up capital. That's it!

A *Società di capitali* has a more complex accounting. You must file your accounts annually, and profits are subject to corporate tax and dividend tax (once paid out).
In case of bankruptcy, unlike the other setup options, the shareholders cannot be declared bankrupt and they won't be liable to pay for any obligation of the company exceeding the paid up capital.

In my opinion, there is not a preferred business set up, a sort of one fits all solution; it all varies depending on your personal circumstances. Yet you must well understand your current position, your future goals, and choose the best solution for your needs.
Of course, you will need a smart accountant to help you out!

6. ORDINARY VS. SUBSTITUTE TAX RATES AND THE IMPACT OF TAX DEDUCTIONS

The Italian income tax system is based on a progressive income tax named IRPEF. A progressive income tax system means that the more money you earn, the more you pay as the brackets go up from *23%* to *43%.*

However, the Italian tax system is based on the concept of the *capacità contributiva* which can be easily translated as the ability to pay. This concept is not based exclusively on your income available but on other personal matters as well.
Let's think about two taxpayers: Antonio and Battista.
Antonio is a single adult male who is employed and makes around 50k of gross income per year; Battista makes the same amount of money, but he is married, his spouse is not employed, and they have two young kids to take care of. Would you think that they both have the same ability to contribute to the tax system?
Of course, not!
The legislator has, therefore, thought about that and introduced multiple tax-deductible items allocated into two categories:

1. Tax deductible Items against income;
2. Tax deductible Items against tax.

The first ones reduce your taxable income; therefore, the tax savings is equal to the marginal tax rate paid.
In this category we find:

- Mandatory Social Security Contribution (INPS);
- Voluntary Social Security Contribution (INPS);
- Voluntary Private Pensions Contribution;
- Spouse alimony;

- Donations to NGO and non-profit organizations.

Assuming you are a top rate tax payer and you decide to contribute € *2,000.00* towards your voluntary private pension fund, you will then save € *860.00* on your tax bill *(€ 2.000,00 * 43%).*

The second ones reduce your gross tax. In this case the deductible items are multiplied by a coefficient set by the law *(19%-36%-50%-65%-75%-85%-90%-110%)*.

In this category we find, among others:

- Health expenses;
- Vet expenses;
- School expenses;
- Family dependents sport expenses;
- Main residency loan interests paid;
- House renovation expenses;
- Energy efficiency house improvements;
- Furniture purchase expense;
- Façade bonus;
- Superbonus 110%;
- Innovative startup and PMI tax credit;
- Rental lease paid.

Let's say you spent € *1,000.00* in medical bills during a given tax year; since the applicable coefficient is *19%*, you can reduce your gross tax of € *190.00*.

The maximum amount of tax-deductible items you can claim equals your gross tax; in other words, the minimum amount of tax you can pay is 0; you cannot have a negative amount of taxes payable as well as you cannot carry forward (or backward) any unclaimed tax-deductible item.

43% top tax rate is worrisome, especially if you add up regional and municipal tax surcharges, however you can greatly reduce your NET tax rate through an efficient use of tax breaks.

Because of that, you must always use your NET tax rate for your decision-making purposes. This can surprise you to find the Italian tax system very competitive with other nations.

During the years, the Italian legislator has introduced multiple taxes that replaced others. This is why, often times, you can choose between the ordinary IRPEF rates or its substitute tax rates.

As the word clarifies, substitute taxes replace one or more taxes; think about the *cedolare secca, regime forfettario, capital gains tax, dividends tax* etc.

They all replace IRPEF, regional, and municipal surcharges, in some other cases they also replace registrar tax as well as stamp duty.

In some cases, you can opt between IRPEF tax and its substitute tax (e.g. IRPEF vs. *cedolare secca*) whereas in other circumstances you are obligated to adopt the substitute tax over IRPEF (capital gains and dividends).

Normally, substitute taxes have lower rates and are not progressive. At first glance, they appear far more advantageous than IRPEF, however, this is not always the case, and I will explain you why.

Substitute taxes do not allow you to claim any tax-deductible items against them; therefore, your gross tax is always equal to your net tax.

Moreover, you cannot claim any foreign tax credit, which means that you will end up paying taxes twice: once in the source country and once in Italy.

Despite this makes it easier to plan how much taxes you will end up paying, simplifying calculations, you might end up losing money as you will not be able to claim any deduction.

The bottom line of this chapter is simple: taxes are cash outflows; you must never compare the potential tax rates payable - you must always compare the tax rates paid!

I don’t think you care much if your gross tax rate is *23%* or *43%*: you care about how many Euros leave your pockets when paying taxes. Am I wrong?

7. Double Tax Treaty

If you have interests in more than one country, you must then be familiar with Double Tax Treaties (DTT); before explaining their functions and structures, it is important to understand why countries engaged into double tax treaties/agreements.

If you are knowledgeable of different countries, you can easily spot differences in each respective tax system; just think about VAT rates, income tax rates, Inheritance/donation taxes etc. Every system developed its own peculiar structure during the years, and some tax systems are very old. The Kingdom of England and Wales introduced income tax in 1798 with a progressive structure which was subject to numerous amendments throughout the years until nowadays income tax!

Furthermore, different countries might have different tax calendars than others, or some countries might not even levy certain taxes; and if you think that there are more than 190 countries in the world with special territories, tax havens, tax free zones, dominions, special development areas, and dependencies. Well… It's a big mess!

How do you harmonize the system between two countries? Countries can sign a binding treaty between them regulating how taxation will affect each other residents.

The main goal of the double tax treaty is to standardize the different income sources as well as regulate residency status of individuals and companies in order to find an ultimate and unique tax treatment.
Notwithstanding that, double tax treaties used to look way different than today, and in few years after World War II double tax treaties started to being developed and implemented. Yet, it still looked like an intricated jungle. So, who is harmonizing the double tax treaty?
Since 1973 the OECD and various regional organizations have agreed to set out a harmonized tax treaty system.
The trend is that more and more tax treaties will look the same, reducing the availability of loopholes and comparative opportunities between countries.

The main double tax treaty principle is that you ultimately pay tax in the country in which you are resident; however, the other country can levy and require you to pay tax on income generated on its territory.
Should that happen, you will deduct the tax paid in the income sourced country from your residency country tax; in that case you will not be taxed twice on the same income, but you will suffer “only” the highest tax rate between the two countries.

Let me explain it in plain English.
Assuming you are a tax resident of Italy, and you suffer the highest tax rate of *43%*. You have a property leased in the Netherlands for € *10,000.00* per tax year. The Netherlands requires you to disclose your rental income in their tax return and pay 20% tax (this is purely for the sake of the explanation). You will file your tax return in the Netherlands paying € *2,000.00* in tax.
You will then disclose the same income in your Italian tax return, resulting in a tax liability of € *4,300.00*; however, since you already paid € *2,000.00* to the Netherlands, you must only pay to the Italian tax authorities the difference of € *2,300.00*.
This is a simplification of how the system works, but it is a great way to explain the broad concept; you will never sum the taxes you pay in both countries.
Assuming that your tax liability to the Netherlands is € 5,000.00, in such case you will not pay anything to Italy; however, you cannot claim a refund for the exceeding portion.

Reading and understanding the double tax treaties can be very complicated for someone who is not very fond of the system, as well as the verbiage adopted in these

documents; in the end it is a technical paper written by politicians based on the advice of highly skilled tax experts.
My advice is to read it carefully and to always seek the advice of a professional tax accountant that has experience in foreign jurisdiction. It is very easy to fall into troubles leading to a wrong disclosure of your foreign held assets and/or your income sources.
On that note, the tax office waives the right of crediting the foreign tax paid if you failed to disclose it.

The most common mistake that people make when reading the double tax treaty is a semantic one. In fact, in order to determine if the double tax treaty provides the exclusion of the taxation in the residency country, it must include the words “Exclusively”, “Solely”, or “Only” - otherwise the income is taxed in both countries.

A great example is air pilots’ income treatment. The regular DTT in article 15, point 3 says:

“Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.”

Whereas the UAE and South Korea DTT says:

"Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated."

Long story short, if you are an Italian resident working for a German based company your income is taxed in Germany and Italy; if you perform the same work for a UAE or South Korea company your income is ONLY taxable in either UAE or South Korea.
Similar verbiage, huge difference!

I also advice to always read the Double Tax Treaty in your native language and in English, as sometimes translation into other languages might be misleading.

Finally, you must bear in mind that another type of treaty among countries is the Tax Information Exchange Agreement (TIEA) which does not provide any indication on how to treat different taxes within jurisdiction; however, it provides a mandatory exchange of information between countries.

At the moment Italy has such treaty in place with:

- Andorra;
- Bermuda;
- Cook Island;
- Guernsey;
- Gibraltar;
- Isle of Man;
- Jersey;
- Liechtenstein;
- Monaco;
- Turkmenistan.

8. Other information exchange Treaties

Big data is a disruptive word industry, including the world of taxation. Back in the days it was harder for local tax offices to track down assets and income sources generated overseas by a taxpayer, and it was very easy to live off the tax office radars.

This strategy, which I name the “ostrich approach”, is far from being an effective one nowadays due to the rapidly changing scenario.

I encountered hundreds of foreign taxpayers who failed to disclose their income sources for years, and they were felt protected by the fact that the tax office could never track down their income overseas because they barely speak any foreign language and it’s kind hard to track them.

Unfortunately to them, tax offices globally have introduced common information protocols to ease the information exchange among tax offices and other jurisdictions.
First of all, every DTT includes a clause to automatically exchange information under art. 26.
FATCA/FBAR is a globally American based implemented system, where the US government can track down the ownership of financial assets by any individual that has a US Social Security number almost anywhere in the world.

The EU adopted the DAC 6 Mandatory Disclosure Regime (MDR), where EU member countries will automatically exchange information about:

- Employment income;
- Directors Remunerations;
- Pensions;
- Life Insurance Products;
- Immovable Property (Income and ownership) Beneficial Ownership Registrars.

Finally, OECD countries developed a “Standard for Automatic Exchange of Finance Account Information in Tax Matters” (Common Reporting Standard – or CRS) where financial information (bank accounts, tax information, financial income) is exchanged automatically.

Are you still sure they will never track you down?

9. Pension Income

You have worked your entire life and now it is time to cash your pension! Too bad you still need to pay taxes on your pension income.

Moving to another country requires to carefully plan your pension income structure as you might experience a high level of taxation in Italy compared to your home country.

Italy taxes pensions in two ways:

- as regular employment income paying IRPEF;
- at substitute tax rates ranging from 8% to 15%.

The first scenario applies to public pensions administered by INPS or by another qualifying institution; the second one is only available to qualifying private pension funds.

If you receive a foreign pension you can only be taxed as of number 1, because your foreign private pension fund will never qualify for the reduced tax rate.

If your gross pension income paid during a given tax year does not exceed € 8,000.00, you are not required to pay any tax (but must disclose your pension in your return), from that threshold on you start paying taxes at 23% rate just like every other source of income.

Given the complexity of the Italian pension system and the various differences with other jurisdictions, Italy taxes EVERY pension even if it is related to a disability. The good news is that you can claim any tax paid abroad against such income.

However, it is extremely important to read carefully the Double Tax Treaty in regards to pensions!
Here the Italy – UK tax treaty:

Article 18 - Pensions 1. Subject to the provisions of paragraph 2 of Article 19 of this Convention, pensions and other similar remuneration paid in consideration of past employment to a resident of a Contracting State and any annuity paid to such a resident shall be taxable only in that State.

According to the tax treaty, pensions are taxed ONLY in the state where you are resident; basically, your UK pension is taxed in Italy.

Article 19 - Government service 2. (a) Any pension paid by, or out of funds created by, a Contracting State or a political or an administrative subdivision or a local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof shall be taxable only in that State. (b) Notwithstanding the provisions of sub-paragraph 2(a) of this Article, such pension shall be *taxable only in the other Contracting State if the individual is a national of and a resident of that State.*

However, if you worked for the government or any of its subdivisions and you are a UK citizen, your pension is only taxable in the UK. If you will then claim Italian citizenship, you are then required to pay tax on it.

A recent option is available to individuals who moved to Italy since 2019, and it is the new *7%* flat tax regime which lasts for 10 years. In order to qualify you must:

- Move to a municipality located in the South with 20,000 inhabitants or less;
- Receive a foreign pension;
- Not have been an Italian tax resident in the past 5 years.

7% sounds extremely good, however, this is not always the best regime options. If you earn € *8,000.00* per year, you pay € *0.00* under the IRPEF regime, whereas you have to pay € *560.00* adopting the *7%* tax regime. Even if you make more than that, you might not pay anything to Italy due to the foreign tax credit claim.

Note the *7%* regime applies to EVERY foreign sourced income, and you are not required to disclose any foreign assets nor pay any wealth tax on it.

Therefore, the saving must be calculated on your total tax bill.

10. FINANCIAL INCOME

Individuals who generate financial income through Italian banks and financial institutions are not required to disclose anything in their tax return because taxes are paid by the bank itself.

If you generate any financial income (such as interests, dividends, and/or capital gains) overseas you must disclose it in your tax return and self-assess your taxes (income and wealth taxes). Financial income is normally taxed at 26% rate.

Unfortunately, under the 26% tax rate you cannot claim any tax paid overseas as well as deduct any tax withheld by the foreign country bank.

Should you receive interest income, you can opt for regular IRPEF rates instead of the 26% tax. In such case you can claim any foreign tax credit.

A good tax strategy is to locate your income sources in a country that does not charge any withholding tax to Italy; in many cases, the preferred country is Malta. It makes sense on a tax perspective to move your assets to a country that does not levy any withholding tax as you will then only pay

26%, and you will not suffer the injustice of adding up taxes in two countries.

In regards to capital gains and losses, you must know that Italy does not allow any carryback of any capital loss; capital losses can be carried forward for the subsequent 5 tax years; after that period the loss is wasted. Because of that, if you must sell mixed assets which stand at gains and at loss, you must sell assets standing at loss first.

One of the major mistakes new residents make when relocating to Italy is forgetting to uplift the value of their latent capital gains prior becoming tax residents of Italy.
Imagine holding an investment portfolio that you build throughout your life; the oldest investments are likely to stand at a great gain.
Imagine also that you decide to move to Italy and then you need to withdraw funds for your personal use, so you decide to sell your investments.
According to the Italian tax law, Italian tax resident must pay 26% tax on the WHOLE capital gain!
This means that the base value used for tax purposes is the purchase value, not the value on the day you moved your tax residency to Italy (like many professionals improperly advice).
This is a really bad deal, but what can you do?

Did I already talk about B&B?

No, I am not advising to start a B&B with your funds. This is the name of a common tax strategy used by financial advisors. This strategy is beneficial if your home country has a lower taxation on financial income compared to Italy.

