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flash Alert

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Italy – New Law Contains Some Tax Measures Affecting Employees, Employers

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A new Italian law introduces a number of measures affecting individuals – including globally mobile employees – and their employers. As such, the main measures are: the treatment of severance payments, social security exemptions for new hires, "regularization" of an individual's tax affairs, and the roll-out of "pre-filled" tax returns. Unless otherwise indicated, these measures took effect on January 1, 2015.

Why This Matters

Taxpayers and their employers should be aware of the various measures that are part of the new law as they impact the tax compliance process with the use of pre-filled tax returns, the tax treatment of severance payments, and the ability of taxpayers to "regularize" their tax affairs. They also increase the exemption on income paid abroad to Italian resident employees (which could help keep employers' international assignment costs down) and make the hiring of new employees cost-effective for employers through the exemption of employer-paid social security contributions on behalf of the new hire.

The Renzi government's Financial Act for Fiscal Year 2015 (the so-called "Legge di Stabilità 2015") was enacted by means of its publication in Italy's official gazette.[1] The *Legge di Stabilitá* is part of prime minister Renzi's ambitious program of reforms to boost Italian economic growth, reduce unemployment, and redress the country's productivity crisis.

Main Measures Affecting Individuals

Severance Indemnity

For remuneration paid in the period January 3, 2015 to June 30, 2018, to new private-sector employees (excluding domestic workers and agricultural workers) – who start and continue an employment relationship with the same employer for at least six months – the employee may ask the employer to pay out the severance indemnity ("TFR"), while he is still employed, through the monthly payroll, rather than having the amount deferred until the employee severs his employment (or he is terminated). This monthly TFR will be subject to ordinary income and social security taxation, as opposed to the special regime (pursuant to art. 17 of Presidential Decree n° 917/1986) which has typically applied to TFR paid out after the employee leaves employment.

<u>KPMG Note</u>

Employees need to evaluate carefully which represents the most suitable alternative, in light of their financial needs (present and future) and their tax situation.

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New Hires – Employers Get a Social Security Exemption

For employees that are "new hires" before the end of 2015, the employer will benefit from an exemption of three years from social security contributions up to a maximum of EUR 8,060 per year. There are no age limits for the new hire, but the employee should not have had an unlimited employment relationship with any other employer in the six months previous to his being hired.

Cross-Border Employees (not applicable for Switzerland)

The tax exemption on income paid abroad to cross-border Italian-resident employees has been increased from EUR 6,700 to EUR 7,500. Over this ceiling, the ordinary progressive income tax rates apply.

Pre-Filled Tax Returns (Modello 730 Precompilato)

On an experimental basis, the Italian tax authorities are introducing "pre-filled" tax returns starting in 2015, with reference to income earned in 2014. The pre-filled tax return will be available electronically, by April 15 for employees and retired employees, and will be processed using the available information and the data already transmitted by third parties (banks, insurance companies, and social security institutions) to the Italian tax authorities. Starting from fiscal year 2016, it is anticipated that the data used for completing pre-filled tax returns will also include Health Service records (purchases of medicines, medical services, etc.).

The taxpayer can accept the pre-filled tax return or change it, adjusting the figures, and/or entering additional information.

As an alternative to the pre-filled tax return, taxpayers can still continue to submit their tax returns in the usual manner, completing the Form 730 or UNICO form for individual taxpayers.

In order to support the new process, starting in 2015, various filing deadlines have now been brought forward:

a) February 28: the deadline (currently April 30) for the filing by the receiving entity of the data for some deductible expenses incurred in the previous year.

b) March 7: the deadline for the filing of the CU (wage statement that takes the place of the Modello CUD form).

c) July 7: the deadline for (1) delivering pre-filled tax returns to taxpayers and (2) filing the return with the Italian tax authorities.

Voluntary "Regularization" (so-called, "Ravvedimento operoso")

To help taxpayers avoid errors or omissions and to amend mistakes and oversights, the Italian tax authorities will provide information on a taxpayer's assessment pertaining to the correctness of the revenues, fees, income, turnover, and production value specific to that taxpayer.

Where errors and omissions, etc. have been found, the taxpayer will be allowed to avail of the voluntary regularization program and amend his tax declaration for personal income tax, as well as VAT and corporate tax (e.g., IRES, IRAP, etc.) within the terms foreseen by the law regarding audits of taxpayers' returns by the Italian tax authorities.

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A taxpayer can avail of the voluntary regularization program regardless of whether the tax return error has already been assessed or whether audits, inspections, or other investigative activities have already been started by the tax authorities.

Black-List Countries (so-called "Tax Havens")

So-called "tax haven" jurisdictions will be determined according to whether there is an information exchange agreement in place between Italy and the jurisdiction. Where none exists, that jurisdiction may be deemed a tax haven. Changes to the Italian tax code stipulate that a tax haven is a jurisdiction which applies a level of taxation that represents a level 50 percent below what the equivalent level would be in Italy. The black-list countries will be drawn up by the Italian tax authorities.

TASI (Tax on Indivisible Services)

For the new Tax on Indivisible Services (a local tax regarding refuse collection, street maintenance, etc.) the maximum rate for fiscal year 2015 may not exceed 0.25 percent, the taxable base is the same cadastral value used for IMU (local property tax).

KPMG Note

The interesting point regarding TASI is that local municipalities may decide that the tax burden may fall on not only the owner, but also the tenant of a property. This may have implications for assignees who live in municipalities where the tax is also passed on to the tenant and cost implications for the employer in grossing up such a charge.

Pre-Audit Terms for Reimbursements

Tax credits may get "reimbursed" through individuals' tax returns. The reimbursements indicated in the pre-filled tax return can be "pre-audited" by the Italian tax authorities up until seven months after the deadline for submission of the tax return.

KPMG Note

It is not unusual for tax credits that are excessive to raise a "red flag" with the Italian tax authorities who, consequently, may decide to audit the claim in respect of the credits to be reimbursed.

Whereas previously refunds were made in the payroll following submission of the return, there may now be some delay in refunds being made.

Footnote:

1 Law no. 190 of 23 December 2014 (*Legge 23 dicembre 2014, n. 190 -- Disposizioni per la formazione del bilancio annuale e pluriennale dello Stato (legge di stabilita' 2015*) published in "Gazzetta Ufficiale," no. 300 of 29 December 2014**.**

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The information contained in this newsletter was submitted by the KPMG International member firm in Italy. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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