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• ALERT •

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Champions League of Tax Regimes on Foreign Retirees: Italy versus Portugal?

The 2019 Italian Budget Law introduced a favorable tax regime aimed at attracting to Southern Italy retired people who are residents in foreign countries.

According to the new provisions, all non-Italian source income can be subject to a yearly 7% substitutive tax in the event the foreign residency is transferred to Italy.

The main requirements for the new attractive regime are the following:

- the individual earns a foreign source retirement income;
- the individual must not have been tax resident in Italy for the 5 years preceding the transfer of the residency;
- the residency must be transferred to small areas - at most 20.000 inhabitants - of specific Regions (Sicilia, Calabria, Sardegna, Campania, Basilicata, Abruzzo, Molise and Puglia);
- an international agreement on administrative cooperation between Italy and the country in which the individual has his/her current residence is in force.

New residents can opt for the tax regime by submitting the income tax return for the fiscal year in which the residency transfer occurred.

The option is effective for the 5 years following the residency transfer and after the expiration of this term the taxpayer will be subject to the ordinary Italian taxation rules.

The taxpayer can freely revoke the option even before its expiration.

The substitute flat tax is overall applicable to any foreign income earned by the new resident, but the taxpayer may opt for the so called "cherry picking", by excluding from the option some foreign countries in which revenue is accrued.

When a country is excluded from the option, the foreign income produced there will be subject to ordinary taxation in Italy based on the so called "*worldwide taxation principle*".

With respect to countries included in the option's perimeter, individuals benefiting from the new regime are also exonerated from any obligation relating to:

- tax monitoring rules concerning assets held abroad;
- taxation on foreign immovable properties held abroad ("IVIE"); and
- taxation on financial assets held abroad ("IVAFE").

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