This strategy is rather easy; prior moving your tax residency to Italy, you sell your assets standing at gain, and you repurchase them the day after (now you got why is it called B&B?).

This allows you to uplift your base cost, thus reducing your potential tax liability once you move to Italy.

11. MOVE YOUR RESIDENCY CHECKLIST

If you are considering to move to Italy, I developed a checklist to avoid any headaches and make the process as smooth as possible:

- Find out if you need a VISA;
- If you need a VISA, investigate on restrictions and limitations;
- Audit your income structure;
- Audit your financial income and realize potential capital gains;
- Understand the impact of withholding taxes and foreign tax credit once you move to Italy;

- Screen your foreign companies against the Esterovestizione risk;
- Get your Codice Fiscale;
- Look for jobs before moving to Italy;
- Talk to an accountant in regards your tax liabilities.

Once you move to Italy:

- Get a bank account (you can also opt for a non-resident one);
- Rent before buying;
- Get a legal lease contract;
- File your taxes on time.

The most important part of your residency checklist is WHEN you decide to move to Italy!

Picking the right time of the year can have enormous consequences on your tax position, as you might become a tax resident of Italy right away or not.

A key date on tax strategy is July 3rd of any given year. If you move before that date, you are resident for the whole tax year, otherwise your tax residency will start on January 1st of the subsequent tax year.

12. How does the Big Brother know what I am doing?

"Know your enemy and know yourself and you can fight a hundred battles without disaster." Sun Tzu

I could not find a better quote to introduce this chapter. Despite Sun Tzu is referring to war scenarios, knowing your enemy and knowing yourself is the only way to succeed in every human activity including mastering your taxes in Italy. You must know how does the tax office gets the right information and knocks at your door asking for your share.

The first big source of data is data provided directly by taxpayer every year, such as:

- Tax returns;
- Tax payments;
- Lease contracts;
- Codice Fiscale;
- Partita IVA;
- Every single invoice since 2019!

This is clear, as you are required to file returns and pay taxes to the tax office, that they can definitely use that information to run any type of control they want. You can't go around that.

Furthermore, since the early 2000's the Italian tax office has developed enormously towards the informatization and digitalization of its structure.

Every information has to be filed electronically, via submitting an xml file. You should stop thinking about the tax office as a pile of old papers and desks filled with handwritten tax returns. You should think of them as a huge database of personal information of every taxpayer which can be enquired in few seconds.

On top of that, the tax office has unlimited access, without any permission request, to data available in other public offices databases:

- Residency details at your Comune;
- Bank accounts details;
- Public notary information;
- Department of motor vehicles information;
- Criminal records databases;
- Chamber of Commerce registration.

Essentially, the tax office can access every information available in every public office without your consent.

At this time, the tax office has an unbelievable amount of data available, and it structures its controls on three main levels:

1. Automatic controls;
2. Paper based controls;
3. Information exchange controls.

AUTOMATIC CONTROLS

This is the most basic and automated control performed by the tax office; it consists of cross-checking data available in different databases in their possession.

A common example is prompt tax payment controls. The tax office cross-checks information available in the tax return and compares it with the flow of payments available; they can then realize if the taxpayer has paid enough taxes, and if the payments were performed on/before the tax payment deadlines.

Should you have paid less than due or later than due, the tax office will send you an automated letter showing the amounts due as well as the applicable fines and late interests.

Automatic controls are far from being perfect as they are not overseen by any individual. Often times they result in inaccurate information and improper fines; however, it is very

easy to amend them, by providing the accurate information. Once done that the tax office can easily withdraw the "fine".
This is to show that the system is not always right as the detection software still makes mistakes.

PAPER BASED CONTROLS

Paper based controls are the next level controls, operated by an tax inspector. If you think about it, automatic controls are very cheap to run; however, they have a huge limitation as they can only check data available in their systems.
Tax returns are made of boxes and several costs/revenues are not segregated; therefore, the tax office only sees a number but not the actual breakdown, and they check the congruency of that box in their system without actually knowing what is the supporting evidence of such element.
The only way to understand how every box is made up is to take a look at the supporting documents. Anyway, since the returns are filed without any attachment, how can they get ahold of that?
Simple! They send you a letter with a written request to show papers in regards to certain matters. You then need to go to the tax office in person, or delegate someone to do it on your behalf, to provide such information. Some offices are now allowing to provide information via certified emails.

If the information is accurate you will have no problems; otherwise, you might get fines and sanctions due to inaccurate returns, as well as a recalculation of your tax liability.

But how do they choose to perform paper-based controls?

Normally, if any box in your tax return results as an outlier compared to similar data, a flag is shown and a tax inspector might run an investigation on that. The system is looking for anomalies and outlier data to narrow down the investigation with the highest likelihood of being successful.

Of course the tax office does not disclose publicly its algorithms.

INFORMATION EXCHANGE CONTROLS

As outlined in the double tax treaty chapter, different countries, jurisdictions, and territories are cooperating together in exchanging tax sensible information.

If you think that hiding and digging your assets under your name in a foreign jurisdiction in order to bounce or dodge taxes is a great idea, you should think twice about that. Tipping off is becoming more popular among jurisdictions and it is a great way to increase the inland revenue; in fact, tax authorities and countries are signing more information exchange deals, as well as harmonizing the information protocols to exchange more reliable information requiring less processing time.

Every year the Italian tax office receives millions of xml files from other jurisdictions in regards to Italian taxpayers abroad or non-Italian taxpayers living in Italy.

At that point, the tax office runs cross checks to find out if the taxpayer has filed taxes and disclosed the foreign revenues or assets. If not, they will issue a non-compliance letter outlining the required information to be shown, as well as the fines payable.

Once again, this information is far from being 100% accurate, however it is your burden to prove that the information they have on file is not accurate.

Think about FATCA that has to be implemented worldwide, or think about the Tax Identification Number you have in a different jurisdiction. Once you are tracked down in a cooperative country, it is easy to find out what you have abroad under your name.

Finally, you should think that the tax office has 8 years to run an investigation on your current tax affairs. This investigation will be run with a regulatory framework that might have changed, but most importantly with a future technology that will run more controls, more efficiently, and it will process more information. The trend is set, and there is nothing we can do about it to change it.

Now that you know how the tax office thinks and runs its “business”, you should be convinced that all you have to do is structuring your assets and income properly, and the best way to do so is PLANNING AHEAD!

13. How to pay taxes in Italy

Let’s get practical now! How do you pay taxes in Italy? At this point I am sure you understand how to calculate your taxes, tax deductions, foreign tax credits etc. However, how do you transfer money from your bank account to the tax office?

I have to admit that Italy has come a long way to simplify the way to pay taxes as the payment digitalization has been a reality for decades. Let’s make tax digital has been a slogan for years, that now turned into reality

F24 (pronounced “effe 24”) is the main tax form used to pay almost every tax. The great thing about this form is that you can offset tax credits and tax debits, as well as identify every single tax you pay with a different tax code given by the office.

It is then very easy to track down the payments you made.

But how do you practically pay this form?
You have multiple options to do it. The first one is to pay at the local post office or at every bank in cash (up to € 2,000.00): you show up with three copies of the form, pay the amount at the bottom, and retain a copy as a proof of payment. There is no charge for such service.
The second option is to pay through your home banking; almost every Italian bank has developed a portal from which you can pay the form online; you type in the taxes due and the payable amounts. Game, set, match.
The third option is to pay on the Agenzia delle Entrate website. In this case, you must include the IBAN of your Italian bank account from which you want taxes to be paid.

If you have troubles in dealing with the F24 forms, you can provide your tax accountant with your IBAN and he/she will take care of your payment. In this case, the accountant does not have access to your funds as he/she simply instructs the tax office to withdraw that money, on a given day, to pay your taxes.
Unlike the other solutions mentioned before, the accountant might charge a fee for this service.
Often times I prefer this solution for my clients as I can keep track of their payments and make sure they always fit within

the deadline without incurring in late payment fines or penalties.

In every case you must use a bank account with your Codice Fiscale, and you cannot pay taxes from another person's bank account as the controls in place will bounce the payment.

All the aforementioned solutions require you to either be in Italy physically or to have an Italian bank account; so how do you pay taxes if you are not in Italy and you do not have an Italian bank account?

This is a common scenario for people who bought a second home in Italy and do not live here; often times they do not have a local bank account and the only tax they must pay in Italy is the Property Tax (IMU) and the local waste and disposal tax (TARI).

In such case, you must do an international bank wire to the tax office.

I strongly discourage doing it as, unlike the F24 payments, there is no digital track of it, and the tax office finds it difficult to match the payment to the liability which often times results in auditing letters to be issued.

As long as you have the proof of payment, there is no problem to challenge the audit letter; however, this increases the paperwork to be dealt with, and I do not recommend it.

Finally, always bear in mind that despite your accountant can pay taxes on your behalf I strongly discourage you from doing so. It used to be a common practice to transfer the money on your accountant's bank account and then he/she will take care of your tax payments.

NEVER DO THAT!

There have been hundreds of horrific stories about this scheme where an accountant received money to pay tax, embezzling the funds without paying any single dime to the tax office.

Honestly, I am still surprised that people keep doing it.

The main problem in this scheme is that you need to sue your accountant, begin a litigation, pay a lawyer, and after some years you might get some money back.

In the meantime, the tax office will request your late tax payment.

In the end, you pay your taxes twice and you need to sue your accountant to get the money back. Not the best way to deal with your tax affairs.

14. What happens if you do not pay taxes?

There are multiple reasons behind it: you might have forgotten, you did not have access to the online platform to actually pay it, or you simply did not have enough money to pay, or you purely do not want to pay taxes.

The intention here does not matter at all; what is matters is the fact that you were required to pay taxes and you failed to do so. Now, what can you do?

RAVVEDIMENTO OPEROSO

If you did not pay on time, and you did not receive any letter from the tax office or you are in the midst of a tax investigation, you can amend your late payment yourself through the *ravvedimento operoso*.

This is a system to calculate the late payment fine, and it is proportional to the payment delay; the longer it takes you to pay, the more you pay.

Let's assume that you missed a payment deadline, and the amount owed was € *1,000.00*; the chart sums up the fines applicable:

DELAY	FINE Applicable	FINE Payable
1 to 14 days	0.1% per day	€ 1.00 to € 14.00
from 15 to 30 days	1.5%	€ 15.00
from 30 to 90 days	3.75%	€ 37.50
within 1 year	4.29%	€ 42.90

within 2 years	5%	€ 50.00

Should the tax office find out that you did not pay your taxes on time and you did not perform the *ravvedimento operoso,* the applicable fines are much higher.

The tax office can then issue two types of letters:

1. Invito alla compliance;
2. Avviso di irregolarità.

Both letters do not refer to any audit carried out by the tax office, and they provide the chance to the taxpayer to pay what is due with a reduced fine before the ordinary fine kicks in.

If you receive an *Invito alla Compliance,* you must pay a fine of 15%, whereas if you receive an *avviso di irregolarità*, you can pay within 30 days with a fine ranging from 10% to 20% of the ordinary fine (usually 90% of the tax liability); your fine will then be either 9% or 18% of the extra tax to be paid.

Once you receive those letters, and you don't take any action, the next step is the audit; therefore, it is always advisable to pay, and if you cannot pay in full you can still opt to pay in instalments.

If the total due is less than € 5,000.00, you can request up to 8 quarterly instalments; if the total due is more than that, you can request up to 20 quarterly instalments.

If you don't have any money available, it does not matter how many instalments you can break the payment down as well as the applicable fine. If your ability to pay is 0, you won't make any payment, in any circumstance. Period.

Now that the Agenzia delle Entrate has already done its things and you did not pay your dues, it is time to introduce you Agenzia delle Entrate little brother named Agenzia delle Entrate Riscossione.
Agenzia delle Entrate Riscossione will issue a *cartella* which is an ultimate request to pay your dues.
At this point you can either pay in 60 monthly instalments or in a single payment.

Once again, what happens if you do not pay?
Agenzia delle Entrate Riscossione has the power to freeze your bank accounts, possess your your assets and sall them (including you residential properties), as well as withhold up to 20% of your salary until you will pay your debt off.
If you have any unpaid tax balance you are also prevented to participate in many public tenders, you cannot request tax

refunds, and you can seriously harm your personal wealth as well as your business stability.
Reaching the point of having to deal with the Agenzia delle Entrate Riscossione is not good, and it will likely ignite a downward spiral that will not end well.

Once you have to pay taxes, the best strategy is to comply 100% and to try to make the payment before the Agenzia delle Entrate Riscossione jumps in; however, if you find yourself always in cash crunches due to impossibility of paying taxes, the answer might lie elsewhere.
You most likely need to sit down with an experienced accountant and restructure the way in which you carry your business; planning your tax expenditure is the best way to save on it!

15. INPS

The Italian pension system is a Pay as You Go one; therefore, the current working people are paying the retired ones.
As the demographic composition of Italy is changing, the INPS contributions are changing too; this system worked well once there were more workers than retirees, now that the population is aging swiftly, this system is less sustainable.

Having said that, there are different INPS types of contributions.

Employees pay a total 27.57% INPS rate on their gross salaries; 2/3 is paid by the employer and 1/3 is paid by the employee.

If you take a closer look at your pay slip you can clearly notice the INPS deduction deducted from your gross salary at 9.19% rate.

Sole traders such as artisans or in traders, and partners in a partnership, pay into a different type of contribution scheme (INPS Artigiani e Commercianti), which is made up of a fixed and variable contribution.

The fix contribution is currently at € 3,900.00, payable in 4 equal instalments due in February, May, August, and November.

This amount is covers taxable income up to € 15,878; should you make less, you still have to pay the minimum payments. Even if you are at loss, you are still liable to pay that amount.

On income exceeding the minimum threshold up to € 102,000.00, the contribution rate is 24.09%.

Any other occupation (freelancers, self employed, occasional workers etc.) contribute to the Gestione Separata, paying a flat 25.98% rate on taxable income up to € 103,000.00.

Normally, you can be enrolled at just one INPS contribution system; should you do two activities, the predominant one has to be accounted for INPS contribution purposes. Let's say that you are employed and you run a side business selling flipped stuff online. Because you already pay INPS on your employment income you are not required to register at the Gestione Commercianti too.

How many years do you need to contribute to get a pension in the future?
In order to secure a future pension treatment, you are required to contribute into the system for at least 9 full years. If you contribute any less, you will not have the right to receive any pension payment from the Italian government.
However, the years of contribution will not be lost since you can totalize the working periods spent throughout Europe and other countries if a Social Security Agreement is in place with Italy.
Those years will count towards the amount of years required from your country's legislation to receive a pension benefit in the future.

