

Italy and Switzerland: Agreement on Taxation of Frontier Workers and Amending Protocol Under Tax Treaty Enter into Force

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Report from IBFD Tax Treaties Unit

On 17 July 2023, the [Italy - Switzerland Tax Agreement \(Frontier Workers\) \(2020\)](#), its [final protocol](#), the [exchange of letters](#), and the [amending protocol](#), all signed on 23 December 2020, under the [Italy - Switzerland Income and Capital Tax Treaty \(1976\)](#), as amended by the 1978 and 2015 protocols, entered into force. The new agreement, its accompanying documents and the amending protocol generally apply from 1 January 2024. Once effective, the new agreement and amending protocol will replace the agreement on taxation of frontier workers between Italy and Switzerland, signed on 3 October 1974.

Under the new agreement, Switzerland will retain 80% of the ordinary withholding taxes levied on the income of the so-called "new" cross-border workers who will commence their employment in Switzerland from this date onward. These "new" workers, referring to those entering the labour market after 17 July 2023, will also be subject to ordinary taxation in Italy; however, provisions within the agreement ensure they will not be subject to double taxation.

A transitional provision will apply to cross-border workers who have been employed in the cantons of Graubünden, Ticino, or Valais between 31 December 2018, and 17 July 2023. These workers will continue to be exclusively taxed in Switzerland. Moreover, Switzerland will provide financial compensation to neighbouring Italian municipalities, corresponding to 40% of the withholding tax it collects, until the end of fiscal year 2033.

Following the entry into force of the new agreement on the taxation of cross-border workers, the Swiss Federal Department of Finance has also amended the ordinance on source-based taxation as part of the direct federal tax, specifically for the taxation of Italian cross-border workers. The amendments will take effect from 1 January 2024.