

A photograph of the Colosseum in Rome, Italy, illuminated at night. The structure is lit with warm yellow lights, highlighting its iconic arches and tiered facade against a dark blue sky. The image is partially obscured by an orange banner at the bottom left.

Italy

Introduction

A person's liability for Italian tax is determined by residence status and source of income.

Income tax is levied at progressive rates on an individual's taxable income for the year; this is calculated by subtracting allowable deductions from the total assessable income.

Extended business travelers are likely to be taxed on employment income relating to their Italian labor contracts.

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Income tax

Liability for income tax

A person's liability for Italian tax is determined by residence status. A person can be a resident or a nonresident for Italian tax purposes.

An individual will be considered an Italian resident for tax purposes, subject to tax treaty provisions, if one of the following conditions is met:

- The individual is registered in the Register of the Resident Population for the greater part of the tax year.
- The individual stays for the greater part of the tax year in the territory of the State.
- The individual's center of business or economic interests are in Italy for the greater part of the tax year.

Fulfillment of just one of the three conditions for the greater part of the tax year, even with interruptions, qualifies the individual as an Italian tax resident.

The general rule is that a resident of Italy is assessable on worldwide income. Nonresidents are generally assessable on income derived directly or indirectly from sources in Italy. Extended business travelers are likely to be considered nonresidents of Italy if the above three conditions are not met for 183 days or more.

Employment income is generally treated as compensation from an Italian source if the individual provides the services while physically located in Italy.

Tax trigger points

Technically, there is no threshold/number of days below which an employee is exempted from filing and paying tax in Italy. To the extent that the individual qualifies for relief under the dependent personal services article of a double tax treaty, there will be no tax liability. The treaty exemption will not apply if an Italian entity is the economic employer.

Types of taxable income

For extended business travelers, the types of income that are generally taxed are employment income, Italian-source income, and gains from taxable Italian assets (such as real estate) and fringe benefits (broadly noncash employment income).

Tax rates

Net taxable income is taxed at progressive rates ranging from 23 to 43 percent. The tax rates do not include regional tax or municipal tax. The regional tax rate depends on the region in which the individual is domiciled. Generally, this tax will be charged at progressive rates of between 0.9 and 1.7 percent. As an additional municipal tax of up to 0.9 percent is added to these percentages, the total income tax depends on the Italian municipality in which the individual is domiciled.

Social security

Liability for social security

A state-run system of social security operates in Italy, covering illness, maternity, unemployment, retirement, disability, and family allowances. This system is financed by

contributions from employees and employers, calculated as a percentage of gross remuneration. These contributions represent a relatively high surcharge on labor costs and are therefore of paramount importance in determining operational business costs. The employer's part of the social security contributions ranges from 29 to 32 percent of the gross salary, whereas the employees contribute approximately 10 percent. There are similar percentages for executives, although contributions can be made through different types of specialized funds. It is compulsory in Italy to pay a national insurance contribution to INAIL (National Institute for Accidents at Work) to cover all professional risks. This insurance covers employees against accidents and occupational diseases, and its cost ranges from 0.4 to 3 percent of the gross salary.

Compliance obligations

Employee compliance obligations

Income tax is generally due by June 16 of the subsequent year, although the Italian Revenue can accept late payments with interest. The Italian income tax return must be filed electronically by September 30. The deadline can be extended by the Italian government through a special legislative provision each year.

Employer reporting and withholding requirements

Salaries and other employment remuneration paid by Italian companies, businesses, and professionals are subject to an advance withholding tax, which may be credited against the recipient's income tax liability. The tax is withheld at the ordinary income tax rates on a pro rata basis according to the period for which the payment is being made.

As a general rule, when a company pays employment income to its employee, a monthly withholding tax obligation arises. However, foreign companies that do not have a permanent establishment in Italy are not required to act as a withholding tax agent for the salaries paid to their employees seconded to Italy.

In cases where an Italian company is asked to make benefits-in-kind available to seconded employees (e.g., local housing, company car, schools, taxes), Italian withholding tax obligations will arise.

Other

Work permit/visa requirements

A visa must be applied for before the individual enters Italy. The type of visa required will depend on the purpose of the individual's entry into Italy.

Entrance requirements, immigration procedures, and working activities are regulated by the Schengen Agreements, which have created an area in which people can move freely between the Schengen countries without border controls. EU citizens possessing a standard passport can travel to Italy and do not need an entry visa.

Double taxation treaties

In addition to its domestic arrangements providing relief from international double taxation, Italy has entered into double taxation treaties with more than 40 countries to prevent double taxation and allow cooperation between Italy and overseas tax authorities in enforcing their respective tax laws.

Permanent establishment implications

A permanent establishment could potentially be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

Indirect taxes

There is a goods and services tax (value-added tax or VAT) of 20 percent on taxable supplies. VAT registration may be required in some circumstances.

Transfer pricing

Italy has a transfer pricing regime. A transfer pricing implication could arise to the extent that an employee is being paid by an entity in one jurisdiction but is performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. This would also be dependent on the nature and complexity of the services performed.

Italy's transfer pricing regulations are based on the arm's-length principle, whereby the conditions applied in an intra-group transaction should be consistent with those that would be applied between unrelated entities in comparable transactions. The tax authorities may apply this rule automatically if taxable income is thereby increased; conversely, a reduction of taxable income is possible only under double tax treaties.

Local data privacy requirements

Italy has data protection laws.

Exchange control

Italy does not restrict the flow of Italian or foreign currency into or out of the country, although there are certain reporting obligations to control tax evasion and money laundering.

Regardless of the obligation to file an income tax return, all Italian tax resident individuals must comply with exchange control regulations in Italy and consider whether they also have to declare their foreign investments/transfers to and from Italy.

Exchange control reporting (through section RW of the individual's tax return) is required if such individuals transfer more than EUR10,000 worth of assets (e.g., cash, shares, chattels) to or from Italy or between foreign countries (or the equivalent amount in foreign currency). Italian tax resident individuals may be exempt from this requirement if the payments are made through an authorized broker resident in Italy, as that entity will comply with the reporting obligation on the individual's behalf.

Italian tax resident individuals are also required to report any foreign investments (e.g., real estate, yachts) held outside Italy if they are worth more than EUR10,000 (or the equivalent amount in foreign currency).

There are severe penalties for failure to complete the RW form, if required.

Nondeductible costs for assignees

Nondeductible costs for assignees include contributions by an employer to non-EU pension funds.

Additional tax on managers and directors in the financial sector

Managers and directors in the financial sector are affected by a 10 percent additional tax if their variable compensation is more than three times higher than their fixed salary.

Italian tax rules consider the fixed salary to be the basic remuneration regularly received by an expatriate, as agreed in the employment contract, before any tax and/or social security contributions.

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