Italy

Individual - Taxes on personal income

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The main income tax levied on individuals is the personal income tax (PIT), also known as the *Imposta sui redditi delle persone fisiche* (IRPEF).

In Italy, the individual is subject to the following income taxes:

- National income tax.
- Regional income tax.
- Municipal income tax.

The tax liability shall be computed on a progressive rate, and the applicable tax rates are shown below (*see National income tax*).

The scope of taxation in Italy

The tax status of an individual is the starting point for applying the correct taxation in Italy. According to the Italian tax law, both Italian residents and non-resident individuals are subject to taxation in Italy, but on a different basis.

Tax resident individuals

Tax resident individuals are liable to the Italian personal (or national) income taxes on their income wherever produced (under the so called 'worldwide principle'). Therefore, tax residents are also subject to taxation on foreign incomes (e.g. deriving from real estate owned outside of Italy, foreign dividends and interest, foreign compensation and director's fees, and other foreign income).

Tax resident individuals are also subject to 'wealth tax' on real estate and on financial investments owned outside of Italy (*see the Other taxes section for more information*).

Tax resident individuals are required to declare all their foreign investments (financial and not) for monitoring purposes through the Italian tax return.

Tax regime for neo-domiciled individuals

Individuals who transfer their tax residency *(see the Residence section for more information*) from abroad to Italymay elect for the application of a flat substitutive tax, at a fixed amount of 100,000 euros (EUR) (hereinafter the 'neo-domiciled tax regime').

The mentioned tax regime will also apply on:

- the income tax on foreign investments (foreign interests, dividends, and capital gains) with the exception of capital gains on qualified participation earned in the first five years
- the wealth tax on real estate and financial investments owned out of Italy, and
- financial monitoring obligations through the Italian tax return (meaning that the individual is not required to declare one's foreign investments into the Italian tax return).

In addition to the taxpayer, each family member could be subject to a flat forfeiture substitutive tax on non-Italian sourced income at a lower fixed amount of EUR 25,000.

In order to be eligible for this tax regime it is necessary to carry out the option through the annual Italian tax return. In any case, it is advisable to apply for an advance ruling from the Italian tax authorities.

To elect such treatment, the individual must meet several requirements, including previous non-Italian tax residency for at least nine years over ten fiscal years preceding the transfer.

The mentioned tax regime is not cumulated with the tax regime for inbound workers (s*ee New tax regime for inbound workers in the Income determination section*).

Non-tax resident individuals

Tax non-resident individuals are subject to PIT (IRPEF) only on 'income produced' in Italy (i.e. employment income related to the work activity performed in Italy). Therefore, the foreign incomes are not relevant to the purposes of taxation in Italy.

National income tax

National income tax for FY 2024 is levied at progressive tax rate on all income reported below.

Taxable income (EUR)		Tax on excess (%)
Over	Not over	
0	28,000	23
28,001	50,000	35
50,001		43

Additional tax on variable compensation in the financial sector

Variable compensation (e.g. bonus/stock option/incentive plan) paid to an executive/manager in the financial sector (i.e. banks, financial institutions, and other companies whose business is exclusively or primarily to acquire 'holdings'; management companies, *Società di Gestione del*

Risparmio [SGR] and *Società di Intermediazione mobiliare* [SIM]; financial intermediaries) is subject to an additional tax of 10% as described below.

In case the variable compensation is paid before 17 July 2011, the taxable base for the additional tax of 10% is the variable compensation (FY 'n') less three times the base salary (FY 'n').

In case the variable compensation is paid after 17 July 2011, the taxable base for the additional tax of 10% is the variable compensation (FY 'n') less the base salary (FY 'n')

In both cases, the comparison between variable/base compensation has to be applied between variable and base compensation in the same fiscal year (independently from the year of payment).

Flat tax on 'productivity' bonus

Productivity bonus consists of a variable remuneration paid to an employee in light of the improvement of the quality of production and/or of the company's productivity, as long as it is applied for the whole eligible workforce (or homogeneous category of them) grounded on objective, fair, predetermined and materially valuable performing criteria, generally named 'KPIs' (e.g. savings related to electricity, growth of revenue, profits increase, decrease of the production waste; improvement of the delivery time; implementation of the smart working scheme).

The productivity bonus cannot exceed EUR 3,000 per year.

Such bonus is subject to a substitutive taxation equal to 10% as PIT, regional, and municipal withholding, but it is not exempt from social security withholding borne by the employer and employee. The Budget Law for FY 2024 has reduced, confirming what was already provided with the Budget Law for FY 2023, the applicable tax rate to 5%.

With regard to eligibility, employees who have received an annual gross retribution during the previous year (including variable compensation scheme potentially provided) exceeding EUR 80,000 are not entitled to benefit from the aforesaid tax discount.

In order to allow for the application of the aforementioned measures, the employer shall mandatorily sign a collective agreement with unions/work councils. In case of lack of unions/work councils, it is possible to apply a territorial collective agreement (if existing) signed by the most representative unions (if any) in the territory of reference.

Regional income tax

Regional income tax depends on the region of residence. The regional income tax rate ranges from 1.23% to 3.33%.

Municipal income tax

Municipal income tax depends on the municipality of residence. The municipal income tax rate ranges from 0% to 0.9%. Municipalities can establish progressive tax rates applicable to the national income bracket.

Italy contacts

Pasquale Salvatore

Tax Partner - Individual, PwC Italy

+39 02 9160 5810