American citizens are the exception. If an American citizen is self-employed in Italy, he/she must contribute to the social security system in the United States. This does not apply if the American citizen is employed in Italy, paying thus the same rates as any other employee in Italy.

In some remote cases, it is still possible to remain under the home country Social Security system, as long as your work carried in Italy does not exceed two years.
In order to do so, you must obtain a certificate from your own National Social Security Administration to be provided to INPS.

Choosing the right structure for INPS purposes is fundamental, especially when your level of taxable income is not very high due to the lack of progressiveness. Moreover, if you do not plan to stay in Italy for the required amount of years, these contributions result in a tax as you cannot claim any refund later on.
Remember also that INPS payments are deductible against income; therefore, they always carry a tax saving whenever they are paid.

16. WEALTH TAX

Since 2011 the Italian government introduced new taxes to cope with the increasing budget needs while attempting to harmonize financial income taxation.

Italian banks and financial institution would charge their client with 0.2% wealth tax on investment portfolios; of course this charge would have been avoided if you held the same portfolio through a foreign financial intermediary which would not levy such tax.

Therefore, the main goal of the legislator was to close this tax loophole of holding assets offshore in order to avoid wealth tax.

Nowadays, it is very easy to hold your financial assets offshore using a foreign financial institution thus; furthermore, financial institutions can also provide a tailored investment portfolio which aims to avoid such tax.

For such reasons, the Italian legislator introduced the foreign held assets disclosure requirement on each taxpayer.

Tax residents of Italy are required to disclose their foreign held assets and pay wealth tax; taxpayers must disclose foreign assets own directly or indirectly (i.e. assets own through trusts and shell companies). The items to be disclosed are:

- Bank accounts;
- Certificates of deposit;

- Investment portfolios;
- Foreign bonds;
- Life insurance;
- Investment funds;
- Stock options;
- Private shareholdings;
- Private pension funds;
- Gold and other precious commodities;
- Cryptocurrencies.

0.2% Wealth tax applies on the asset value at December 31st of each year. If you own a € *1,000,000* investment portfolio, you are required pay € *2,000.00* per year in wealth tax. Yikes!
Bank accounts pay a flat € *34.20* tax, whereas private pension funds are excluded from any wealth tax payment.
This tax is one of the most hated by expats because you must pay tax on assets regardless of the fact they generated any income. Once such assets generate income (i.e. interest income, dividends, capital gains) you will then be taxed on such income. This is totally unfair, to say the least!

What happens if you do not disclose your assets? If the tax office doesn't know you have any foreign assets, how could they tax you?

This is a very dangerous and expensive strategy. If you do not disclose your foreign held assets, you expose yourself to fines ranging from a minimum of *3%* up to *15%* of the asset value. Per tax year!

The fine is doubled if the asset is held in a black listed country.

Going back to our previous example. If your investment portfolio is held in the UK, you face a fine ranging from € *30,000.00* up to € *150,000.00* per tax year. On the other hand, if the portfolio is held in Guernsey, the fine is doubled from € *60,000.00* up to € *300,000.00*. You can clearly see why not disclosing is a bad strategy.

Disclosing foreign held assets by filing the RW section in your tax return complies to the following obligations:

- Foreign held assets disclosure;
- Wealth tax payment.

The RW section has to be filed by companies and partnerships too; however, they are not required to pay any wealth tax.

Often times, it is convenient to structure your wealth in a tax efficient manner; however, transferring your assets from you to the entity is likely to create a capital gain, on which you must pay tax.

In such scenario, there is an often-overlooked partnership that can come to our rescue in dark times: the *società semplice*.

I will explain how it can become an invaluable ally when it comes to tax planning in one of the case studies.

17. INHERITANCE TAX, DONATION TAX, AND WILL

Almost every western country tax system has inheritance and donation taxes. This indirect form of taxation comes into play once wealth is transferred, whether through life or at death.

To sum it up, you pay tax once you make money; you pay tax once you spend such money; you pay tax when you invest your money, and finally you pay tax again once you die!

To be fair, somebody else pays tax when you die, however, you got my point.

Italy, unlike other countries (most notably France and the UK), has relatively low inheritance and donation tax rates, despite being quite marginal, you must be aware of their existence.

First and foremost, it is essential to understand the inheritance and donation laws; Italy is a Roman law system, and unlike common law countries it has strict rules when it comes to inheritance and donations.

Based on the number of direct descendants you have, the law establishes how the wealth is divided among the members included within the issue. Remember also that you have a fixed percentage (which varies depending on the number of descendants) of your personal wealth that you can dispose of without any restriction.

Just a quick example: if you are married with three kids, your spouse share is *2/3* of your wealth, while each kid gets *1/3* of the remaining part. During life you can dispose of no more than *25%* of your wealth. No questions asked.

For instance, you cannot assent or donate your whole wealth to one of the sons, or to a third party.

You cannot disinherit a legal descendant, this is an easy overturn in court, where the judge will likely reinstate the disinherited descendant within the issue.

Furthermore, if you have assets in multiple countries, I strongly advise you to write a will which is valid in both jurisdictions, nominating an executor of your estate.

According to the Italian law, the succession procedure takes place in the jurisdiction in which the deceased is a resident, and if no executor is appointed the procedure will be dealt by

a local notary. If you have assets abroad, those cannot be transferred until the succession process is cleared.
Do you understand why writing a will and nominating an executor is savvy?

Since 2015, following EU regulation 650/2012, it is possible to elect your home country's law as the applicable law to your estate if you elect it in your will. This is a breakthrough innovation because you elect the applicable laws on your estate.

What falls outside of the inheritance tax scope:

- Italian government bonds;
- Life insurances;
- Partnerships and unlisted companies.

You basically pay inheritance and donation tax on investment portfolios, real estate properties, cash, boats, and airplanes.
In regards to real estate properties, the value used for tax purposes is the cadastral value, not the market value; thus, reducing the value for inheritance tax purposes.

The inheritance tax brackets vary based on the relationship with the donor, or the deceased, as well as the nil rate bands applicable.

Note that nil rate bands apply for each donee, thus if you donate your wealth to four donees, you must then multiply by four the applicable nil rate band.

RELATIONSHIP	TAX RATE	NIL rate BAND
Spouse or Lineal Descendant	*4%*	*€ 1,000,000*
Brother or Sister	*6%*	*€ 100,000*
Family Member Within 4 Degrees	*6%*	-
Other	*8%*	-

You can donate € *1,000,000.00* per lineal descendant without incurring in any inheritance tax liability. If you have a son and a daughter you can transfer € *1,000,000.00* for free. Bear also in mind, that you are likely to pay registrar tax and stamp duty if the asset transferred requires so; for instance, if you transfer your house you must pay registrar taxes as any other transfer made on immovable properties.

A common way to save inheritance tax money or to donate wealth to a party which would not be included by the law is the use of life insurance policies.

Life insurance policies are basically investment portfolios administered by a bank or a financial institution; unlike investment portfolios the life insurance will include a beneficiary in case of death.
During life the subscriber can dispose of the portfolio and change the ultimate beneficiary at his/her own discretion, and should the investment run at end, the subscriber is the one entitled to deal with it.
Should the subscriber die, the beneficiary can cash in the life insurance, and this falls outside of the scope of inheritance taxes as the life insurance per se is not considered as part of the deceased wealth.
Remember, that the bank or the financial institution cannot get in touch with the ultimate beneficiary by law; therefore, it is the latter who must ask for its redemption, and if you are unsure if you are the ultimate beneficiary of a life insurance policy, there is a phone number that can help you out.
The maximum time frame to redeem your life insurance is *10* years, and after that period lapse, the bank will keep your money.
Given the inflexibility of the Italian inheritance law system, life insurances have proven as an efficient tool for planning; moreover, they have a slightly more advantageous tax treatment of capital gains and dividends with generally lower administration fees.

18. NOTARY

Once you start dealing with the Italian bureaucracy, you will soon realize that you need to hire notary for too many things. According to the Italian law, the notary is a public official of the Republic of Italy, and he/she acts on the behalf of the Italian republic; moreover, unlike lawyers or accountants, the notary profession is highly regulated and the number of notaries as well as their jurisdiction is set by the Italian law.

The notary signs and certifies deeds, making sure that the individuals standing in front of him/her are legally empowered to perform such acts, and he/she must make sure of the identity of the people taking part of the transaction as well as their intentions.

The notary only acts in the Italian language; in case anyone is not fluent in Italian the notary cannot perform the required duties, unless the individual:

- Provided a power of attorney to an Italian speaker;
- Is assisted by a translator.

Any notary deed has a strong power and it irrevocably binds the parties; therefore you must be extremely sure of what you sign!

In Italy you need a notary to:

- Transfer any real estate property;

- Set up a partnership or a corporation;
- Provide a power of attorney;
- Amend your company's articles of incorporation;
- Succession and heritage;
- Shares transfer;
- Wind up a company.

If you do business in Italy, you will definitely have to deal with notaries during your journey. I cannot stress enough the importance of having a reliable notary who is an expert in dealing with non-Italians affairs as well. In the long run, a good notary will save you time and money.

19. ITALIAN DIGITAL ID

Italy is infamously known for its byzantine bureaucracy and unfriendliness of its public offices; this feature harms greatly the potential of the country because it slows processes. However, since the early 2000's the Italian legislator has introduced new digitalization tools to help residents to deal with the Italian bureaucracy. Most notably, these tools are the digital signature, SPID, and the Electronic ID.

The digital signature is a required tool if you operate with the chamber of commerce; this comes in a USB key or smart card and you digitally sign documents.

This signature is legal just like any handwritten signature, and it also includes various information such as the time of signature and a unique encrypted code.
Banks and other major institutions are accepting the digital signature, allowing contract signature at distance.

SPID stands for *Sistema Pubblico Identità Digitale*, fundamentally this is your Digital ID as issued by the government.
You can apply online at various providers (most notably the post office) uploading a valid ID and your Codice Fiscale, and upon a face recognition, you are granted a unique ID allowing you to access various government portals such as the tax office website, INPS portal, the Universal healthcare system, schools and Universities portals etc.
This is a unique ID to access all your government run portals; you can then forget all your different usernames and passwords.

You can also acquire the digital signature and the SPID remotely, without even being an Italian tax resident as long as you have a valid ID and your Codice Fiscale has been issued.

Finally, recently issued *Carta d'identità* are electronic, meaning that they include your Digital ID, thus serving the same functionalities as the SPID.

I cannot stress enough the importance to use such digital tools to make your every-day life easier.

Real Estate Taxes

The Italian real estate is a very active market, and understanding the taxation is crucial to succeed

20. Who can buy a house in Italy?

Prior digging into the practicality of real estate taxation, it is important to be clear in regards to who can be a homeowner in Italy.

In order to clarify that, it is important to know the role of Bilateral Investment Protection Treaties; such treaties are different from Double Taxation ones.

First of all, any citizen of Italy and the EU can buy any property in Italy; if you take this for granted, please remember that women in Italy could not vote until 1946 because they could not bear civil rights, including the right to own or possess any property.

Whenever it comes to non-EU citizens, a treaty between the nations must clarify what a citizen of each country can do or cannot do.

Some treaties allow you to own real estate properties or shares in companies without restrictions, some other pose a limitation in regards to maximum extension of your home, or the maximum price you can pay for the property.

If you think that this system is byzantine, you should have clear that this system is based on reciprocity; therefore, if you can't own property in Italy, an Italian cannot own any property in your home country.

These treaties provide for an exception; which is the residential status.
If you have a valid VISA to live in Italy, you can own any property regardless of what the Bilateral Investment treaty says.

21. TAXES ON HOUSE PURCHASE

Italy is undeniably one of the most charming countries in the world, attracting the interest of many individuals all around the globe. Italy is a destination that many people want to call home.
The Italian house market had definitely attracted the interest of private and institutional investors, so let's take a look at the taxes payable once you purchase your property in Italy.

Taxes greatly depend on the type of property and the classification of the seller, but prior digging into taxes, let me explain you the value taxable value, called *valore catastale*.
The formula is the following:

$$Rendita\ catastale\ * 1.05 * 1.20$$

Assuming the rendita catastale of your property is € *511.29*, the value on which you calculate property taxes is €

64,422.54 regardless of the price you pay for the property itself.

RESIDENTIAL PROPERTY

If you purchase residential property from a private individual or from a company that does not charge Value Added Tax (VAT), the following taxes are payable:

TAX	AMOUNT
IMPOSTA DI REGISTRO	9% of the cadastral value
IMPOSTA IPOTECARIA	€ 50,00
IMPOSTA CATASTALE	€ 50,00

If the seller is a company charging VAT, the following taxes are payable:

TAX	AMOUNT
IVA	10% of the property value (22% if the property is A/01-A/08-A/09)
IMPOSTA DI REGISTRO	€ 200,00
IMPOSTA IPOTECARIA	€ 200,00
IMPOSTA CATASTALE	€ 200,00

It is possible to reduce taxes payable at purchase if the residential property is elected as *main residency*. In such a case, taxes are as follows:

TAX	AMOUNT
IMPOSTA DI REGISTRO	2% of the cadastral value
IMPOSTA IPOTECARIA	€ 50,00
IMPOSTA CATASTALE	€ 50,00

If the seller is a company charging VAT, the following taxes are payable:

TAX	AMOUNT
IVA	4% of the property value
IMPOSTA DI REGISTRO	€ 200,00
IMPOSTA IPOTECARIA	€ 200,00
IMPOSTA CATASTALE	€ 200,00

To benefit from the main residency tax reduction, the buyer is required to move his/her residency to the **same municipality** in which the property is located within *18* months from the date on the purchase deed.

As a buyer, you are not required to move to the property you purchased. Despite this seems a little bit off, think about a house that needs major restorations and is unfit for living. You can benefit of the reduced tax rate as long as you move your registered residency in the same municipality within *18* months.

Failure to move your residency within *18* months of the purchase deed will make you liable to pay the difference between the taxes paid and the taxes payable on top of a fine amounting to *30%* of any tax due.

However, if you notify the tax office of your intent of vowing the election within the 18 months period, no penalties apply.

Rushing to apply for residency in Italy is a top mistake made by expats: you must bear in mind that if you are registered as a resident in Italy for the most part of the year, you ARE A TAX RESIDENT! At least according to the national legislations.

This means that you must file your taxes on your worldwide income and disclose your foreign held assets. Since you have *18* months to do that, you can choose the right time to move, as well as restructure your wealth and income to minimize your tax exposure once you become resident of Italy. It's incredible how many people, in light of a registrar tax saving, end up with a bad deal on income taxes; don't be one of those, please.

