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Italy stirs HNWI interest with new non-dom regime

Jacopo Dettoni | 08/03/2017 4:39 pm | Comment on this article

The Italian parliament has approved new incentives to lure rich taxpayers into moving their fiscal residency in the country. With the UK revising its non-dom rules amid the uncertainties of Brexit, Italian law firms report growing interest from possible applicants. Jacopo Dettoni reports.

Law firms in Italy are experiencing mounting interest from high-net-worth individuals (HNWIs) looking to tap into the country's Italian Resident Non Domiciled (IRND) tax regime, which came into effect on March 8.

"It's the first time ever that our legislator has pulled the fiscal lever to attract individuals, as opposed to attracting businesses," says Stefano Loconte, managing partner at Italian firm Loconte & Partners. "A fair amount of people are already showing interest in moving their fiscal residency this year." He adds that about 20 people have already applied for IRND status, and estimates that another 100 are about to apply.

Introduced in the 2017 budget approved by parliament in December, Italy's IRND regime establishes a new provision in terms of incentives for high-income individuals to transfer their tax residence to Italy for a yearly fee related to foreign-source income (€100,000 per year as substitute tax on foreign income, with an additional €25,000 for each family member involved in the option). The regime also extends to succession taxes. Inheritance tax will only be charged on assets located in Italy at the time of the individual's death.

With its own non-domiciles (non-dom) regime, Italy is following in the footsteps of a growing number of European countries which have made efforts to attract rich taxpayers. The UK has long been a pioneer in non-dom rules, and countries like Malta, Cyprus and Ireland were not far behind.

Seize the day

"Italy's new rules best suit the needs of entrepreneurs who have one or more companies abroad, or other types of investments that generate large flows of dividends and income," says Francesca Masotti, partner at Italian law firm Masotti & Berger. "On this kind of income, which often are in the order of millions, the new substitute tax may lead to an important saving," she adds, confirming the strong interest from possible IRND applicants that her law firm has experienced in recent weeks.

Depending on country of origin and the type of income, savings vary significantly. Ms Masotti estimates that an entrepreneur generating dividends in France can save almost 60% on his or her final tax bill should he or she apply for IRND status.

Mr Loconte adds that the new rules can lead to substantial savings for those with financial and property assets outside Italy, as well as for top managers with stock options as part of their remuneration package

and sportsmen and women generating and accumulating their income abroad and willing to relocate in Italy at the end of their careers.

The new regime is coming into force right when the UK introduces sweeping changes to its non-dom regime from April 6. These changes, combined with the uncertainty that surrounds the ongoing Brexit negotiations, are forcing non-doms based in the UK to review their circumstances and examine alternatives around the continent, with Italy now adding to the range of tax planning options.

This might only be the first set of rules from the Italian authorities to capitalise on a quickly evolving post-Brexit scenario. The government launched a special task force in February aimed at finding opportunities to lure individuals as well as financial institutions to Italy. Although the country lags behind its European peers which reacted faster in the wake of the Brexit referendum, it now seems determined not to miss out on new opportunities coming its way.