

TAX COMPLIANCE WHEN IN ITALY

Tax Year 2022

rev 2022-10-19

Tax Jurisdiction

- As a Resident of Italy, you are subject to **TWO** Tax Jurisdiction: **U.S.A.** and **Italy**.

Taxes

- The United States of America taxes its **CITIZENS** and Green Card Holders on their worldwide income regardless of their location or source of income. Foreigners who are non-residents of the USA are taxed only on their US source income.
- Italy taxes its **RESIDENTS** on their worldwide income regardless of their location or source of income. Italy taxes non-residents only on their Italy source income. A person is considered to be resident in Italy for income tax purposes if, for the majority of the year (at least 183 days a year, 184 for leap years):
 - they are entered in the National Registry of the Resident Population in Italy; or
 - they have their place of residence or habitual residence in Italy.
- Taxpayer physically outside the USA on April 15 are granted an automatic filing extension to June 15 (October 15 with extension). However, you must estimate and pre-pay your tax liability by April 15 to avoid interest and late payment penalties.
- Italian tax filing deadline is September 30, but taxes must be pre-paid by June 30.

Double Taxation

- Double taxation is avoided thanks to the Foreign Earned Income Exclusion (\$112,000 for tax year 2022) and/or Foreign Tax Credits, and/or Tax Treaty provisions. You must file a U.S. tax return to claim exclusions and tax credits.

Information Returns

- Taxpayers need to file a Foreign Bank Account Report (FBAR) with the Financial Crimes Reporting Network (FinCEN) if the aggregate value of all foreign (non-US) financial accounts (bank accounts, brokerage accounts, mutual funds, trusts, etc.) exceeded \$10,000 at any time during the tax. See <https://bsaefiling.fincen.treas.gov/NoRegFBARFiler.html>
- Additional U.S. information returns may be required if the aggregate value of all foreign (non-US) financial accounts exceeds \$200,000.
- Additional U.S. information returns may be required if you are an officer or director, and/or 10% (or more) shareholder of a foreign corporation or limited liability company.
- Additional U.S. information returns may be required if you own over \$25,000 in a foreign (non-US) mutual fund held outside a pension fund.
- Additional U.S. information returns may be required if you are the grantor or beneficiary of a foreign (non-US) Trust.

Who must file a U.S. tax return

You must file a US income tax return if your earnings and filing status are:

Filing Status	Deduction Amount
Single	\$12,950
Married filing jointly	\$25,900
Married filing separately	\$12,950
Head of household	\$19,400
Self-employed	\$400

Self-Employment

- If you are a US citizen and NOT a dual-national, you must pay US self-employment tax (aka social security). If you ARE a dual-national, you may choose were to contribute for your retirement (USA or Italy, Article 7 of the Totalization Agreement). See https://www.ssa.gov/international/Agreement_Pamphlets/italy.html
- If you have Italian resident clients you must open a p.IVA.
- To have rights to a US social security pension you must have contributed for 40 quarters (10 years). To

TAX COMPLIANCE WHEN IN ITALY

Tax Year 2022

rev 2022-10-19

have rights to an Italian social security (INPS) pension, you must have contributed for 20 years. The YEARS that contributions were paid in each country can be summed for qualification purposes in each treaty country.

Working Remotely from Italy

1. You may work remotely from Italy, both as an employee or self-employed person, but must file and pay taxes on such income to Italy.
2. Remote working is considered foreign earned income for U.S. tax purposes and can be included in the Foreign Earned Income Exclusion and/or taxes paid to Italy taken as a Foreign Tax Credit on your U.S. tax return..

U.S. LLCs and/or Chapter S

1. Guaranteed payment and distributions are taxed by the U.S. in the year earned and by Italy in the year physically received. The Italian tax rate is a flat 26% which can be recovered on the U.S. tax return by taking a Foreign Tax Credit.
2. Single member LLCs and/or Chapter S should be avoided, and not service Italian resident clients, since this can be construed by the Italian tax authorities as a tax avoidance scheme, and the LLCs and/or Chapter S, could be taxed as Italian entities (an additional 27.9%).