22. TAXATION OF LEASED PROPERTY

If you decide to lease your property to a tenant, you must bear in mind the tax consequences of such decision; leasing a property requires a legal contract to be drafted and registered, as well as keeping up with the required tax compliance.

Once you have the contract finalized and signed by both parties (yourself and your tenant), you must register it at the tax office within *30 days* and in turn you will obtain a unique ID that identifies your contract and its parties.

At registration you are required to pay 2% registrar tax and stamp duty. Stamp duty is levied as €*16.00* every 100 lines of contract or 4 written pages. This sounds old fashioned, doesn't it?

Let' say that you leased your property for € *10,000.00* per year and the contract you signed is 6 pages long in two copies (one for you and one for your tenant).

At registration you and your tenant will be required to pay € *200.00* as registrar tax and € *96.00* as stamp duty, in equal parts.

The registration process used to require the individual to go physically to the tax office, file a bunch of papers, and getting a stamp on the contract. Nowadays, you can do everything online without the hassle of going to the office and stay in line. Moreover, taxes will be withdrawn directly from your bank account without having to fill out any other form.

The registration process is normally taken care by an accountant or the letting agent, but you can do it yourself from the tax office website. Anyway, I cannot stress enough the importance of requesting the registration receipt from the tax office. I have experienced countless times when someone received money from a contract who was never registered at the tax office!
This means that the contract is still binding between the parties, yet the tax office will charge you with late registration fees and penalties that can add up to € *500.00*!
Now that you know how to register a contract, let's see the annual required compliance.

Every year you must pay the *2%* registrar tax on the annual value of the lease; based on our previous example, you must pay € *200.00* every year.
You then need to disclose your income in your tax return. Italy, unlike other countries, does not allow to claim ANY expense against lease income; therefore, you cannot claim renovations, insurance, property tax or any other cost associated with the lease.
In turn you get a flat *5%* deduction on your leased income; based on our example, you must pay tax on € *9,500.00*. The applicable tax rate is your marginal tax rate.

Back in the days you had to pay taxes on the accrual basis, regardless of the fact that your tenant paid your lease or not; from 2019 on, rental income is taxed on the cash basis as well (Hallelujah!).

CEDOLARE SECCA

If you rent a residential property, you can opt for another type of taxation called *cedolare secca* consisting of a substitute rental tax to claim against:

- IRPEF;
- Regional and municipal surcharges;
- Registrar tax;
- Stamp duty.

Fundamentally, you do not pay any registrar tax nor stamp duty at registration and at every annual anniversary.

You will then tax your rental income at a flat *21%* tax.

This seems a great deal! The minimum IPREF tax bracket is *23%*, so you must pay less, right? Not too fast.

Remember that the Cedolare Secca is a substitute tax, so you cannot claim any deductible items against it.

If you have performed any renovation works in your property or you claim other deductions; you might end up paying less tax with IRPEF!

Once again, what you have to do is to compare NET TAXES payable.

Normally the Cedolare Secca is very convenient if you have other sources of income as you already pay enough taxes making it convenient to exploit a flat *21%* tax.
On top of it, the required annual compliance is easier as you do not have to pay the annual registrar tax (and pay your consultant to administer your tax affairs).

CANONE CONCORDATO

Back in the days, when the rental market was heavily regulated and the local authorities used to put ceiling on local rents, every rent was *canone concordato* which simply means that a government body imposes the maximum amount of rental payable in certain areas.
Since the 80's we got rid of this byzantine way of regulating the housing market. Subsequently, you can charge any amount for your rental income; no authority will argue that, and the market regulates itself!
Despite that, every local Comune across Italy keeps updating the Canone Concordato charts establishing a rent price per square meter. But why does that happen?

Italian governments have always aimed to make housing affordable; it is not a coincidence that Italy tops the charts in regards to house ownership across the world.

Anyway, how do you incentivize affordable housing and keep the rental prices under control without legislating on the prices itself?

Tax incentives! Long story short, Italy introduced tax incentives to those individuals who decide to lease their property within the rental prices as defined by the local authorities on Canone Concordato.

The tax incentive affects your IRPEF and property tax payable.

If you rent your property opting for the IRPEF regime, your taxable income is reduced to an extra *30%* (the taxable part is only *66.5%*), whereas if you opt for the cedolare secca, the tax bracket is reduced to *10%*.

I will not bother you with the mathematics of it; however, you can achieve the same income after tax (revenue-taxes) providing a *15%* reduced rental income if you opt for the IRPEF regime, although the reduction is “just” *12%* under the cedolare secca option.

Taking our previous example, in order to achieve same available income, assuming your marginal tax rate is *38%*, you can charge € *8,500.00* under the IRPEF regime, while € *8,800.00* under the cedolare secca option.

This provides further benefits as a lower rent will attract more tenants or it should make it easier to retain the current ones. On top of it you can also benefit of a *25%* reduction on your property tax, and depending on the local council, you might benefit of a reduced property tax bracket.

The bottom line is that you have to run your math and decide which the best option for your personal finances is. Sometimes a lower rent might lead to a higher after-tax income due to a reduced taxation.
I have seen so many accountants not considering the possible options available in regards to the taxation of rental income; in the end, you are the only one losing money on taxes due to a bad deal.

23. House renovation

Every house requires renovation or restoration from time to time. The Italian government has set up various tax incentives to facilitate house renovations, seismic structural improvements, and energy efficient investments.
The whole rationale behind this choice is to reduce the damages and risks caused by aged properties and to reduce the potential victims due to seismic events, which from time to time hit Italy in different areas.
Before explaining the different types of tax deductions, it is important to highlight how this renovation schemes work.

The beneficiaries of such schemes are the categories:

- Home owners;
- Usufruct holder;
- Tenants;
- Partnerships and corporations;
- Civil union partners;
- Owner's family members.

The tax-deductible expenses refer to:

- Extraordinary maintenance;
- Energy efficiency investments;
- Restoration and renovation;
- Façade improvements;
- Seismic improvements.

Back in the days, once you paid for the invoice you could claim this expense against your income in your tax return in 10 (5 in some cases) equal instalments.

The main problem of such scheme is that if you didn't have any income in Italy, your tax credit was wasted.

Since 2020, the legislator allowed for two additional methods to benefit of such scheme:

1. Claim the tax credit from your contractor's invoice;
2. Trade the tax credit to a bank/financial institution.

In this way you can either pay a reduced invoice, receive money back from a bank without filing any return.

Tax credits apply to non-residents and non-citizens as well.

In the next section, all the applicable benefits are highlighted.

50% General Renovations Bonus

Should you perform general renovations of your property you are rewarded a 50% bonus on qualifying expenses up to € 96,000 per house unit; therefore, the maximum credit you can be rewarded is € 48,000. The most common expenditure items are:

- Ordinary maintenance;
- Gates, CCTV, and other surveillance system installation;
- Basic energy efficiency renovations;
- Water heater replacement;
- Acoustic improvement investments;
- Handrails.

The bonus applies over a 10 years period.

65% Energy Efficiency Bonus

Should you perform any of the following renovations, a 65% bonus on the qualifying expenditure is rewarded:

QUALIFYING EXPENDITURE	MAXIMUM EXPENDITURE
GENERAL ENERGY EFFICIENCY IMPROVEMENTS	€ 100,000

WINDOWS AND WALL IMPROVEMENTS	€ 60,000
SOLAR PANELS	€ 60,000
WINTER HEATING SYSTEMS	€ 30,000
SOLAR SHADING	€ 60,000
BIOMASS BOILER	€ 30,000
HOME AUTOMATION SYSTEMS	No cap
MICRO COGENERATOR	€ 100,000

The bonus applies over a 10 years period.

70%-80% Seismic Bonus

The legislator has introduced this tax break to tackle the adverse consequences due to earthquakes. Italy is divided into 4 seismic risk areas, being 1 the lowest risk and 4 the highest risk; therefore, if your property is located in areas 2 to 4 (Greve in Chianti is classified as 3) you can benefit of this regime if you perform Seismic renovation improvements (new roof, foundations etc.)

If you increase of seismic 1 category you are rewarded a 70% tax credit, whereas if you increase 2 categories, the tax credit is lifted to 80%. The maximum expenditure is € 96,000 per house unit.

The bonus applies over a 5 years period.

90% Façade Bonus

This bonus refers to residential building façade improvements. The qualifying residential properties must be located in town centres, or unincorporated municipalities of the same Comune. Remote areas and independent houses outside of town centres, might be disqualified from this bonus.

There is no cap on the maximum qualifying expenditure.

The bonus applies over a 10 years period.

110% Superbonus

Should you perform any investment classified as:

- Seismic Bonus;
- Energy efficiency Bonus.

You can apply the 110% superbonus if you pay any of the following expenses on/before December 31st 2022:

- Insulated coating;
- Central heating system;
- E-cars charging stations;
- Solar panels;
- Double/triple glazed windows;
- Any seismic improvement.

In order to claim any energy efficiency investment at 110% rate, you must improve the Energy efficiency category of your property of at least two categories (Attestato Prestazione Energetica – APE).

The bonus applies over a 10 years period.

The main decision you have to make is: do I keep the credit or do I trade it for a discount?

As you might understand, every time you decide to renovate your property you have to talk to your tax accountant to understand if you pay enough tax to have a substantial benefit from such renovations.
It is also possible to "pay" the individual or the company performing the work with the tax credit, transferring the right to deduct such expenses in their tax return, rather than in yours. I personally know few companies that use the technique, but this can also be a good option to optimize each other's taxes.

24. Capital gains on property sale

If you decide to sell your property, you may be liable to pay income tax on your capital gain. If the property is owned by a corporation, the capital gain is always taxable, whereas as an individual your capital gain might be tax exempt.

The rule of thumb is that if you sell your property after five years after the purchase deed date, your capital gain is not taxable, regardless of the amount and the type of property. If you sell your property within five years' time, you are liable to pay income tax on your capital gain.

As a taxpayer, you can opt for two types of taxation on your capital gain. The first one is the regular IRPEF (Italian income tax) progressive brackets starting from 23% up to 43% on top of any regional and municipal surcharge applicable; this capital gain will cumulate with any other income made, moving the taxpayer towards the higher tax brackets
The second option is a flat 26% substitute tax on your capital gain.

Unlike other jurisdictions, the whole capital gain is taxed in full in a single tax year; it is not possible to carry-back nor carry-forward such type of income.
It seems obvious to opt for the *26%* substitute tax as the tax basis is the same and IRPEF has higher brackets, though you should not rush your decision.

The IRPEF tax allows for deductible items and tax credit reductions, whereas the substitute tax does not allow it. You need then to run your calculation before making the decision.

Let's look at a hypothetical scenario to better understand the nuances of this topic. If you buy a residential property as your main residence and decide to sell it within five years of the purchase deed, you might be exempt from a capital gain tax if you meet both of the following conditions:

- Your residency was in that house for the majority of your ownership period;
- You purchase a new property as main residency within one year of the sale deed.

If the owner is a company or a partnership, the asset has been depreciated during the years and the sale will normally generate a taxable gain.

If a corporation owns the asset, taxes are payable at *24%* flat, otherwise the partners pay tax at the IRPEF bracket marginal rate they fall within.

25. Foreign Real Estate

It is very common for an expat in Italy to have ownership of foreign located real estate property or land, and this can create more than one tax consequences while living in Italy.

First of all, you must disclose the ownership and pay property tax in your return; yes, you read it right! You must pay property tax to Italy even if your property is located thousands of kilometers away.

The tax is called IVIE and accounts for *0.76%* of the property value shown in the tax return; the value to be disclosed is either:

- Cadastral value;

- Cost or acquisition value;
- Market value.

You have to always prioritize the cadastral value over the other criteria; the law also states that you can use the same value used to calculate the property tax in the foreign country. Often times, this results in low tax liabilities to be paid and, since you can deduct the property taxes paid abroad, you might end up owing nothing to the tax office.

A different case is the United Kingdom; as you might know in the UK you have to pay Council Tax based on the local council tax band, yet as it is considered a service tax you cannot offset it against any tax payable in Italy.

Should the foreign country in which the property is located not have a cadastral system, the priority must be given at the cost or acquisition value; which is either the value at purchase or the donation/inheritance value once you got the property.

The residual case is the market value; however, it is very uncommon and very disadvantageous to use it as this is normally the highest value of the three. You must use this value if you built your own property and in your jurisdiction, the cadastral value does not exist.

In Europe this often happens to be the case with Ireland, France, and Belgium; having a property located there while being resident of Italy is not the best deal on a tax perspective.

If you retain your property abroad and you pay IVIE, no further taxes are due; instead if you decide to rent the property out, you must first take a look at the Double Tax Treaty between Italy and the country in which the property is located.
Normally the article 6 (or 5 in some cases) of the Double Tax Treaty is phrased as follows:
"Income from immovable property **may be taxed** in the Contracting State in which such property is situated"
Such verbiage means that you must also disclose the income generated by the foreign property to Italy, as if you recall from the Double Tax Treaty chapter, it does not say "only", "solely", or "exclusively".
How do you declare it? Most importantly, which expenses can you deduct?
Normally, you cannot deduct any expense but a flat *5%* reduction of the gross lease according to the Italian tax system; however, in the case of foreign property you must disclose the same value taxable in the foreign jurisdiction.
If you own a residential property, you cannot opt for the *Cedolare Secca* as if the property was located in Italy.

If you paid income taxes abroad, you can claim them as a tax credit against the Italian taxes.

26. AIRBNB

Holiday rentals and Italy, what a great combo!

Italy is known globally for its historical landmarks and its beautiful sceneries: whether it is a city, the seaside, the countryside or the mountains, the hospitality industry is commonly perceived as a safe bet.

Adding to that, the quick development of online portals matching house owners and guests, it comes with little surprise that the holiday rentals industry is booming with no foreseeable downturn; as you want to get the tide, the tax office does too!

This is why multiple regulations have affected the whole industry, and various pitfalls are hitting the way.

For tax purposes, it makes a huge difference if you rent in whole (or part) of the property in which you are registered as a resident, or not. In the first case you can be deemed as an occasional renter; thus, you are not required to get a Partita IVA. In the second case, the tax office potentially qualifies your activity as professional requiring you to be registered for tax purposes.

