

ITALY – Tax incentive for commercial real estate investments

21% flat tax on commercial leases for individuals tax resident or not in Italy



2019 opportunities for individuals tax resident or non-resident in Italy

On 29 December 2018, the Italian Parliament approved the 2019 Budget Law. The Law introduced an important tax incentive to encourage commercial real estate investments.

Indeed the **21% flat taxation** on real estate rental incomes, known as “Cedolare Secca”, has been extended to commercial real estate lease. This tax regime was originally allowed only for residential real estate.

The 21% flat tax is an optional tax regime for individuals and it allows to pay taxes on rental income at 21% flat tax, instead of at the marginal tax rate i.e. up to 43% plus local taxes at about 3-4%.

Limits and conditions for the special tax regime to apply

The 21% flat tax on commercial real estate rental incomes is applicable if all the following conditions are met:

- The lease agreements must be new agreements entered into force in 2019, even if the regime will be applicable for the entire duration of the lease contract;
- The cadastral category of commercial real estates must be C/1 according to the Italian real estate records (i.e. shops);
- It can be applied to shops with a maximum surface area of 600 square meters;

- The landlord must be an individual regardless if resident or not in Italy;
- The tenant can be an individual or a company or any other entity.

Example of tax savings

In the following table you can see an example of tax savings in case an individual decides to opt for the 21% flat tax, assuming that all the conditions mentioned before are met.

Tax savings calculation	Euro
Annual rental income for commercial property	1.000.000
A) Ordinary taxation assuming at 45%	450.000
B) Flat tax at 21%	210.000
A-B) Tax savings	240.000

Next steps

Individuals should consider this great opportunity in case they are considering to invest on commercial real estates in Italy. Our firm has a deep experience on real estate taxation, real estate management and tax optimization.^(*)

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