

Tax Practice

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Recent developments on Italian tax incentives for individuals moving their residence to Italy

Update following the Law Decree 27 March 2026, No. 38

1. Introduction

Italy continues to be a very attractive destination for individuals relocating from abroad, thanks to a tax framework offering a range of incentives for “new” residents. As this framework continues to evolve, some recent legislative and administrative developments are worth noting.

In this newsletter, we briefly outline important updates concerning the Italian (favorable) tax regimes available to individuals relocating to Italy and transferring therein their tax residence, including a legislative change which has a direct impact on the possibility of cumulating the Italian flat tax regime for new residents with the Italian inbound workers regime (introduced by Law Decree 27 March 2026, No. 38 – hereinafter, the “**Fiscal Decree**”).

2. Increase of the amounts of the Italian flat tax regime for new residents from 2026

The Italian Budget Law for 2026 (Law 30 December 2025, No. 199), which entered into force on 1 January 2026, has introduced a significant amendment to the Italian flat tax regime for new residents (hereinafter, the “**Flat Tax Regime**”) provided under Article 24-*bis* of the Italian Income Tax Code (Presidential Decree 22 December 1986, No. 917 – hereinafter, the “**TUIR**”).

Specifically, the annual substitute (flat) tax payable by individuals opting for the Flat Tax Regime has been increased as follows:

- the annual flat tax payable by the main taxpayer has been increased from EUR 200,000 to EUR 300,000; while
- the annual flat tax payable for each qualifying family member (to whom the Flat Tax Regime may be extended) has been increased from EUR 25,000 to EUR 50,000.

As regards the timing of these changes, it is important to note that:

- (i) the increased amounts apply only to individuals who transfer their residence to Italy – according to Article 43 of the Italian Civil Code (i.e., their habitual abode) – starting from 1 January 2026 onward;
- (ii) individuals who have already transferred their residence to Italy before 31 December 2025 will continue to benefit from the previous regime, meaning that they will be entitled to pay the annual flat tax of EUR 200,000 (or EUR 100,000 under the previous rules, if applicable) in relation to the main taxpayer, and the annual flat tax of EUR 25,000 for each family member to whom the Flat Tax Regime has been extended.

For these purposes, the “residence” is determined in accordance with Article 43 of the Italian Civil Code, which defines it as “*the place where a person has his or her habitual abode*”. In practical terms, the “habitual abode” generally corresponds to the place where an individual normally lives and intends to live on a stable basis, even if not continuously throughout the year.

3. Possibility to cumulate the Flat Tax Regime and the Inbound workers regime

3.1 Italian Tax Authorities’ non-official position issued in 2025: possibility to cumulate the regimes

A further development worth mentioning concerns the interaction between two Italian tax favorable regimes available to individuals transferring their tax residence to Italy.

In a recent, non-published tax ruling, the Italian Tax Authorities considered the possibility of applying simultaneously two of the regimes available to individuals relocating from abroad, namely:

- (i) the Flat Tax Regime; and
- (ii) the Inbound workers (“*Impatriati*”) regime introduced by Article 5 of Legislative Decree 27 December 2023, No. 209 (hereinafter, the “**Inbound Workers Regime**”).

By way of background, the Flat Tax Regime applies exclusively to foreign-sourced income, which is subject to the substitute tax, while Italian-sourced income remains subject to ordinary progressive taxation. Conversely, the Inbound Workers Regime provides for a partial exemption – equal to 50% (or 60% in certain cases) – of employment income related to activities performed in Italy, up to a maximum of EUR 600,000 per year, for a period of up to five tax years, subject to specific conditions.

The case addressed by the Italian Tax Authorities involved an individual moving to Italy who intended to apply the Flat Tax Regime to foreign-sourced income, while at the same time benefiting from the Inbound

Workers Regime in respect to Italian-sourced employment income. The question was whether the two regimes could coexist, given that they apply to different categories of income and provide different forms of tax relief.

