A more attractive tax break for workers who move to Italy

On 30 April 2019, Law Decree no. 34 (known as the 'Growth Decree') was published in the Italian Official Gazette. Among other things, it introduces important changes to the '*rientro dei cervelli*' rules on workers who move to Italy. These changes will apply from fiscal year 2020.

The measures are part of a series of tax breaks introduced over the last few years to encourage individuals to move to Italy and become residents here.

Unlike the flat-tax regime available for HNWIs who become residents, this enhanced tax break for earners is particularly advantageous for those who, after moving to Italy, derive a large part of their overall income from work in Italy rather than from foreign income.

The current tax break

As the amendments introduced by the Growth Decree will apply from fiscal year 2020, for transfers of residence made in 2019 it is still necessary to refer to the existing regulatory framework. The current tax break offers workers a tax exemption on 50 percent of their employment or self-employment income if they move their residence to Italy and satisfy certain other conditions.

Workers qualify for the tax break, which is valid in the fiscal year in which they transfer their residence to Italy and the next four, if they meet the following requirements:

— They must not have been tax residents of Italy in the **five years before** they move to Italy and must undertake to remain here for at least two years.

— They must have employment or self-employment income, earned mostly in Italy (such income is 50 percent exempt). Moreover, if they are employees, **they must work for a company that is resident in Italy**.

— They must **hold a management position or be a highly qualified or specialized worker**, as defined by the Ministry of Economy and Finance.

The tax break is also offered to graduates who move to Italy and meet certain criteria.

The enhanced tax break

Following the changes introduced by the Growth Decree, the tax break will be more generous and will be available to a larger number of taxpayers when it comes into force in 2020.

The differences between the old and the new regime are listed below:

— The percentage of the worker's income that is exempt from taxation has **risen from 50 to 70 percent**.

— **A 90 percent exemption** will now be available to those who move to one of the regions in the South of Italy (Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia and Sicily).

— The tax break is no longer restricted to income from employment, an equivalent activity (e.g. directorships) or self-employment: **business income from a new activity in Italy** will now qualify too.

— Eligibility is no longer dependent on **holding a management position or being a highly qualified or specialized worker.**
— It is **no longer necessary to work for an Italian company** under an employment contract with that company or its (foreign) subsidiary, parent or sister company.
— The obligatory period of residence abroad, before moving to Italy, has been **reduced from five years to just two**.

What remains the same

The following rules have not changed:

— the length of the tax break (except as explained below);
— the obligation to work mostly in Italy;
— the undertaking to remain a resident of Italy for at least two years.

Eligibility

As a general rule, individuals who meet the above criteria and move to Italy from fiscal year 2020 can take advantage of the changes introduced by the Growth Decree.

Moreover, even if for some reason they are **not enrolled in AIRE** (the Register of Italians Resident Abroad), Italian citizens who **return to Italy from 2020** will be eligible for the redesigned tax break provided that in the previous two fiscal years they have been resident in a country with which Italy has a double tax treaty.

In addition, the **current regime** will now cover individuals who **return to Italy by 31 December 2019**, even if they are **not enrolled in AIRE**. In this case the regime can also be applied retroactively to any tax years still open to assessment, including any years for which the individual has been served with a tax notice that can still be challenged or that is the subject of pending litigation. Again, the individuals must have been resident in a country with which Italy has a double tax treaty.

Finally, and still on certain conditions, the Growth Decree introduces the possibility of **extending the five-year exemption for a second five years**. In this second period, the exemption is 50 percent of the employment, self-employment or business income (and no longer the 70 percent available in the first five years).

This extension is available to workers who:

— have at least one child who is still a minor or dependant, or is being adopted (in the case of workers who have three or more children who are minors or dependants, the exemption rises from 50 to 90 percent for each of the extra five years);
— become the owners of at least one residential property in Italy after their move or in the twelve months beforehand (it is not necessary for the property to be purchased by the worker who is eligible for the tax break – the Growth Decree stipulates that it can be purchased by the worker's spouse, cohabiting partner or children, even as joint owners).

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