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A NEW TAX REFORM IN ITALY: 2023-2025

A new Delegation Law sets the path to the tax reform

March 2023

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INTRODUCTION

The Italian government approved on 16 March 2023 a **delegation law**, which indicates the guidelines for the reform but does not deal with fundamental implementation issues such as the level of tax rates, which is the subject of implementing decrees. The direction of the Delegation law is quite clear, as announced by Vice Minister Maurizio Leo.

IRPEF | PERSONAL INCOME TAX

The **flat tax** for all remains the ultimate goal, inevitably given the political majority supporting the government, but it is uncertain in terms of time and funding. The intermediate step seems more concrete, which is the **reduction from four to three rates** that the Ministry of Economy and Finance has been studying for years, while the tax brackets have already been reduced from five to four with the government Draghi's budget law.

There are several technical hypotheses on the table. According to Il Sole 24 Ore the one that seems to have the most estimators in the government combines the first two brackets by extending the 23% rate, which currently stops at 15,000 euros, up to 28,000 euros of gross annual income. The rest of the Irpef landscape would remain

unchanged, with a 35% rate for incomes between 28,000 and 50,000 euros, and 43% above that. Progressive taxation, as set by Constitution, will be achieved eventually working on no tax areas (8,500 euros, in the name of "horizontal equity" has been presented by Gov) and cost deductions.

The reform also provides for **specific rules for different types of income**, such as:

- the extension of the option for a substitute tax also for non-housing properties held by individual
- the provision of a single income category including all financial income
- a systematic provision for the step-up of the values of shareholdings and lands
- the introduction of rules on non-business capital gains realized by collectors on art, antiques, or collectors' items.

The reform seems to work with a low intervention cost (MEF esteems around €4MM) and the **main advantage is going to low-income taxpayers**. This reform is going to respect today flat tax for UHNWI and tax reduction for "impatriate workers" and "pensioners" keeping the great appeal of Italy for the attraction of human capital and Ultra NHWIs.

According to Maurizio Leo, vice Minister for Economy, the personal tax reform will enter from 2024.

IRES | CORPORATE INCOME TAX

Regarding businesses, there is a planned **reduction of the current Ires tax rate for those who invest and/or hire**. There will also be a gradual elimination of Irap. "The taxation for businesses will remain at 24%, but we want to reduce it significantly, even up to nine points, bringing it to around 15% for those companies that invest and hire in Italy," said the Undersecretary to the Presidency of the Council, Giovanbattista Fazzolari.

The reform will provide a general review for **business combination and group reorganization**, in particular regarding tax neutral business and share contributions, according to EU guidelines.

TAX PROCEDURES AND PENALTIES

Tax evasion becomes preventive, no longer repressive via the establishment of the two-year preventive agreement and the strengthening of **cooperative compliance**, the rules of the fight against tax evasion are rewritten, becoming preventive rather than repressive. A revision of tax criminal sanctions, specific relevance will be given to the hypothesis of "overcoming impossibility of paying the tax, not attributable to the subject itself." This is indicated in the draft

of the delegation to the government for tax reform, which sets the principles and criteria for the **revision of the tax sanctioning system**, both administrative and criminal. For criminal sanctions, moreover, specific relevance is also attributed to "the definitions.

A STRUCTURAL REFORM FOR A MORE ATTRACTIVE COUNTRY

The tax reform aims to represent a structural and comprehensive change: a long-awaited revolution aiming to make Italy an **increasingly competitive country able to attract and welcome individuals, investor and companies from abroad**. The reform shows a comprehensive and programmatic vision that should reward taxpayers' loyalty and responsibility and that aims to reduce the overall taxation, increasing growth and fairness, and promoting employment and investment.

Our Firm will monitor and report all news regarding the planned tax system reform for Italy.



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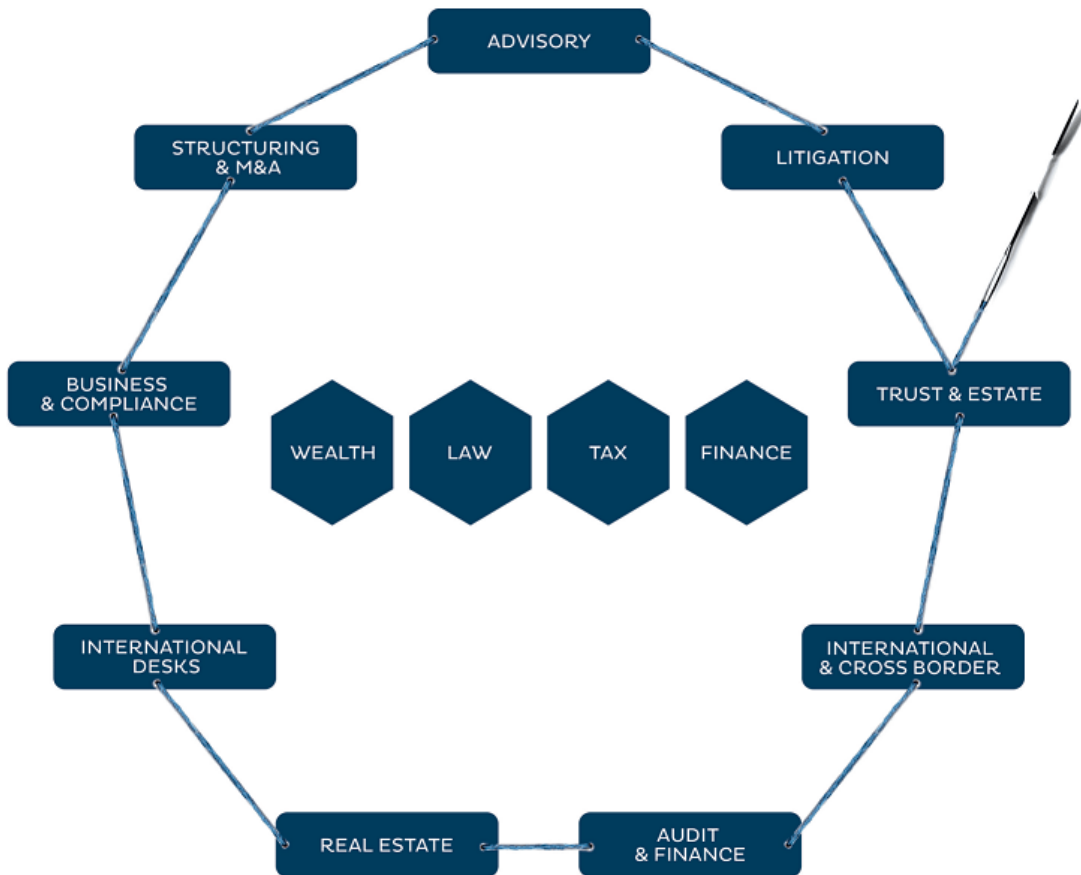
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