



**In this issue:**

Italy: Tax incentive to attract human capital .....	1
Italy: Tax incentive for professional athletes.....	3

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## **Italy: Tax incentive to attract human capital**

### **What is the update?**

On June 28, 2019, the Italian government converted Article 5 of Law Decree No. 34/2019 (the “new Growth Decree”) into law, going in force on June 30.

The new Growth Decree introduces significant amendments to the special tax regime for attracting human capital to Italy, pursuant to Article 16 of Legislative Decree No. 147/2015, including new tax incentives for entrepreneurs, researchers, professors, and other inbound workers who transfer their tax residences to Italy starting in 2020. The new provisions include appealing tax incentives to boost the relocation of individuals and their capital (*i.e.*, human capital) to Italy.

Furthermore, the new Growth Decree clarifies that Italian citizens who are inbound workers can also apply for the special tax regime, if they:

- Have not canceled their names from the Italian resident population list (*i.e.*, Anagrafe della Popolazione Residente); and
- Have been tax residents of foreign countries with treaties against double taxation with Italy for the last two years.

Typically, Italian citizens living abroad who did not register in Italy's AIRE (*i.e.*, registry of Italian citizens residing abroad) during the last two years before relocation might run into obstacles in their eligibility for the special tax regime, but the new Growth Decree removes these obstacles.

The relief allows employees in the first instance to reduce their personal income tax base of 70% and consequently have a taxable income limited to 30%.

### **Who is eligible for the new Growth Decree?**

The new Growth Decree extends the application of the special tax regime to all employees, assimilated workers, or self-employed workers who meet the following conditions:

- Become Italian tax residents according to Article 2 of Codice Fiscale, the Italian tax code, also known as TUIR;
- Lived as Italian tax nonresidents for the previous two years prior to becoming Italian tax residents;
- Qualify as Italian tax residents with plans to remain in Italy for the next two years; and
- Perform their main work activity in Italy.

In addition to expanding access to the special tax regime, the Legislator has decided to extend its application to people who intend to start a business activity in Italy starting in the tax period following the one ending on December 31, 2019.

Unlike the previous formulation of the new Growth Decree, employees are no longer required to hold high qualifications and/or specializations, nor are they required to perform their work activity within an Italian resident company or controlled or connected to an Italian resident company. Furthermore, the required period of residence abroad, before moving to Italy, has been reduced from five years to two years.

On the other hand, Paragraph 2 of Article 16 of Legislative Decree No. 147/2015 remains unchanged. The new amendment provides that all EU citizens (including Italian citizens) and non-EU citizen residents can benefit from the special tax regime if they reside in countries with which Italy has formal treaties against double taxation or agreements concerning the exchange of information for tax purposes and meet of the following requirements:

- Worked toward university degrees, worked as employees or self-employed people, or owned private businesses outside of Italy in the last 24 months; *or*
- Continuously studied outside of Italy in the last 24 months, reaching a degree or post-graduate specialization.

### **New rules and applicable rates**

The new version of the Growth Decree provides a greater reduction in the taxable base of Italian personal income. A 70% tax exemption has been envisaged, compared to the previous 50% tax exemption. Therefore, in light of the above, Italian taxable income for those eligible for the special tax regime is equal to 30% of their total employment, self-employment, or business income.

This tax exemption can be increased to 90% (10% of taxable base) for inbound workers who transfer their residences to one of the following regions in southern Italy: Abruzzo, Molise, Campania, Puglia, Basilicata, Calabria, Sardinia, or Sicily.

### **Timeframe for tax relief under the new Growth Decree**

The tax relief remains applicable for five fiscal years, as envisaged by the previous legislation. However, under the new Growth Decree, the following two groups of employees may be eligible for a reduced level of tax relief for an additional five years as follows:

- A 50% tax exemption for employees with at least one minor or dependent child, even in preadoptive foster care, and/or employees who become owners of at least one residential real estate unit in Italy after being transferred to Italy or who become owners of at least one residential unit in Italy within the 12 months prior to their transfer; and
- A 90% tax exemption (10% taxable base) for employees with at least three minors or dependent children, even in preadoptive foster care.

