GMS Flash Alert

2017-034 | February 22, 2017

Italy - Expansion of Inbound Expatriate Tax Relief

The Italian government has expanded its favorable tax regime for highly-skilled employees coming to Italy to work. In addition to increasing the amount of tax abatement it offers, Italy is broadening the class of those eligible for the special tax incentive known as the "Inbound Expatriate Regime."

WHY THIS MATTERS

Not only is Italy now offering a more favorable preferential expatriate tax regime – a 50-percent tax break to inbound individuals coming to Italy to work who are Italian residents for at least two fiscal years – but it is also now applying equivalent eligibility rules for this regime both to European Union (EU) citizens and to citizens from countries with which Italy has a tax treaty or an exchange of information agreement.

This could help lower employers' costs related to assignees working in Italy, and provide more flexibility when choosing employees to send to Italy to work.

Background and New Requirements

Italy's 2017 budget law[1] modifies last year's special tax regime[2], known as the Inbound Expatriate Regime (see *GMS Flash Alert* 2016-017, 28 January 2016), which had reduced to 70 percent the taxable base of skilled individuals who have not resided in Italy during the past five years (two years for EU citizens), and who intend to remain resident in Italy for at least two fiscal years. The new law further reduces the taxable base to 50 percent for eligible inbound employees. The benefit lasts for five fiscal years starting with the year in which the individual becomes an Italian tax resident.

Originally applicable only to EU citizens, the new law makes the Inbound Expatriate Regime available to citizens from countries with which Italy has a double taxation treaty or an information exchange agreement.

Eligibility for the 2016 regime was applicable to individuals who:

- have not been resident in Italy in the previous five fiscal years before the transfer, unless the individual is an EU citizen who both:
    - lived continuously abroad during the last 24 months, and
    - has moved to Italy after studying, working, or gaining post-graduate qualifications abroad;
- remain resident in Italy for at least two fiscal years;
- carry out work activity for an Italian resident company and are employed by an Italian resident company directly or indirectly;
- work mainly in Italy; and
- perform managing or directing roles or are highly qualified or have specialized skills.

The new law:

- increases the abatement to 50 percent of taxable income (meaning that only 50 percent of the income earned by the individual from the employment activity will be subject to taxation in Italy);
- extends the requirements for EU citizens – described above – to citizens of countries with which Italy has in place a double taxation treaty or an information exchange agreement.

KPMG NOTE

- The greater abatement of the taxable base confirms the Italian government's commitment to attracting workers to Italy, to stimulating the economy by reducing labor costs for companies, and to increasing the disposable net income of employees/consumers.
- The enlargement of the regime to a wider scope of eligible individuals includes citizens from about 100 countries. Access to the Inbound Expatriate Regime is thus not available to citizens of countries still considered by the Italian government as "black listed."
- The modifications should allow companies with a large number of inbound employees meeting the above conditions to reduce their secondment costs, resulting from the reduction of taxes due in Italy.
- Violating the "two-year tax residency in Italy" requirement will result in a claw-back of the tax benefit by the Italian tax authorities. The method of assessment of this claw-back is not yet clear.

We at Studio Associato Consulenza legale e tributaria await important clarifications about how both the 2016 and the 2017 rules are to be applied. Indeed, there are doubts about many aspects of the Regime's practical implementation. For example, still unclear are the consequences of business trips abroad during the Italian work period, the qualifications of skilled employees, and the types of employment activities.

FOOTNOTES:

1 Law n. 232 – 11 December, 2016. *Bilancio di previsione dello Stato per l'anno finanziario 2017 e bilancio pluriennale per il triennio 2017-2019*. (*Gazzetta Ufficiale Serie Generale n.297 del 21-12-2016 - Suppl. Ordinario n. 57.*)

2 Legislative Decree n. 147 – 14 September 2015. *Decreto Legislativo 14 settembre 2015, n. 147, "Disposizioni recanti misure per la crescita e l'internazionalizzazione delle imprese," (Gazzetta Ufficiale Serie Generale n.220 del 22-9-2015).*

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Wednesday, 8 March 2017 -- The 183-Day Myth When Working in Australian Waters: a Webinar

Time (Perth, Australia): 8:00 am (GMT +8) and 5:00 pm (GMT +8)

KPMG invites you to join us for this live Webinar during which we will discuss the considerable recent Australian Tax Office and media scrutiny on some employer arrangements in connection with services performed in Australian waters. Recent attention has focused on the '183-day rule myth', that is pervasive within expatriate and commercial circles. Under this myth, it is assumed that the Dependent Personal Services (DPS) Articles in Australia's double taxation agreements (DTAs) will provide an exemption from Australian tax in ALL cases where an employee spends less than 183 days in Australia (including Australian waters). Unfortunately, this is rarely the case.

KPMG invites you to join its practice leaders for a Webinar which will highlight:

- Operations that create an Australian permanent establishment (PE);
- The proper application of the DPS Article in Australia's DTAs; and
- Steps necessary to ensure Australian tax compliance.

The live Webinar on 8 March 2017, will consist of audio and slides streamed over the Internet.

Date: Wednesday, 8 March 2017

Time options: 8:00 am (GMT +8) and 5:00 pm (GMT +8)

To register: For the 8:00 am Webinar, click here ; for the 5:00 pm Webinar, click here.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in Italy:

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The information contained in this newsletter was submitted by the KPMG International member firm in Italy.

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