My keenest advice to you is to avoid the *"in nero"* since the tax office is well equipped to chase it. You are under the tax office radar if you advertise it online on multiple platforms, thus it is easy to be tracked down.
Furthermore, since *2019* online portals are required to withhold *21%* tax from non-professional hosts; the tax office can easily match people who did not file taxes or failed to include rental income in their return.
Fines will be harsh, as usual…

Before digging deeper into tax details, let me provide you some background in regards to the legalities involved in holiday rentals.
First things first, a rental service requires a contract between the landlord and the guest(s): you are not a hotel; therefore, you must sign a lease contract. It does not matter if your guests are tourists or not, or if their stay is less than 30 days or more; you MUST have a lease contract.
If the staying period is less than 30 days, you are not required to register it at the tax office.
Remember that tourist lease contracts are not necessarily less than 30 days in duration; however, all short-term lease contracts must be for tourist purpose.
Getting the right contract will protect you against multiple threats. Think about if you have to claim a damage by a

tenant? How could you prove to your insurance company that the host was legally occupying your premises?
What about if the police knock at your door? Why are these people at your place? I can go on and on for decades, but the bottom line remains the same: a good contract is always a great protection. Get one from an experienced advisor.

On top of any tax compliance, every host must also:

- Inform the police of every guest staying at your premises within 48 hours;
- Register your place at the local Comune as temporary guesthouse;
- Levy the “tourist tax” and pay it to your local municipality;
- Report to the local Institute of Statistics your occupancy rates every calendar quarter.

You do not have to worry about going to every office every single time. Everything is done online through multiple (sigh!) platforms.
This part is so often overlooked, as people think that you simply put your place online, receive guests, collect the money, and possibly report your income in your tax return.

Unfortunately, you must also comply with other legislation and deal with multiple public offices other than the tax office.
Remember also, that if you do not register your property and run the business without any permission, you can also face criminal charges ending up in prison time or pecuniary penalties.
Even if it ends up in a little fine, you have to pay lawyer fees and you will possibly be disqualified from running any business in the following 5 years.
Despite being repetitive, let me tell you once again: be legal! It will save you money.

OCCASIONAL RENTER

If you rent the place you live in (you do not need to own it), you are not automatically deemed as a professional business.
Living in the place you rent out is not enough to be classified as a non-professional; therefore, these are the criteria used by the tax office

Professional	Occasional
Be the only source of income	Have other sources of income
Exclusive use of the property as holiday rental	Other use of the property

High client turnover	Low client turnover
Employees	No Employees
Extra services provided beyond B&B	No other service provided
Advertising	No advertising

If you then comply to the list above, you can opt for two types of taxation:

- IRPEF;
- Cedolare Secca.

Just like every other residential lease you can opt for the Cedolare Secca; anyhow, unlike the “regular” leases you are not required to opt for it in your contract but you can choose to do it directly in your tax return. Let me explain the differences.

If you own the property, the rental income is treated as property income, and you cannot write off ANY COST against your proceeds, no portal fees, no laundry, no linen exchange, no advertising, and no other supplemental costs associated with your activity. This is the same as long-term leases, as you can deduct only *5%* of the gross revenue.

If you don't own the property, on the other hand, your income is treated as occasional income and you CAN write off any cost you suffered against your income.

Opting for the cedolare secca does not allow you to deduct any cost, becayse you are taxed at flat *21%* rate.
What happens if the online portal withheld *21%* tax as cedolare secca?
You can always claim it in your tax return deducting any amount of tax due regardless of the tax regime chosen.

PROFESSIONAL RENTER

If you rent two or more units, you are required to setup a business and the possible options you have are limited to:

- B&B;
- Affittacamere;
- Casa vacanze.

Each one of the options has some limitations depending on the local regulations about the number of units you can lease and the overall lease duration; it becomes imperative to know the regional tourism legislation on such matter.
Affittacamere and Casa vacanze can be run either personally or through a registered entity; B&B can only be classified as an individual business.

Starting with the individual business setup, you must register it at the local Chamber of Commerce and obtain the Partita IVA.
You need to communicate to the local municipality about the activity and its location, providing the map of the properties rented out.
If you run a B&B the setup form is called SCIA; otherwise, it is a simple online PDF form.
Finally, you must register at INPS Gestione Commercianti on affittacamere section to avoid any fixed INPS contribution. The affittacamere pays the 24.09% tax on the taxable income.

Bear in mind that EU and regional funds are available to setup new touristic businesses in many areas of Italy; therefore, this might affect the structure of your business as well as its main activity.
Now, how to best structure your business tax-wise?
Normally, given the limitations to grow it as you can only manage a specified number of units (normally up to 5) it does not make much sense to incorporate the business. Furthermore, if you want to put the properties on the company's name, remember that it will cost you registrar tax and notary fees to do so.

Having said that, you have basically two alternative options:

- Regime Forfettario;
- IRPEF rates.

The regime forfettario coefficient is *40%*; this means that if you make € *50,000.00* per tax year, your taxable income is € *20,000.00* on which you will pay taxes and INPS.

The question here is: how many costs do you bear for running your rental?
Normally, if you purchased the premises and made renovations, you would likely have tax deductible items to claim to further reduce your tax bill.
Finally, if you qualify as a new resident, you will pay tax on just *30%* of your taxable income; isn't that great!

Once again, what you have to do is a good planning exercise and figure out then which the best tax regime for your needs is.

Business Related Taxes

Practical examples of business taxation topics.

27. NEW RESIDENTS GET THE BEST DEALS!

Since 2015 the Italian government has introduced several tax breaks for new residents, and it appears that they will continue to do so.

The main reason behind it is to tackle the hemorrhage of Italians (often times young professionals) moving abroad in search of new job opportunities.

Once again, how do you convince them to come back?

Tax breaks!

New tax residents of Italy, regardless of their nationality, from 2016 on will benefit of a 50% tax free income for 5 years as long as they are employed or self-employed in Italy.

The conditions to be met are quite easy; you must:

- Be a new tax resident of Italy;
- Not be a tax resident of Italy in the previous 2 (or 5 years);
- Have a college degree or be a high skilled worker;
- Remain in Italy for two tax years.

Let's use a quick example to explain this benefit.

Let me introduce you Ashley. Ashley is digital marketing expert; she is a UK citizen where she has always lived and obtained a Bachelor's degree in Business Marketing.
In *2017* Ashley decided to move to Italy becoming the head social media strategist of an Italian retail brand; her gross remuneration is € *60,000.00* per tax year.

In such case Ashley would surrender roughly € *20,000.00* in taxes; therefore, her after tax income is € *40,000.00*.
Since she can benefit of this regime, only € *30,000.00* of her income will be taxed; therefore, the tax payable is reduced to € *8,000.00*, leaving her with a disposable income of € *52,000.00*!
Not too bad! And this will last until *2021*.

Given the popularity of this tax break, the government has decided to boost this break further for new tax residents from *2020* on.
First of all, the tax-free income is increased to *70%*.
Secondly, entrepreneurial business is also eligible, and this means that if you run your Aribnb, e-commerce, retail/wholesale store, or any other type of business you can claim this tax break.

Finally, if you purchase a residential property or claim a family dependent the tax break is extended from 5 years to 10 years!
Let's say that Ashley's brother will move to Italy in *2020* earning the same money as his sister; he will then pay roughly € *4,000.00*…
If you are smart enough to take advantage of this tax regime, you can definitely opt for one of lightest tax burdens in the whole western world.
Often times, people are attracted by low corporate tax rates; however, they frequently forget that if they want to benefit from the profits, they must pay dividends out.
This creates two problems: the first one is the double taxation as the same income is taxed upon the company and the shareholders, and the second problem is that income tax rates are sensibly high.

If you run your business as a sole proprietor in Italy you won't have to deal with anything like that, in fact you will only pay income taxes on *30%* of the money you make, for possibly 10 years.
Now you should start reconsidering Italy as a sort of tax haven for workers.
Furthermore, if you move to the south, the tax exempt rate is 90%.

RETIRE UNDER THE ITALIAN SUN

Let's be honest, who wouldn't want to retire in Italy?

Italians are among the longest living people on Earth, whether it is the food, the climate, the living standards or the healthcare system.

From *2019* on you have another reason to retire in Italy: a tax regime tailored to pensioners.

If you are an individual who:

- Receives a non-Italian pension treatment;
- Has not been a tax resident of Italy in the previous 5 years;
- Moves into a qualifying municipality (a municipality with 20,000 inhabitants or less located in the South).

You can benefit of a flat *7%* tax on EVERY foreign sourced income for 10 years. No wealth tax is due!

This means that if you qualify, you can abide to every tax obligation by just paying a *7%* tax.

Imagine that you realize capital gains or earn interests and dividends from your investment portfolio; you only pay *7%* on that.

Also, if you want to cash out your whole pension funds, you can do it paying this *7%* tax and that is it; you can then dispose of your monies freely.

Anyway, there is a downside on that. Since the *7%* flat tax is a substitute tax, you cannot claim any deductible items against it, but more importantly you cannot offset any withholding tax paid abroad.

HNWI INDIVIDUALS AND FLAT TAX

Are you a High Net Worth Individual and you wish to call Italy your new home, but you are scared of the tax implications?
If you can afford to pay a one off € *100,000.00* tax per year, you are good to go!
But what does that tax cover?
It covers every foreign earned income of any type, and you can repatriate it. Unlike other overseas systems, this regime allows you the liberty and freedom to use your money in the best way you want.
Finally, you can cherry pick the income sources you want to be covered by this flat tax. This means that you can make the most out of the Double Tax Treaty to reduce your taxation even further.

This tax does not cover any Italian sourced income, so if you want to start a business in Italy you must then pay taxes just like every tax resident of Italy; anyway, you can still benefit of the new resident tax regime.

This regime can also be extended to every family member for an extra € *25,000.00* per head.

28. 5% INCOME TAX. HOW CAN YOU BEAT THAT?

This would be headline of my advertising online: the display would be a really sad family that looks at their tax return and after my advice they are able to enjoy their extra money, because they just paid *5%* tax!

Honestly, how can you get any lower than *5%*?

The ad would also include a tiny asterisk saying Terms and Conditions Apply, and here we go…

Let's call things by their name: the *5%* tax is called Regime Forfettario, and it is a tax regime introduced in *2014* and boosted during *2018* to include more tax payers into this advantageous regime.

First of all, only individuals can access it and there are multiple constraints:

- You cannot make more than € *65,000.00* in revenue;
- You cannot have employment income exceeding € *30,000.00*;
- You cannot have a controlling interest in a related company or partnership (either directly or indirectly);
- Your sources of income must be located within the EU for at least *75%*;

- You cannot entertain business with your previous employer within 2 years of your dismissal.

Scrolling through the conditions, it is clear that not everyone can access this regime straightaway. Furthermore, the *5%* tax only lasts for the first 5 years of a new trade; from the 6th year on the tax rate is increased to *15%*.

Let me explain how the tax calculation works. Every Partita IVA has an activity code, and based on that the tax authorities have determined a coefficient of profitability which can range from 40% to 78% of the revenue.

Assuming you are a business consultant whose revenue is € *50,000.00* per year, your coefficient is *78%*; therefore, your taxable income under this regime is € *39,000.00*.

It doesn't matter how many costs related to your activity you have to pay, you cannot write them off for tax purpose; in the end it is called *forfettario* because it forfeits how to pay taxes.

In our scenario you will pay € *1,950.00* of taxes and € *10,000.00* in INPS payments. Is this the best deal?

Remember also that as a substitute tax you cannot deduct any item against income or taxes; therefore, you cannot claim any family dependents, health expenses, house renovation costs, as well as any other deductible items.

You will pay both taxes with no further reductions; moreover, after 5 years your tax payment will increase to € *5,850.00* Once again, is this still a great deal?

Highlighting the main advantages of this regime:

- You do not charge VAT, which becomes handy when you deal with final clients;
- You do not suffer any withholding tax;
- Accounting is simplified;
- Your tax accountant will charge you less;
- You can still hire people without paying any IRAP;
- No E-invoices.

This regime is fantastic if you already have other sources of income up to € *30,000.00* (employment, rental income etc.); therefore, any extra activity would normally carry a higher tax rate, and you can actually invoice another € *65,000.00* at *5%*. Potentially you can have € *95,000.00* in revenues and most of it is taxable at *5%*!

It is also great if you do not bear any (or limited) cost for your business, such as a business consultant or an online marketer; in this case you are given a *22% ex-gratia* taxable income reduction.

Finally, if you are an artisan or a trader, you can benefit a *35%* reduction of your INPS payments.

On the other hand, should you have to bear many more costs than *22%*, this regime might be disadvantageous as accounting for them would reduce your taxable income, in turn reducing INPS payment and possibly tax payments.
The only deduction you can claim under the forfettario regime is the INPS payments, and all the remaining deductions will not be available to you. If you don't have any, no big deal; otherwise, you should also account for this loss.
Often times, if you do not have high levels of income, the regime forfettario is not convenient as you will have to pay tax from the first penny you make; on the contrary, the IRPEF regime up to € *10,000.00* does not generate any tax liability.
If you trade with countries that apply withholding tax for foreign payment, you will not be able to deduct them given that you operate under the regime forfettario.

Finally, the € *65,000.00* cap can be a constraint for growth as often times you are not incentivized to grow the business more as you hit the threshold.
Once again, make your math and evaluate which solution provides you with the better cash outflow!

29. Online selling and e-commerce

Who wouldn't want to run an online business?

You have no working hours, you do not pay rent in a fancy and expensive corner of a city, and you can do it from home at your own pace and time!
Despite the reality is a little bit different from this statement, e-commerce have proven a stable reality for various businesses.
What does it take to start an online business in Italy?
First of all, you need to make sure that the municipality in which you want to start the business (ultimately your main residency) allows this type of trade.
Yes, it sounds absurd but it is the harsh reality. Trading activities are regulated by each local municipality, therefore you need their authorization to start any trading business, including online ones; I recommend you to make sure that your municipality allows it.

Once you have cleared that, the required compliance depends on the type of business structure you decide to adopt (sole proprietor, partnership, or corporation). Anyway, there are common traits.

Secondly, you need to get a Partita IVA and register at the Chamber of Commerce as an online commerce activity; in the meantime, you must apply for the SCIA (Segnalazione

Certificata di Inizio Attività) which is the authorization from your local Comune to start the business.

It doesn't matter if you don't have a local warehouse, if you just do drop shipping, or if what you sell can be stored in a suitcase. You need this authorization to legally carry on your business!

No matter what business structure you opt for, you must register at the INPS Gestione Commercianti, which requires you to contribute € *3,900.00* per tax year regardless of the income you make from the business.

The whole process can be carried out online without physically going "office hopping"; therefore, if you file all the papers properly, you should be up and running within a week.

The most difficult part of the business is to determine its best structure for tax purposes; normally, carrying trade requires you to operate internationally as your supplier/clients will not be located in Italy and dealing with VAT becomes crucial to determine the success of the business.

If you cannot recover input VAT, it becomes a cost you suffer and it makes it harder to land profits; therefore, it does not seem a great idea to startup as a *regime forfettario*.

Operating in the retail world can also expose you to multiple threats of legal matters, and operating as limited liability company is always advisable.

