

Growth Decree: new tax incentives for attracting human capital in Italy

The Growth Decree introduced new relevant tax incentives referred to inbound workers, entrepreneurs, researchers and professors who transfer their tax residence in Italy starting from 2020. The new provisions are aimed at attracting (also wealthy) individuals and new capital resources, providing more appealing tax incentives and represent a real boost to the relocation to Italy of “human capital”. What do the new incentives provide for? What are the benefits for employees and the self-employed? Are the new incentives applicable to sport stars?

Tax treatment is a **key factor** for **private individuals**, such as **workers, executives, entrepreneurs** and **professional athletes** who relocate to new jurisdictions. In this respect, recent tax law changes may strongly influence the choice to relocate to Italy.

[Law Decree No. 34](#) of the 30th of April 2019 (hereinafter, the “**Decree**”), entered into force on the 1st of May 2019, introduced new relevant tax incentives referred to inbound workers, entrepreneurs, researchers and professors who transfer their tax residence in Italy starting from 2020. Being included in a Government Decree, the new rules are already in force, but they need to be officially converted into ordinary law by the Parliament within 60 days to become permanent. It is possible that further amendments could be added during the conversion period.

The new provisions are aimed at **attracting** (also wealthy) **individuals** and **new capital resources**, providing more appealing tax incentives and represent a real boost to the relocation to Italy of “human capital”.

These new measures extend the actual range of Italian tax incentives for individuals who currently reside abroad, giving them the opportunity to benefit of a relevant reduction of the

taxable basis if they decide to relocate to Italy.

Indeed, Italian law currently provides for **four different attractive tax regimes** for new resident individuals:

- Article 16 of Legislative Decree No. 147 of 2015, referred to **workers and entrepreneurs**;
- Article 44 of Law Decree No. 78 of 2010, referred to **professors and researchers**;
- Article 24-*bis* of the Italian income tax code (Presidential Decree No. 917 of 1986, hereinafter, “**ITC**”) – even known as “**res-non-dom**” regime – providing a substitutive taxation equal to € 100,000 on all foreign-sourced income earned by the individual new resident;
- Article 24-*ter* of the ITC, providing for a 7 per cent “*flat tax*” on all foreign income (not only on foreign pension income) earned by new resident **retired individuals** moving to the South of Italy.

Notably, the recent provisions of the Decree have modified only the special tax regimes under a) and b), as follows.

Special tax regime for inbound workers and (individual) entrepreneurs

Starting from FY 2020, an individual such as an employee, a self/employed professional or an individual entrepreneur shall be subjected to Italian personal income tax (“IRPEF”) only on 30% of the income (getting a 70% exemption) deriving from the activity performed in Italy if collectively:

- a) becomes an Italian tax resident, pursuant to Article 2 of TUIR. Please note that individuals are considered as Italian tax resident if, for the greater part of a given tax period, are enrolled in the Italian register of the resident population, have their residence or domicile in Italy pursuant to Article 43 of the Italian Civil Code. For instance, individuals who are enrolled in the Italian register as from 4 July 2019 are considered to be Italian tax resident starting from 2020 and, therefore, can benefit from the new tax incentives as from tax period 2020;

- b) has not been tax resident in Italy for the previous two years before transferring the tax residence to Italy;
- c) endeavor to remain in Italy as a tax resident for the following two years;
- d) mainly works or performs his/her activity in Italy.

For individuals who meet these criteria Italian personal income tax can be reduced to **13%** approximately (30% of taxable income * 43% highest progressive tax rate).

Such exemption is increased to 90% – and, consequently, only the **10% of income shall be subjected to income tax** – in case inbound workers move their residency in one of the Italian southern Regions (i.e. Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia, Sicily). In this case, the individual income tax can be reduced to approximately **4.3%** (10% of taxable income * 43% highest tax rate).

The new incentives apply for **5 years** and can be **extended for another 5 years** (in total 10 years) – with a 50% income exemption in the extended period – subjected to some additional conditions (i.e. a residential property is purchased in Italy in the previous twelve months since the acquisition of the Italian residence or in the following 12 months, or there is an underage child; if there are three underage children, the exemption in the extended period is increased to 90%).

Special regime for inbound professors and researchers

Article 5 of the Decree allows researchers and professors moving their tax residence for tax purposes in Italy to benefit of a **90% exemption** of their taxable basis on income arose from the activity performed in Italy.