Pensions

1. Pensions (including monthly IRA distribution) are taxed only by Italy (Article 18 of Tax Treaty), and not by the U.S.A. Exception: Government service pensions are taxed only by the country which pays them (Article 19 of the Tax Treaty), unless you are a dual nation, in which case they are taxed only by Italy.
2. Individuals who meet certain criteria may qualify for the special 7% Italian flat tax regime.
 - 2.1. The exemption begins in the year in which the tax residence is transferred to Italy and the following nine years there-after.
 - 2.2. In order to qualify for the tax incentive, an individual must be a non-resident of Italy who receives a non-Italian pension (public or private sector) and meets the following basic criteria:
 - a) Has not been a tax resident of Italy for the last 5 years.
 - b) Transfer their tax residence to the South of Italy in a qualifying municipality with a population of 20,000 or fewer residents. The qualifying regions are Sicily, Calabria, Sardinia, Campania, Basilicata, Abruzzo, Molise, and Puglia.
 - 2.3. Under the new preferential tax regime an individual would be exempt from Italian income taxes at the normal scale on all foreign income and only pay 7%. This includes pension income, capital gains and dividends, overseas business income, rental income, and social security.

Earned Income Tax Credit

- Not available if you do not live six months in the USA.

Child Tax Credit

- The child tax credit totals at \$2,000 per qualifying child. The refundable portion of the Child Tax Credit remains at \$1,500.

Long-Term Capital Gains

Taxable Income Over	Single	Married Filing Jointly	Head of Household
0%	\$0	\$0	\$0
15%	\$40,400	\$80,800	\$54,100
20%	\$445,850	\$501,600	\$473,750

Qualified Business Income Deduction (Sec. 199A)

- The Tax Cuts and Jobs Act includes a 20 percent deduction for pass-through businesses against up to

TAX COMPLIANCE WHEN IN ITALY

Tax Year 2022

rev 2022-10-19

\$170,050 of qualified business income for unmarried taxpayers and \$340,100 for married taxpayers.

Annual Exclusion for Gifts

- The annual exclusion for gifts increases to \$16,000 for calendar year 2022, up from \$15,000 for calendar year 2021.

Italian Wealth Tax

1. As a tax resident of Italy, you are required to disclose your foreign (non-Italian) held assets and pay wealth tax (generally 0.2%) when due.
2. You must also disclose the assets of which you are the ultimate beneficiary despite not being in your name.

Streamlined Foreign Offshore Procedures

1. If you did not know you had to file, and your omission was not willful, you may be eligible for the Streamlined Foreign Offshore Procedures.
2. These procedures require you to file the last 3 missing individual income tax returns (Form 1040) and six years of FBARs (not counting current tax year, which is 2022).

San Marino

- San Marino is NOT Italy. San Marino has NO tax treaty nor Totalization Agreement with the U.S.A.

Examples of Re-reportable Income (includes but not limited to):

1. Wages and Salaries	6. Capital Gains and Losses	11. Gambling Income and Losses
2. Self-Employed/Freelance	7. Pensions and Annuities	12. Bartering Income
3. Other Business Income (LLC, etc.)	8. Rental Income and Expenses	13. Scholarships
4. Interest Received	9. Farming and Fishing Income	14. Canceled Debt
5. Dividends	10. Unemployment Compensation	15. Other Income

QUESTIONS?

Contact **US TAX ITALY** ustaxitaly@pm.me | +1(805)316-0719 | <https://www.ustaxitaly.com>
English – Italian – German

U.S. CPA <https://universaltaxprofessionals.com> | English

U.S. CPA <https://aataxpros.com> | English – Italian

Italian CPA Verona studiorigo@gmail.com | English – Italian

Italian CPA Roma paolo.montesano@studiomontesano.com | English – Italian