The non-published ruling acknowledged the possibility to cumulatively apply the two regimes (to different categories of income, as above explained), provided that all the specific requirements set forth by each regime were independently met.

It should however be noted that this position was based on a specific factual scenario and had not been confirmed through publicly available or generally applicable guidance.

That said, as further detailed below, the Italian legislator has now intervened to expressly prohibit the cumulation of the two favorable regimes (i.e., the Flat Tax Regime and the Inbound Workers Regime), but only for individuals relocating to Italy from 2027 onward.

3.2 The intervention of the Italian Legislator in 2026: cumulation is now forbidden

As anticipated, the Fiscal Decree provides that the Flat Tax Regime cannot be cumulated with the Inbound Workers Regime.

This legislative intervention effectively overrides the position previously taken by the Italian Tax Authorities, as explained above.

Nonetheless, it is important to highlight that:

1. such prohibition only applies to individuals who transfer their tax residence to Italy from the 2027 tax year onward;
2. therefore, individuals who transfer their tax residence to Italy by 31 December 2026 will still be able to benefit from the simultaneous application of both regimes, provided that all relevant conditions required for each regime are met.

3.3 Practical implications: the importance of relocating to Italy by June 2026

Considering the above, individuals who intend to maximize their tax planning by benefiting from both (i) the Flat Tax Regime (on foreign-sourced income), and (ii) the Inbound Workers Regime (on Italian-sourced income), should ensure that they transfer their tax residence to Italy from the 2026 fiscal year.

Under Italian tax law, an individual is deemed to be Italian tax resident for a given tax year if he or she has had, alternatively, (a) the residence (i.e., the habitual abode), (b) the domicile (i.e., the place in which the individual's personal and family relationships mainly develop), (c) the physical presence, or (d) the registration with the Register of the Resident Population ("Anagrafe della Popolazione Residente") in Italy for the majority of the tax year, i.e., for more than 183 days (or 184 days in case of leap years).

Accordingly, to qualify as an Italian tax resident for the 2026 tax year, at least one of the four criteria outlined above (i.e., residence, domicile, physical presence or registration with the *Anagrafe*) should be established in Italy by the individual no later than June 2026: this would, in fact, ensure that the majority-of-the-year requirement is met, thereby allowing the individual to be treated as an Italian tax resident for 2026 and to benefit from the cumulation of both regimes before the prohibition takes effect.

A rush to transfer tax residence to Italy can therefore be expected within the next months of 2026, as this remains the last year in which both regimes can be simultaneously enjoyed.

4. Conclusions

In light of the above, only individuals moving the tax residence to Italy within June 2026 may grant themselves the simultaneous access (and the consequent benefits) to both the favorable tax regimes currently existing in Italy, not only in relation to the year in which they transfer their residence therein (i.e., 2026), but also in relation to the following years of Italian tax residence, given that:

- (i) the Inbound Workers Regime has a duration of five years (including the tax period of transfer of tax residence to Italy), during which employment income related to working activities performed in Italy of the individuals opting for such regime – provided that all the other conditions are met – would be partially exempt (for 50% or 60% in certain cases) from Italian ordinary taxation; and
- (ii) the Flat Tax Regime has a duration of fifteen years, during which foreign-sourced income would be subject only to the EUR 300,000 (or EUR 50,000) substitute tax.

The key aspect which deserves the spotlight here is for sure the fact that individuals – by simply moving the tax residence to Italy within the end of June 2026 and opting for both the Flat Tax Regime and the Inbound Workers Regime – can simultaneously benefit from the several advantageous tax benefits (at least for the first five years of Italian tax residence) provided by such regimes on both (a) Italian-sourced income, and (b) foreign-sourced income.

For those who wish to assess how these developments may apply to their specific situation – and whether relocating to Italy in 2026 could allow them to benefit from both the Flat Tax Regime and the Inbound Workers Regime – we would be more than pleased to assist and provide with tailored advice.

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