Starting from the **1st of January 2020**, the benefit applies for the year in which the professor or researcher is qualified as tax resident in Italy pursuant to Article 2 of ITC and for the following **five periods** (for a total incentive period of **6 years**). The total incentive period could be increased up to **eight years** if the taxpayer:

- a) has one underage son/daughter; or

b) has purchased a house in Italy in the previous twelve months since the Italian residency acquisition or in the following twelve months.

Should the children be two or three, the professor/researcher shall benefit from the above-mentioned regime, respectively, up to eleven or thirteen years.

Tax assessment exemption (for the past)

Furthermore, the Decree clarifies that inbound workers (i) who are Italian citizens and (ii) who have not cancelled their name from the list of Italian resident population (“Anagrafe della Popolazione Residente”) but (iii) have been tax residents of a foreign country pursuant to the provisions of Treaty against double taxation for the prior two years can also apply for the special regime.

In other words, the lack of **registration in the Italian “AIRE”** (register of Italian citizens residing abroad) during the last two years, before the relocation, does not represent an obstacle to the eligibility for the mentioned regimes.

In this connection, the Decree introduces – both for workers and professors/researchers – a specific provision triggering relevant effects also for the past. This provision actually nullifies the tax assessments – not yet defined – served to inbound workers by the Italian Tax Authorities to recover the relevant tax benefits when the registration in the AIRE was omitted.

Why professional athletes may be interested

One of the greatest advantages of the new incentives is that the new regime embraces employees and self-employed professionals regardless of their qualifications (i.e. no degrees, masters, or similar are required) or role.

Therefore, the incentives could apply also to **sport stars** (both players and coaches) relocating to Italy as employees of Italian clubs (as well as self-employed professionals). As a matter of fact, this would make Italian football clubs (that generally negotiate salaries of

sport stars net of Italian income taxation) more competitive at an international level to engage football stars.

The tax incentive for inbound workers is an alternative to the mentioned tax incentive system aimed to attracting HNWI's relocating to Italy (100k taxation on a yearly basis on all foreign-sourced income). The new regime for inbound workers could allow a substantial saving on their annual Italian salary, while the new residents tax incentive could allow a substantial saving on foreign-sourced income (e.g. dividends from foreign companies, royalties, etc.). In other words, the 100k tax incentive targets an elite of sport stars with international assets and investments, while the new regime as modified by the Decree provides for a general set of rules potentially applicable to all sportsmen transferring to Italian clubs.

An example may clarify the difference between the mentioned special regimes.

Messi is currently a tax resident in Spain. Should Messi decide to move to Italy and play for an Italian football club in Serie A (for example Milan or Rome), he could benefit from the **new Italian tax regime** (in force starting from May 1st) designed **for inbound workers** that relocate in Italy from 2020.

His employment income (the income he would receive from the Italian football club) would be subjected, for 5 years, to Italian personal income tax on a portion equal to 30% of the income getting a **70% tax exemption**.

Moreover, should he decide to play for an Italian football club in (and move his residence to) the **South of Italy** (e.g. Naples or Lecce), the exemption from income taxation would be higher: **90% exemption on the employment income**.

Moving to Italy Messi would also have another tax option to mitigate his personal tax treatment.

As previously mentioned, specific tax provisions for **HNWI's** wishing to become tax resident in Italy have been introduced. Eligible individuals can opt for a one-off payment of **€100,000** per year for a maximum of **15 years**, regardless of the amount of income received.

Remittances of foreign-sourced income in Italy do not trigger further taxation. However, in this case, Italian-sourced income would be taxed under the ordinary tax regime (43% tax rate plus local taxes).

Why this tax regime may be interesting for Messi? Because a relevant stream of Messi's income derives from the commercial exploitation of his **image rights**. For example, revenues from sponsorship contracts such as payments received by an American sportswear company for sponsorship activities carried out exclusively in Brazil and dividends paid from his **"star company"** could be treated as non-Italian income and taxed under the €100k "umbrella" taxation, regardless of the amount of income received.

Conclusions

The mentioned regimes represent a great tax and wealth planning opportunity for employees and self-employed professional, as well as for Italian companies willing to attract talented workers. In this respect, Italy could also become a *promise land* for celebrities or sportsmen aimed to mitigate their tax burden.

However, such opportunities should be carefully considered once an accurate preliminary tax and wealth analysis has been duly performed with the **support of trusted professionals**. Notably, the analysis should consider the source of income, the asset allocation, the previous tax residence of the new Italian resident, Italy's tax treaty network and the solutions for asset protection and succession planning.

Moreover, a review of the immigration procedures (VISAs, etc.) and of the foreign residency status as well as assistance on the drafting of employment agreements in compliance with the mentioned regimes are crucial issues to be taken into consideration.