But you also must consider the overall tax position, including your other sources of income.

Since 2020, e-commerce activities done individually attract the new residents tax regime opting for a 70% reduction of your taxable income.

30. VAT DIRECT REGISTRATION AND MOSS

Every single day we hear a headline about e-commerce; it definitely revolutionized all our lives and the pattern of consumption of EVERY person in the western world.

Economies have been integrating faster, and the competition has proved stiffer since the entry barriers to market have reduced, on top of that logistics has become more efficient and cheaper.

In other words, e-commerce is taking over the world and this trend does not seem to slow down anytime soon. Giant companies and global conglomerates operating in the traditional retail business have suffered greatly from the competition of online based platforms.

Boundaryless platforms can provide you any product at any time, in any given nations; this creates some stresses to legislations because the place of taxation has become more complicated to determine, and large companies have benefitted of VAT loopholes available in different EU countries.

In light of that, the EU has introduced a new system to help businesses who perform online selling B2C. As per the current legislation, VAT rates should be the destination country ones, not the seller's ones.

These laws have been created in order to avoid the localization of certain businesses in countries with a more favorable VAT regime for certain products.

Different VAT rates could have easily led to a distortion in the competition within the European Union countries.

At the moment, you can sell freely online within the whole EU with your national VAT number; however, once you reach a certain threshold of sales during a tax year you need to obtain a VAT number from the destination country and you will then pay the local VAT rates.

This has to be done for EVERY country once you exceed the national based threshold.

Back in the days you should have either established a local branch or nominate a local fiscal representative for your foreign company; the process required a lot of bureaucracy and it took time.

Furthermore, whenever you establish a local branch, the local jurisdiction requires you to pay income tax on the income you made in that country; the VAT direct registration allows you to have a local VAT number but you do not have to pay any income tax in the destination country as you are not established there for income tax purposes.

Assuming you have an online business in Italy and you start selling in France and Spain; until you reach the amount of sales of € *35,000.00* per country, you can still charge the Italian VAT rate.

Once you exceed the aforementioned threshold, you must get a local VAT number and comply with the local VAT laws, filing return and paying tax at the required deadlines.

At the moment Italy has a threshold of € *35,000.00*.

In my experience, I advise to get the VAT number before reaching the threshold. In Italy the process is paper based and there is only once central office processing it. Normally it takes 2-3 months to get it, and until you are not assigned a local VAT number you cannot legally trade in that market!

A different way of dealing with the same VAT problem is MOSS – Mini One Stop Shop. MOSS has been created specifically for non-material products, such as software, licenses, and other online tools.

Back in the days, companies used to base their business in a country where there was no VAT charge for such products; therefore, they had no VAT to pay.

Changing the rule in favor of the VAT rate of the final client residency country required the introduction of the MOSS.

Unlike VAT direct registration, you do not need to obtain a VAT number from the local country tax office, yet you always charge your local home country VAT rate and then file a quarterly statement recapping the different sales in each EU country.

After that, you are required to pay or claim a refund on the VAT charged in each place.

31. Limited deductibility items

PROFIT = REVENUE – COSTS

The above equation seems basic knowledge, unless we are talking about taxable profits! In such regards, tax legislators all around the globe have become very creative about disallowing costs for tax purposes, thus expanding the taxable base and getting their wanted tax revenue without increasing the tax rates.

Italy, just like other countries, has plenty of these examples, and I would like to explain how to make sure that your decisions about tax savings are not affected by a lack of tax deductibility knowledge.

The main concept here is the inherence of the cost; in fact, the cost must be inherent to the activity performed by the business.

Just a quick example: an airplane purchase is deductible in full for an airline, no doubt about it; what about an accountant purchasing it? Would it be inherent to the business activities?

The answer is probably no; thus, I sadly cannot claim my private jet against taxes.

VAT DEDUCTIBILITY

Art. 19bis1 of the Italian VAT code, sets out which items are not deductible for VAT purposes; there is no ground to challenge this decision as it is set by a statute law.

According to it you cannot recover VAT:

- *100%* of any item which is not inherent to your business;
- *100%* VAT on entertainment expenses;
- *100%* VAT on residential property purchase;
- *60%* of VAT paid on any road vehicle purchase;
- *60%* of VAT paid for gas related to vehicles;
- *50%* VAT paid on mixed used items;
- *50%* VAT paid on mobile phones and mobile phone credit.

Mixed used items are items that serve both for the purpose of the business as well as the personal use; since you cannot ascertain precisely the business use percentage.
No question asked, if the tax office audits your books and finds out you did not reduce the deductible proportion of VAT you'll need to payback VAT on top of a minimum *120%* fine. Not the best deal.

INCOME TAX DEDUCTIBILITY

In regards to income tax the non-deductible part of costs suffered is:

- *100%* of any item which is not inherent to your business;
- *80%* of vehicle related expenses;
- *50%* of mixed used times;
- *20%* of mobile phone costs.

Once you have that clear in your mind, you can plan better; but remember that your friend's accountant deducts everything and never got caught!
Please ask your friend if he checked the books properly as you cannot go around this law.

32. Esterovestizione = foreign dress

Let's be honest. Registering and running a business in Italy is very complicated in respect to other jurisdictions.

In Estonia you can register your company in 24 hours with your e-residency card; in the UK it takes few hours to incorporate your business, and in the US the process is very straightforward and you do not need to be physically there.
Furthermore, the great development of information technology allows you to run your business everywhere in the world as long as you have an internet connection.
In the end, all the largest companies in the world make use of the best jurisdiction to incorporate their businesses to save taxes; if they can do that, why can't I?
You are right in your statement, but you must not forget that if you live in Italy you are bound by the law of this country and you probably do not have all the resources that global companies have to pay lawyers and accountants to corroborate evidences to support their case in the unlucky event of investigation.

Before going deeper into this subject, let me explain what the Italian law says about businesses overseas.
According to the Italian laws, a business is incorporated in Italy (and subject to the Italian tax law) if either:

1. Has a registered Italian address;
2. Has its Place of Effective Management (PEM) located in Italy.

Nobody would argue about point n. 1, if you are registered in Italy as a business you must pay taxes in Italy; what about point n. 2?
Point n. 2 simply sets out that if the company's main decisions are made in Italy, the company must be incorporated in Italy and subject to the Italian laws and to the Italian taxation.
But how do you define the residency of the PEM? Nowadays you can do everything remotely, and how do you determine a single place?
Well… the legislators have thought about that and they created a presumption according to which the PEM is based out on the fiscal residency of the Managing Director(s).

Let me introduce you to Bernie who is a computer science expert and writes code for many clients located anywhere in the world.
Bernie is a UK citizen and he has been living in Italy for the past 2 years with his family; he writes code from his house in Tuscany and he is registered as a resident at the local Comune.
He wanted to start his business in Italy, but he found it more convenient to keep his LTD based in the UK in which he was the sole shareholder and director; in the end:

- His clients are not Italian;

- Payments are cashed in the UK;
- The business is run remotely;
- He is not an Italian citizen.

Why should the greedy Italian tax office want a share of that? They have nothing to do with the proceeds Bernie makes from his LTD! The Italian tax office should only tax dividends drawn out from the company itself.

Unfortunately, as Bernie is a tax resident of Italy so his business is! If the tax office finds out it will charge Bernie of:

- Not incorporating the business in Italy;
- Not filing the tax return;
- Not filing the quarterly VAT return;
- Not filing the annual VAT return;
- Not filing the annual accounts of the business;
- Not paying any corporate tax, nor VAT to Italy;
- Not registering and paying INPS contribution.

Remember that general fines start out at a minimum of € *512.00* per charge, and they also carry a minimum fine of *120%* of any outstanding tax due.
This is chargeable for every tax year up to 8 years behind!

If that happens, your business is shut down and you better hire a good lawyer to secure your personal assets or the tax office will freeze them.
This mistake is extremely common among expats living in Italy.

Now the question is, can you operate your foreign business freely while living in Italy?
Yes, you can! But you need to structure your business in accordance with the Italian laws, and in order to do that you definitely need an experienced accountant on your side.
The main thing you have to do is to change the PEM, and in order to do so, the most common and easy thing to do is to just create a board in which the number of Italian residents is lower or equal than the foreign residents.
You can also become an independent member of the board itself.
Anyway, you must balance out the different options, as you must always consider that introducing new managing directors means that the governance of your business will change as well.
Alternatively, you can file a preemptive agreement to the tax office outlining your current situation and requesting their opinion in regards to your business. Often times, they agree that the presumption in regards to your business is not valid

and thus you can keep your company overseas without triggering any tax liability to Italy.

The worst thing you can do is do nothing and wait for the tax office to find out.

Finally, the only thing you do not need to change is your shareholding ownership!

33. MANAGING DIRECTOR SALARIES AND EXPENSES

Being a managing director carries responsibilities and work to be done, and this is why the Civil Code states that companies must remunerate the managing director for his/her duties. By the law, the managing director requires to be paid, thus the unpaid managing director is the exception and not the norm.

The remuneration is set by the shareholders at the General/Extraordinary Shareholders meeting, and the resolution must be registered in the company's book. If any remuneration is paid before the resolution is taken, the tax office disallows its tax deductibility on the company.

The salary is taxable upon the managing director personally at the regular IRPEF rates as it is considered employment income.

Paying a salary to the managing director is a great tax planning strategy in small corporations as it becomes easier

to withdraw funds from the company at lower tax rates, avoiding the double taxation of dividends.
Furthermore, the new residents tax break applies, making it more tax savvy as 70% of it is tax free.

As a managing director you can also obtain refunds for expenses incurred while acting on behalf of the company; think about dining out with clients or prospect clients, private car mileage usage or any other expense incurred on behalf of the company.
On top of it, the managing director is entitled to a tax-free allowance per day he/she incurs in duties outside of the municipality in which the company is incorporated, and this allowance amounts to € *46.48*, increased to € *77.46* per day if abroad.
This amount is deductible by the company but it is not taxable on the managing director as it is a compensation for being outside of the office premises.
Furthermore, it is normally more convenient to let the managing director use his/her private car, since the company can refund the mileage based on chart issued by the Ministero.
The convenence is due to the fact that car related expenses are non-deductible for 80% of its cost.

Once again, this refund is not taxable by the managing director and it is tax deductible upon the company.

34. TFR AND TFM

TFR stands for Trattamento di Fine Rapporto which consists in a deferred remuneration for employees based on the period of employment.

By the law, your employer is obliged to deposit into a fund *7.4%* of your gross annual salary; the fund is then indexed to inflation and is paid back to you at once when your employment is terminated (retirement or dismissal).

It is possible to get advanced payments from your fund for only two reasons:

- Your main residency purchase;
- Employee's (or his/her close family members) severe health conditions.

Until recent years the employer was required to keep the funds within the company; nowadays, according to the employee's determination, there are three options:

- Retain the funds in the company;
- Transfer the funds under the INPS administration;
- Transfer the funds to a qualified TFR fund administered by a third party.

Many employees opt for three as the legislation provides for a tax incentive towards contributions, as well as a matching system from your employer in case of voluntary contributions to the fund itself.

Free money! But terms and conditions apply – see above.

Often times people forget about TFR when comparing Italian salaries to other countries.

How do you tax your TFR once you receive it? Is it employment income or financial income, or something else?

I can confirm that TFR is deemed as employment income and taxed at the IRPEF rates; however, given its characteristic of being a one-off income it is not fair to tax it at progressive rates.

Let me give you a brief example:

Marina was a high school teacher for her whole life, working at the same school for 41 years, and upon retirement she receives her TFR fund amounting to € *78,000.00*.

If the regular taxation applies, Marina would suffer a 43% tax rate on most part of her TFR and this is totally unfair as her income has been accrued over the years.

The legislator thought about that and introduced an alternative type of taxation called "*tasssazione separata*".

Under this scheme, the actual taxation is calculated as the average tax rate over the years that the taxpayer suffered.

This way, the tax rate is greatly reduced and normally it does not exceed *30%.*

Self-Employed do not benefit of any deferred income. The only exception to this rule are managing directors receiving a salary for their work; in such case, the company can also provide a deferred remuneration called TFM.

TFM is like TFR but for managing directors of companies.
The managing director salary, as well as the TFM, is set by the shareholders through a company resolution; the amount of TFM is calculated like the TFR and it cannot exceed *7.4%* of the gross remuneration paid by the company itself.
At this point the company will create a TFM fund for the benefit of the managing director and will start contributing towards it; contributions are tax deductible and, therefore, provide an immediate tax saving on corporate tax. Not bad!
Despite the immediate tax saving, this strategy has a main fault, specifically for small companies where managing directors are also shareholders (especially family ones), and where the managing director upon retirement or resignation is entitled to receive the funds back.
On one side the managing director is owed money, and on the other side, as a shareholder, he owes money to himself!

How do you solve that? Do you declare bankruptcy because you can't pay the managing director's TFM and declare yourself bankrupt?

You just don't pay?

There is a better strategy for that, which requires the company to subscribe a life insurance policy that will pay out in case of death, resignation or retirement of any managing director. The company has to subscribe to it and pay for it, which also creates a tax saving as the insurance fees are fully claimable against company's profits.

Finally, how do you tax TFM once paid to the managing director?

If the amount is € *1,000,000.00 or less,* the same TFR taxation applies, alternatively the TFM will be subject to regular IRPEF brackets.

35. IS YOUR LIABILITY REALLY LIMITED?

Many people think that running an *SRL* will always shelter you against any potential liabilities; in the end, the company name says it is limited, right?

The shareholder only risks the paid-up capital; nevertheless, if the company has just one shareholder and either the company is not solvent, or the capital was not paid in full, the shareholder becomes personally liable for the company's liabilities.

But what about the managing director?

Often times, the managing director is also a shareholder, and despite the personal liability is limited to the paid-up capital, the same provision cannot apply to the role of administrator of the company. In few cases, the managing director becomes liable personally.

According to the Italian civil code, the managing director need to operate diligently primarily in regards to the company itself, as well as the shareholders, and the third parties.
The main role of every administrator is to manage the company with the due care and diligence, in respect of the shareholders' interests and without incurring in any wrongful or illegal activity.
This of course applies also to every company's managing director.
But when is the administrator required to pay company's liabilities with the personal wealth?

The shareholders and third parties can sue the managing director and seek compensation in case of any wrongdoing, or illegal activities including fraud. Most commonly if the company goes bankrupt, the managing director can face charges for that as he/she was supposed to administer the funds properly, or could have stopped and refrained from incurring in further debts.

Other scenarios include falsification and forgery of balance sheets and financial information, or wrongful communications to the shareholders, investors, and third parties.

Don't be scared; in order to pay with your personal finances there is a procedure that shareholders or third parties must follow.