### **Effective date of the new incentive rules**

The requirements provided by Paragraph 2 of Article 16 of Legislative Decree No. 147/15 and the following two conditions remain unchanged under the new Growth Decree:

- Become Italian tax residents according to Article 2 of the Italian tax code; and
- Qualify as Italian tax residents with plans to remain in Italy for the next two years.

The new Growth Decree is applicable to eligible individuals who transfer their tax residences to Italy starting on January 1, 2020, although there are still some interpretative uncertainties that the ministerial practice hopes to clarify in the short term.

Considering the range of possible beneficiaries eligible for tax under the new Growth Decree, appropriate clarifications are expected to be issued by Italian tax authorities, specifically with reference to any interpretative doubts related to the application of the new Growth Decree.

### **Deloitte's view**

The tax relief provided to eligible individuals under the new Growth Decree represents a great tax planning opportunity for employees and self-employed professionals, as well as for Italian companies willing to attract talented foreign workers.

## **Italy: Tax incentive for professional athletes**

### **What is the update?**

The Italian government has introduced new provisions to attract professional athletes as part of Article 5 of Law Decree No. 34/2019 (the "new Growth Decree") converted into law on June 28, 2019 and in force by June 30. The new provisions include appealing tax incentives to boost the relocation of individuals ("inbound workers") and their capital (*i.e.*, human capital) to Italy – these provisions are known as the special tax regime.

### **Why might professional athletes be interested in the new special regime?**

One of the greatest advantages of the special tax regime is that it applies to all employed and self-employed professional athletes, regardless of their roles or qualifications (*i.e.*, degrees, masters or similar are no longer required).

Therefore, the tax incentives could apply to sport stars relocating to Italy as professional employees with Italian clubs (as well as self-employed professionals) based on contract agreements governed by Law No. 91 passed on March 23, 1981.

The tax incentives for inbound workers under the new Growth Decree is in addition to the tax incentive system aimed at attracting high-net worth individuals (HNWIs) relocating to Italy (*i.e.*, 100,000 Euro taxation on a yearly basis on all foreign-sourced income).

The special tax regime for inbound workers could allow substantial saving on the annual Italian salaries of professional athletes, while the HNWI tax incentive system could grant a substantial saving on foreign-sourced income (e.g., dividends from foreign companies, royalties, image rights).

The special tax regime is applicable to all professional athletes who decide to move to Italy to play or work for Italian sports clubs starting in 2020.

The new tax incentives will be available starting in the 2020 tax period to all professional athletes who meet the following conditions:

1. Lived as Italian tax nonresidents for the previous two years before transferring their tax residences to Italy;
2. Qualify as Italian tax residents and plan to remain in Italy for the next two years; and
3. Perform the main work activity in Italy.

Under the special tax regime, professional athletes would be subject to Italian personal income tax on 50% of their employment income from Italian sports clubs, while the remaining 50% of income from Italian sports club would be exempt from taxation. This special tax regime would be applicable for five years. In addition, a special contribution of 0.5% will be due on the taxable base of the income earned in Italy to support the professional athlete's confederation for young athletes in the future.

### **Deloitte's view**

The special tax regime introduced by the new Growth Decree represents an important tax and wealth planning opportunity for professional athletes.

However, this opportunity should be carefully evaluated, and an accurate preliminary tax and wealth analysis should be performed. The analysis should consider the source of income, the asset allocation, the previous tax residence of the professional athlete, and applicable solutions for asset protection and inheritance planning.

In addition, reviews of immigration procedures (*i.e.*, visas, passports) and a preliminary analysis are needed for any professional athletes who are not citizens or residents of EU countries, including foreign residency status.

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