First of all, you need to be sued for that, and you are subject to judgement. The burden of proof lies in your plaintiff. They must prove that you have committed any wrongdoing in your actions; the fact that the company went bankrupt or it is in troubled water is not enough.

Second of all, the whole trial takes time, and every decision can be appealed twice leaving you with enough time and resources to plan your personal wealth in case of defeat.

Many times, people rush for the limited liability thinking that they can act recklessly because in the end they just risk the capital they put in the company.

Unfortunately, this is too simplistic, and care must be taken in order to understand the advantages and disadvantages of incorporating an entity.

Bear in mind, that the managing director does not need to be a shareholder and you can appoint (and pay) a professional administrator!

36. Innovative Startups and PMI

Since 2012, the Italian legislator has introduced Innovative startups into our civile code. Basically, Startups are srl companies that perform innovative services; this is an attempt by the legislator to boost the digital economy of Italy by providing some simplifications to the company's incorporation and access to certain tax breaks.

First of all, you are not required to hire a notary to setup your startup and the only tax you have to pay is € 200 stamp duty to incorporate the company; no Chamber of commerce fee as well as no registration tax.

The whole process can be done remotely without any power of attorney required; all the shareholders and managing directors can file the memorandum of association and articles of incorporation online e-signing all the required files.

The innovative startup status lasts for 5 years.

Which are the qualifying criteria?

In order to registered as an Innovative Startup, you must have an innovative company scope, which can be the creation of an online platform, digitalization of certain assets, advisory on digital services etc. Basically, your business has to be related to the digital economy.

The company must also:

- Be incorporated in Italy in 5 years or less;
- Be registered in Italy;
- Generate € 5,000,000 in revenues or less;
- Not be listed in any stock exchange;
- Not pay any dividends.

On top of that, in order to retain the Innovative startup status, the company must meet any of the three criteria set:

1. Spend 15% of the company revenues or costs (whichever is higher) in Research and Development expenses;
2. Hire highly skilled workers (1/3 of the workforce must hold a PhD or 2/3 must hold a Master's Degree);
3. Have registered a patent or any intellectual property right in Italy.

What are the benefits of setting up an Innovative Startup? The legislation seems quite strict, however, the legislator introduced various benefits for startups:

- Simplified incorporation procedure;
- 50% tax break on startup investments up to € 100,000 and 30% tax break for investments above € 100,000 and up to € 1,000,000;

- Free access to public funding platforms such as "*Fondo Garanzia*";
- Access to Smart&Start Italia fund;
- Free access to Internationalization ICE platform;
- No chamber of commerce fees and stamp duty to be paid;
- Finance through equity crowdfunding;
- Simplified personnel hiring procedures;
- Simplified Corporate tax returns and exemption from certain anti-abuse laws;
- Easier losses carry forward;
- Easier VAT tax refund procedure;
- Stock Option remuneration available;
- Quicker access to the Investor VISA;
- Fail Fast (you are not subject to bankruptcy).

This is quite a list, isn't it?

In my opinion innovative startups are a great tool to simplify the incorporation process and have a quick access to funding, as well as providing a great abatement for your paid-up capital since you can benefit of a 50% tax break on your personal tax return.

Imagine that you invest € 50,000 in any startup, you will get back € 25,000 as a tax credit to claim against your IRPEF in up to 5 consecutive tax years.

Should you pay € 25,000 in tax per year, you will use your tax credit in full during the first year; alternatively, you can carry it forward.

Once the 5 years lapses, the innovative startup turns into an innovative PMI for further 5 years, retaining most of the benefits associated to innovative Startups.
In order to retain the Innovative PMI status, the company must meet two of the three criteria set:

1. Spend 3% of the company revenues or costs (whichever is higher) in Research and Development expenses;
2. Hire highly skilled workers (1/5 of the workforce must hold a PhD or 1/3 must hold a Master’s Degree);
3. Have registered a patent or any intellectual property right in Italy.

Innovative PMIs, unlike Startup, are not required to have an innovative scope, therefore they can perform any traditional business while retaining the benefits associated to the innovative Startups.

37. POWER OF ATTORNEY

The power of attorney is a written authorization empowering an individual to represent or act on another's person or entity behalf in business, personal affairs, or any other legal matters.

The power of attorney requires an individual or an entity (*principal* or *grantor*) to authorize another individual called the *agent* to act on his/her behalf.

Think about all those very busy entrepreneurs that have to sign deals and do other stuff every single day; they normally provide power of attorneys to one or more trusted individuals to act on their behalf.

The power of attorney becomes very handy if you are not physically present in Italy and you need to meet a notary or sign other important papers' you then have two options:

- Go to Italy;
- Provide a power of attorney to someone.

Before explaining the benefit of the power of attorney, let me highlight the different types available:

- GENERAL - means that the agent can do everything on your name with no limitations or exclusion;
- LIMITED - allows the agent to perform the acts as defined by the power of attorney itself;
- DURABLE - normally the power of attorney ceases its functions if the principal becomes incapacitated while the durable power of attorney allows the agent to act even in such case;

- SPRINGING - identical to the durable one; however, the agent cannot act UNTIL the principal is incapacitated.

Unless you have total trust in your agent, I normally advice to provide a limited power of attorney. As a tax accountant I often times receive powers to act on behalf of different clients globally; especially when a notary is involved.

This is very convenient, because the client does not need to be physically present to the meeting, delegating the bureaucracy to me; moreover, the notary can only sign deeds if both parties involved know Italian.

If this is not the case, the party needs to be assisted by an interpreter or provide a power of attorney to someone that does.

So, let me explain how the whole process works.

First, you need to draft and sign the power of attorney, which is basically a written agreement between parties.

The signature has to be notarized by a public notary chartered in your local jurisdiction, which recognizes Italy.

Once you have done that, you need to apostille the document and send it to your agent in Italy; finally, the agent can now act on your behalf!

The power of attorney is very helpful when you need to set up a business in Italy, as the agent can witness the notary deed, set up the bank account, and deal with the public offices as required by the law.

38. Being right costs. A lot!

Yes, you read it right! Being right costs time and money.

This is by far the most important lesson I learned from my experience as a tax attorney, representing clients at court in litigations against the tax office.

If you run a business you should be aware of the difference between revenues and cost and taxes belong to the cost category. You must then always think about every decision in a tax perspective thus considering the risks associated with your choice (including the chance of a tax litigation) and the tax saving associated.

You must then always have in your mind these two variables: time and money.

Let me explain you how the whole tax litigation system works.

If you receive a letter from the tax office it is likely that you owe them money, or they deny you a tax refund; bear in mind that you have 60 days from the day you received the letter to appeal their decision and sue the tax office.

If you fail to sue within the 60 days, you lose the right to appeal and you must follow to the tax office claim, whether it is right or wrong! No mitigating factors apply.
If you think about other judicial matters, unlike tax litigation, you normally have several months or even years to sue the counterpart; 60 days is a very narrow timeframe to build a great and effective strategy. Time does not play in favor of the tax payer in tax litigation cases.

Prior to the issue of the letter, if there is any mistake or amendment to be made, you can ask directly the office to correct it. Assume that you filled a tax form improperly or the tax office digital infrastructure does not match data available to them; you show the required supporting evidence to the office and they can amend the letter or withdraw it.
This process is called *Autotutela*, and for some matters it can be processed online.
Bear in mind that the Autotutela does not stop the 60 days clock.
If the Autotutela did not work, you are left with no other choice than to appeal the letter and sue the tax office. Good luck!
Based on the amount challenged, you might be required to start the litigation through a Mediation (as an Alternative Dispute Resolution known as ADR) and potentially negotiate

an agreement with the tax office, alternatively you can go straight to court.

Tax litigation cases also require to pay to go to court. In fact, on top of the court fee (which varies depending on the value challenged and cannot exceed the amount of € *1,500.00*) you must pay *1/3* of the amount challenged before starting the trial. It's logical that in case of a denied refund, you are only required to pay court fees.

Assuming you received a letter that requires you to pay € *9,000.00*; you must pay € *120.00* in court fees and € *3,000.00* to start the trial. Simply crazy!

Unless you can prove that the tax payment will expose yourself (or your business) to an immediate and irreversible threat, you are required to pay such amounts.

Remember also that you must appoint an attorney if the challenged amount exceeds € *5,000.00*; you then need to appoint either a tax accountant or a lawyer.

Once you have done that, the trial finally starts and the time frame is relatively short given that you normally have a judgement within few months.

Normally, the unsuccessful party has to pay the other party's legal fees.

Before starting a trial, you must consider:

- The tax payments to be made;
- Your attorney's fees;
- The risk associated with the trial;
- The time required to obtain the final judgement;
- In case of unsuccessful claim, the other party legal fees.

As I stated before, you must always consider if the legal action is convenient based your financials.

The unsuccessful party can appeal the judgement to the upper tax tribunal and it can only appeal against the unsuccessful claims; furthermore, you cannot provide any additional evidence as of the first trial.

You can still appeal the judgement on points of matters and points of law.

The bad news is that you have 60 days to appeal the previous judgement, and you must pay the remaining 2/3 of the claim.

Basically, you end up paying all the dues.

Once again, the unsuccessful party can appeal the judgement to the highest court of Italy: the Corte di Cassazione. At this third level you can only challenge the

matters of law and you must appoint a lawyer because tax accountant cannot represent clients at the Corte di Cassazione. Once the judgement is final, there is no further appeal and the decision is "finally" binding between the parties involved.
Note that at every level the trial can be sent back to the first or second tribunal to reprocess certain information, thus the timing involved can be incredibly long.
Just to mention one of the longest cases in tax litigation, many Italian artists challenged a decision made by the tax office in *1997* which was finally settled in *2016*. *19* YEARS!!!

Once you have the whole process clear in your mind, you can easily understand the statement made at the beginning. Being right costs. A lot!

Is there a way to save money on taxes and avoid a lengthy and consuming trial?
Yes, there is. Actually, there are two other procedures to avoid the trial:

- Acquiescenza;
- Accertamento con adesione.

My first tax supervisor had a very important line about the tax office. "You can always negotiate with them [tax office]!

Once you agreed on the amount, you will start the negotiation on the terms of payment."

He was/is more than right!

Acquiescenza is a sort of plea. You waive your right to appeal the decision and in turn you pay *1/3* of the fines due.

Essentially, you pay taxes in full, but the fine is reduced; on top of it, you can pay it in installments.

Accertamento con adesione is a negotiation in which the tax payer settles both the tax due and the fines. The tax payer starts a negotiation with the tax office proposing a settlement agreement; the tax office can deny or accept it.

If the accertamento is denied, then you need to start a tax litigation; if accepted, you definitely saved on taxes and time.

The Accertamento con adesione is often used as a way to earn more time before appealing, as it stops the 60 days clock.

39. Why always me?

Have you ever asked yourself why the tax office has decided to audit you instead of somebody else?

Do you think it is just misfortune or the fate?

Not really! There is a motivation that triggers an audit from the tax office, and I will explain it.

Firstly, you must understand how the whole audit system works in Italy.

Every year, the Department of Economics and Finance of Italy sets out the directives in regards to audits, identifying the business sectors and industries at higher risk of tax evasion and tax dodging.

The directive is based on the tax office data as well as the National Statistics Institute (ISTAT) data, and it also defines the required goals to tackle the phenomenon of tax evasion. This is basically a budget made by the Department to provide goals to the tax office.

Based on the goal, the number of required audits is set, as well as the business sectors to audit; these audits are then divided among the different tax offices located throughout Italy.

A common strategy to reduce your risk of being audited is the place of incorporation or residency. Think about the risk of being audited as a lottery; the tax office draws a number and a company will be audited.

Since number matters, do you think you have the same chance of "winning" if the participants are *10,000* or *100,000*?

Absolutely no!

The same happens with audits: if you are incorporated in crowded areas where there are more lottery participants, you are less likely to be audited!
The tax office knows that and provides more resources and personnel to larger areas; anyway, this is not sufficient, and a large imbalance exist.
It is, therefore, less likely to be audited if you are incorporated in Milan, instead of Bergamo.
This first conclusion has effects on the place of incorporation; bear in mind that this is totally legal, and you have the right to incorporate wherever you want.
Have you thought about that?
Having said that, you still have a chance to be audited regardless of your incorporation place. Let me explain how the audit process actually works.
One morning the tax office knocks at your door. Panic!
You are not used to deal with the tax man; moreover, they just showed up without notice.
Always open the door and be gentle; any strategy to delay or postpone the investigation is not well welcomed, and more importantly it does not help you.
Every audit needs to be motivated. The auditor will show a paper outlining the scope of the audit and the motivation that lead to the inspection; you can take your time reading it and

you have the right to be assisted by your accountant and/or lawyer.

The auditors can access to the documents outlined in the audit letter, and cannot extend the investigation to further papers and letters. If they ask you to provide further documents at this stage, you can politely refuse and offer your availability to show them at due course upon being shown a letter stating so.

I also advice to log all the activities the auditors perform at your place; in case of any irregularity arises, you can appeal to the Garante del Contribuente which, among other duties, oversees the auditors works.

It is free and you do not need any attorney; you can simply send a letter to them, and they will investigate the matter.

After completing the audit, the inspectors will write a report requesting your signature at the bottom; you have the right to take a look at it, add notes, and receive a copy.

The auditor will ask you to sign it, but you are not required to if you do not want to.

At this stage, the most common mistakes are:

- Not reading the report;
- Not adding notes and stating that you will show any missing papers at due course;
- Signing the report if unclear.

The most important mistake is the third one: remember that your signature is extremely important, and the auditors know that; if you sign the report it means that you agree with EVERYTHING written therein.

In other words, you cannot challenge the report later if you signed it.

The auditors have many rights, but they also have various obligations, they cannot do whatever they want.

For instance, the auditors cannot remove the accounting books from the office (yet, they can take copies); they cannot access private homes and accounting firm offices without a warrant (unless you open the door and let them in).

These are your rights and there is nothing wrong in doing so; however, you must be aware of what you can and cannot do; if you are in doubt, call your accountant!

The auditors cannot have access, unless they gather enough evidence, to personal lockers, bags, purses, and wallets as long as you don't show them. They have the right to ask, and you have the right to refuse.

If you decide to cooperate, you must be aware that is YOUR choice and you will bear the consequences of it.

Once the audit is over, you can always appeal it at court and start a tax litigation.

40. ROYALTIES

Royalties are the payment received by the owner of Intellectual Property for the use of it.

Royalties are mainly paid for the business use of:

- Trademarks;
- Patents;
- Copyright;
- Software license;
- Industrial processes and formulas;
- Any Intellectual Property that can be registered.

Think about the author of a song: anytime somebody plays it, the author is entitled a royalty; the same thing happens to software, as if you want to use it you must pay a royalty for the license.

Every day, we pay royalties and it is very interesting to understand how in the Italian tax system, royalties can be a very advantageous tool for tax planning.

Royalties are taxable in Italy just like any other source of income; however, there is a 25% lump sum deduction (or tax-free royalty) to reimburse the proprietor for the costs suffered to develop, or buy, the intellectual property.

Let's say that Thomas developed an application software for an online finance platform; Thomas receives an annual payment of € *50,000.00*, and you would assume that he would pay IRPEF on that; anyway, the *25%* deduction limits the taxation to € *37,500.00*.
In case Thomas is 35 years of age or younger, the lump sum deduction is then increased to *40%*, leaving Thomas to pay taxes on € *30,000.00* of the royalty income generated.
This tax advantage does not have a period limit and you are not required to register and pay INPS.
Not bad at all!

This regime does not apply to businesses; however, since *2015* it is possible to exploit another favorable tax regime called "Patent Box".
This regime allows up to *50%* reduction of the income generated by any Intellectual Property (excluding trademark license) for a maximum period of 5 years.
The reduction is calculated on a formula that must assess the costs suffered for the creation of Intellectual Property:

$$\frac{a}{a+b}$$

Where:

a = costs related to Intellectual Property

b = total costs suffered to create Intellectual Property

Based on that, you can reduce your taxable income up to *50%* for 5 years; the Intellectual Property can also have an internal use, and the taxpayer must assess the income related to the internal use.

Royalties become a very handy tool for tax planning, but often times accountants mistakenly overlook it.

Case Studies

Real life case studies of tax mitigation strategies

41. CASE STUDY 1 – THE E-ECONOMY

There is no secret: The Internet has changed the world, and it will continue doing so.

Internet created new jobs and boosted traditional ones; the way we do business now has greatly changed, and there is no sign this impetuous revolution will cease any time soon.

Think about your social media feeds, you are constantly bombed with messages and advertising from marketing experts, digital course editors, online shopping experts, drop-shipping businesses, online course instructors, life coaches etc.

The power of the internet is undeniable. You can reach more clients, regardless of your location, while your clients can buy your product at any time of the day without being present during the transaction.

Think about it for a second… If you have a retail store you must be present during day time, deal with clients, respond to enquiries, and sell; with online stores you can do it anytime of the day in any location of the world, without a physical store, outsourcing the manpower to any country where labor is cheaper.

What about online courses?

This is even better! You upload your content, and people pay a subscription to see it; the whole funnel is already managed, and with few technologies you can leverage your business and cash important amounts of money.
Online business is the ultimate entrepreneur's dream since you can make money in your sleep!
Of course, this is not automatic and you need to put tremendous efforts into your project, however the scale your business can reach was unthinkable just few years ago.

Having said so, let me introduce you to Mark. Mark is a young web entrepreneur who, after 5 years in London, decided to give a turn to his life and move to Italy. He left his job in the city for a relaxed lifestyle in the Italian countryside, and he decided he will make a living out of his main passion: digital marketing and online sales.

Mark started out in 2015 generating video content and several e-books about digital marketing and online sales (I have to admit that his contents are really good!) that were available on his website, whereas teasers were available on his Facebook, Instagram, and YouTube channel. The whole 2015 was not successful at all in terms of profitability since very few people subscribed to his content, and all the efforts (and money) to generate and push content were not creating any major interest.

Mark is very stubborn and, despite the initial underperforming campaigns, he doubled his investments and pushed even more content through his pages.
At this stage the setup he chose (more likely he was advised to choose) was the regime forfettario, which was the right choice at the time.
Little expenses, simplified accounting, very little income, and no hassle. In the end, if you make no money, why should you pay any tax?

Luckily for Mark, during 2016 his business took off; he soon racked up hundreds of new subscribers, and his bank account was suddenly ramping up each day.
Unfortunately, his tax was following this path too… The more he earned, the more he owed to the tax office, and this spiral seemed never-ending.

Don’t get me wrong, Mark was still making money, yet a consistent part of his earnings was diverted to pay VAT, Income tax, and Social Security Payments. Why?
Simple. Mark had little tax knowledge and focused on his business, thus he did not put too much efforts in

understanding his business structure for tax purposes, yet when his tax payments became larger, he started to enquiry it and look for a viable solution.

One day Mark contacted me and we started working together on a tax minimization strategy; on the first meeting, Mark highlighted it to me how he could easily run everything through a UK Ltd and keep his money offshore; when he needs some money, he can pay himself a dividend. In the end, how can the tax office know about it?
We all know the answer by now…

I found a better solution to him!
First of all, when you operate online you must bear in mind that part of your retail price is VAT; in Mark's case he offered three subscription plans € *199* - € *599* - € *899*; despite the numbers look good, you must deduct *22%* VAT to it and Mark's earnings turn into € *163.11* - € *490.98* - € *736.88*.
This resulted in Mark having quite substantial VAT payments to perform every quarter.

First of all, we were able to change Mark's business from a tax point of view; as I said earlier, Mark was selling mainly video content, yet he had some e-books available.

Once he acquired the ISBN code for each book, he changed his activity from “content seller” to “editorial business” providing his video for free!
This simple change allowed Mark to benefit of the reduced *4%* VAT rate instead of the regular *22%*; now his subscription plans look like € *191.34* – € *575.96* - € *864.43*
Not too shabby!
In the worst-case scenario, Mark gets € *28.00* more per copy of book sold, without creating any content nor making any effort; this is the power of tax intelligence!

The new business is structured as an *SRL* in which Mark is the managing director; the ownership base is split *95%* to him and the remaining *5%* to his brother. This allows the Director to draw a salary for his duties and to deduct various expenses and the *per diem*.
Finally, since Mark is the ultimate creator and editor of his contents, he can be paid by the company for the use of his creations!
We then signed an agreement between Mark and his company, in which Mark is entitled a royalty of *10%* of the gross sales made by the company itself; Mark only pays tax on *60%* of the proceeds as *40%* are tax free.

This whole restructuring game allowed Mark to reduce his tax expenditure of around € *125,000.00* in a single tax year. Mark is a happy taxpayer now.

42. CASE STUDY 2 – Financial income

Tell me a better retirement place than the countryside of Tuscany?

That's what Gemma has decided for her life.

I met Gemma a couple years ago when she contacted me upon her relocation from London to the countryside of Siena. Her plan was straightforward: she wanted to leave England and retire under the Italian sun in the lovely countryside of Tuscany where she just recently purchased an old winery to restore and revamp, making it her new home.

After more than 50 years living in London she felt that it was about time to change her life for good! Her sons are stepping up in their business careers, and she has enough resources to refrain from showing up at her job daily.

Gemma contacted me after reading horrific stories of wealthy people like her moving to Italy and getting hit hard by the Italian Tax Office down the road, costing for people like her, the end of their *Dolce Vita.*

Gemma was left a considerable amount of money after the passing of her aunt, and she wisely invested her finances throughout her working years, planning for the pension days to have enough passive sources of income. Furthermore, part of her wealth is invested in rental properties that are currently let out and generate a steady stream of rental income.

Once you establish your tax residency to Italy, you must pay taxes on your worldwide income, but most importantly you have to pay the wealth tax on your foreign held assets; and this is where I provided Gemma valuable advice to minimize any potential tax expenditure.

In regards to the houses there is not much I could really do as she could have transferred the property to her children, but still there is no tax advantage in doing so.
Property taxes payable on her foreign properties are minimal, and the taxation on rentals is not too different from the UK to Italy; furthermore, any type of planning in regards to properties requires a conveyance deed and lawyer fees to be paid. We then agreed to leave things as they were.

On the other hand, in regards to her personal financial position there is a lot of work to do.
Since Gemma had multiple financial investment that accrued throughout her whole life, we needed to investigate deeper into them and possibly rationalize them prior moving her tax residency to Italy.

The first thing we analyzed were the latent capital gains; since financial income is taxable only when realized (cashed out), moving to Italy will subject all the future sales to Italian taxes, regardless of the fact that part of it was accrued while abroad.

The Italian tax law is quite punitive as it taxes financial income at flat *26%* with non-recourse on foreign tax paid nor tax withheld; on top of that, Italy has multiple restrictions on carry forward losses that reduces the possibility of mitigating future capital gains exposure.

Prior moving to Italy, we liaised with Gemma's personal financial advisor to have an up to date overview of her finances, and we decided to go for the bed & breakfast option.

Normally, the bed & breakfast is a simple financial operation in which an individual sells a financial asset to buy it again the next morning. This leaves the portfolio value unaltered, but it rebases the tax costs at the new value; the uplift result (most likely!) in a lower future tax liability.

Yet, we advised on a twist plot on this plan.

First, instead of repurchasing the same financial products/funds, Gemma opted for similar ones administered in Malta.

Second, the repurchase has been made by Gemma's newco società semplice (in which her children are partners at minimal stake). Let me explain why we did that.

In a globalized world, the financial instruments are almost endless and you can literally move billions of dollars across jurisdiction from anywhere in the world, at any time. We have chosen Malta since the Double Tax Treaty grants a whopping 0% withholding tax on income paid to Italian residents, solving ultimately the foreign tax credit problem.

Finally, we opted for a *Società Semplice* ownership for wealth tax purposes. A Società Semplice is required to disclose its foreign held assets, but does not have to pay any wealth tax!

The società semplice required some administration to be undertook, including a notary deed, yet the tax savings already paid off in the first year.

43. CASE STUDY 3 – Digital nomads

Nicklas is from Denmark, and after successfully graduating from a prestigious English college he developed quickly his career into the machine learning field, allowing him to become a world known guru.

Nicklas is now in his thirties, and he has embraced the life of the digital nomad!
He travels the world with his fiancée, performs his work duties remotely for his clients, and he takes countless masterclasses and webinars from all over the world.
Who wouldn't want to work from Ipanema beach, and the next month from the Rockies? Whenever he shows me his pictures of his recent trips, I am a bit jealous…
Yet they decided based their life out from Italy. After all, you need a place to call home, don't you?

Moving to Italy is an important decision under multiple aspects, nonetheless taxes! We all know a friend of ours that recklessly moved to Italy without doing his/her homework about taxes and got hit hard down the road. Well… Nicklas is not going to be one of those since he spends time and resources into planning, and we had enough time to decide if Italy was the right decision on a financial point of view.

Let me explain the main sources of Nicklas' income. First, he makes money through licensing his software; he is the inventor of this online solution, and he keeps updating its features to make it more appealing and efficient.

Then he makes money as a consultant, advising on tech solution to solve real life problems for companies and public organization.

Finally, he hosts webinars and online classes in which he teaches computer science topics to learners; sometimes he hosts the whole class, sometimes he is just a speaker.

Until now, Nicklas was structured with a simple sole proprietor VAT number in Denmark, and he regularly invoiced all his clients: very simple structure but very costly!

Nicklas contacted me for a simple reason: he has seen his profits increase steadily, yet his disposable income did not follow the same pattern (in the end he is a number guy); he was wondering how that could be, and if there is any way to mitigate such phenomenon.

My answer was very simple: Progressive brackets. The more you earn, the more you pay. Once you are aware of that, your mind is ready to follow me through my tax strategy.

Nicklas was well aware of his tax obligations, and his intent was not to fraudulently or wrongfully dodge taxes, yet he simply wanted to make taxes affordable to have more resources to invest in his software.

The first thing we did was splitting his two main activities: the first one related to the software development had to be enveloped in a company, while the other freelancing activities can be administered through a personal VAT position. Let me explain you why.

Having a dedicated *SRL* for the software development allows Nicklas to reduce sensibly his taxable income as this is funneled through the company, creating an immediate saving for income tax and INPS purposes.
The company has to pay taxes, yet it can benefit of the “Patent Box” regime allowing up to *50%* of its revenues to be tax free.
Nicklas, as a managing director, can also deduct costs related to its duties, especially those regarding travels and accommodation, reducing the taxable income further down.
Since he is the inventor of this software, he can sign a royalty agreement with the company transferring part of the revenue generated by the *SRL* to him directly.
Royalties are taxed on him only for *60%* of the proceeds, with no INPS due.

In regards to his personal freelance position, Nicklas is a new resident as of *2020*, and he can benefit from the new resident's tax regime, making *70%* of his income tax free for 10 years!
This flexibility allows Nicklas to have a more efficient tax positioning with more resources to be used to develop his software.

44. CASE STUDY 4 – REAL ESTATE AND INNOVATIVE STARTUP

I have to admit the title does not sound right; how can real estate be innovative? Honestly, real estate is the most traditional business or investment; no engineering, little financial side, physical and immovable good.

How can that be innovative?

It simply is not. However, you can envelope real estate assets into innovative startups to benefit of various tax credit.

I implemented this strategy with Martina, a highly skilled real estate investor. Martina is an architect and she has been flipping real estate for decades; her business plan is simple, she finds a ruined property, flips it, and sell it at a gain.

Martina was concerned about the tax side, especially on capital gains because she needs to hold properties for at least 5 years to avoid any capital gains implications.

Me and Martina started to work together in 2020, and I suggested her to create an Innovative PMI to run her business for two main reasons.

Innovative PMIs carry a 50% tax credit on any paid up capital investment and such companies can benefit of the renovation tax break schemes.

Currently Martina would buy the property for cash, renovate it, cash the renovation benefits in 5/10 years and sell the property as soon as possible.
This scheme has proved profitable during the years; nevertheless, it has various negative implications due to the impact of cash flows.

My solution was to create an innovative PMI and run her business from there.
First of all, she needed an intellectual property to be registered and she must pay 3% of the revenues into R&D expenses every year.
This was not difficult because her boyfriend is good with computer and wrote her a code to be registered at SIAE in Italy; she would then spend around 3% of her revenues into simple R&D expenses such as trademark design.

Let's get into the numbers! First, instead of buying the property outright, she would increase the paid-up capital of the company and then buy the home.
Since Martina always looks for properties between € 30,000 and € 50,000 she can benefit of a straight 50% tax credit in her tax return. You can view that as a 50% discount at purchase.

Furthermore, notary expenses, and registration taxes uplift the purchase cost on which you calculate the capital gain.

Martina would then run the renovations, and she liaised with contractors who provide her a direct discount in the invoice; doing so, reduces the cash out flows because she pays less now instead of paying the full amount and recovering it throughout the years (10!).

Running this scheme allows Martina to have more power on her finances and she can hold her investments for longer waiting for the right selling price, ultimately earning more money.
After completing few projects, Martina is now able to increase the number of projects she can undertake in one year thanks to this scheme.

Finally, she can write off various expenses against her gains including the accounting fees, her salary, overheads and other generic expenditure.