

Gulliver's Tax Travels: Discovering Special Tax Regimes for Inward Expatriates in 2024

Update created: 4 September 2024

Filip Krajcuska | IBFD European Knowledge Group

The author can be contacted at f.krajcuska@ibfd.org

On 9 July 2024, IBFD broadcast a webinar titled Special Tax Regimes for Inward Expatriates: Recent Trends in Selected Jurisdictions. This is a topic interesting not only to tax experts but also to anyone looking to gain insights into the special tax regimes offered by different countries to high-net-worth individuals, working professionals, self-employed individuals, researchers and professors. It provides valuable knowledge to those interested in optimizing their financial strategies or exploring global tax incentives. The webinar focused on the domestic regimes of three countries – Italy, Portugal and Spain – which have made significant changes to their special tax regimes for inward expatriates starting in 2024.

This note offers a glimpse into the webinar session. However, to fully understand the in-depth insights and detailed explanations shared by the presenters, the author highly recommends watching the webinar recording.

Special tax regimes – What are they?

What actually are these tax regimes? It is not a simple task to define them, as different countries offer different regimes to their inward expatriates (individuals immigrating to the country). However, they can be generally classified into three categories according to their resemblance: (i) regimes on foreign income; (ii) regimes on employment income; and (iii) regimes on pension income.

Italy

Dr Giorgio Beretta, assistant professor at the University of Amsterdam, has discussed the Italian regimes. Italy offers four special tax regimes for incoming individuals (new residents): (i) the inbound (*impatriati*) workers regime; (ii) the high-net-worth individuals (*paperoni*) lump-sum tax; (iii) the flat tax on retirees to southern Italy; and (iv) the regime for university professors and researchers. These regimes are non-cumulative.

The *impatriati* regime was significantly amended with effect from 1 January 2024. As a result of the amendments, the regime now applies to certain highly qualified/specialized non-residents who move to Italy. These individuals can generally benefit from a reduction of 50% of the tax base for income tax purposes (subject to an annual income cap of EUR 600,000) for the duration of 5 years.

In 2017, Italy introduced a regime for high-net-worth individuals. This regime allows individuals who have been Italian non-residents for at least 9 of the previous 10 years to qualify for a favourable tax treatment on foreign-sourced income, excluding certain capital gains. The regime imposes a lump-sum tax of EUR 100,000, with an additional EUR 25,000 for each qualifying relative. Among its benefits are exemptions from inheritance and gift taxes for assets held abroad and the absence of taxes or reporting requirements on foreign wealth. This optional regime can be utilized for up to 15 years.

Italy has also implemented a flat tax regime for retirees to attract foreign pensioners to its southern regions. This initiative targets retirees who have been non-residents for at least 5 years and who receive foreign pensions. Eligible individuals who relocate to municipalities with a population of no more than 20,000 inhabitants in southern Italy can benefit from a flat 7% tax on all qualifying income, not limited to pensions. Additionally, participants in this scheme enjoy exemptions from taxes and reporting requirements on assets and wealth held abroad. This optional regime can be utilized for up to 10 years.

Last, Italy also provides a regime for university professors and researchers. To qualify, individuals must have spent at least 2 years teaching or conducting research abroad. The scheme applies to income earned from employment or self-employment in Italy specifically for teaching and research, excluding remote working income for foreign universities or research centres. Beneficiaries enjoy a 90% tax base allowance. Self-employed individuals are exempt from IRAP (Regional Tax on Productive Activities). The benefits can last up to 6 years, with possible extensions up to a maximum of 8, 10 or 13 years. This optional regime is available only for Italian-sourced qualifying income.

The speaker also included statistics on the usage of the regimes by inward expatriates. Numbers from 2022 reveal that the most successful regime in attracting those individuals is the inbound (*impatriati*) workers regime.

Portugal

Rita Botelho Moniz, tax lawyer at RBM Tax & Legal, has explored the Portuguese regimes. The new special tax regime for inward expatriates (new NHR regime) introduces a stricter subjective scope as of 2024 compared to the previous NHR regime. Under the new NHR regime, individuals (only qualified employees) must have been non-tax residents in Portugal for the preceding 5 years to qualify. Additionally, they must have housing in Portugal that could be used as a main permanent residence. Applicants are required to apply for Portuguese tax residence and obtain special status. Moreover, they must be engaged in an eligible activity, adding an extra layer of specificity to the requirements compared to the previous NHR regime.

The new NHR regime offers significant tax benefits to expatriates, available for a duration of 10 years. Under this regime, income derived from eligible activities is subject to a favourable flat tax rate of 20%. Additionally, all foreign income is exempt from taxation (excluding capital income and capital gains sourced from tax havens), making it an attractive option for individuals with global earnings. The previous NHR regime is still available for certain individuals under a grandfathering clause.

Spain

Paula Benítez Régil, associate at Cuatrecasas, has addressed the Spanish regime, which aims to attract qualified professionals to Spain. Under this regime, individuals are only taxed on their Spanish-sourced income and capital gains, with certain exceptions. Despite the colloquial name "Beckham's regime", professional athletes can no longer benefit from it. An individual who moves to Spain (and their spouse and children) and becomes a Spanish tax resident (this residency is not taken into account for tax treaty purposes) to perform one of the qualified activities can benefit from a flat tax rate of 24% for the first EUR 600,000. Furthermore, under this regime, there is no tax on foreign wealth and no taxation on employment income from work performed before moving to Spain.

Entrepreneurs, highly qualified professionals, employees and directors can benefit from the regime upon fulfilling certain criteria. The main objective requirement is that the individual could not have been a Spanish tax resident in the preceding 5 years. Further, individuals should not have income from a Spanish permanent establishment (this limitation does not apply to entrepreneurs or highly qualified professionals providing services to start-ups). The regime applies for 6 years.

Conclusion

Special tax regimes for inward expatriates play an important role in attracting highly skilled and high-net-worth individuals, fostering economic growth and innovation. However, despite their benefits, these incentives have their drawbacks. The unequal treatment of tax residents under these regimes can lead to distortions in the single market, raising important questions about fairness and competition. Does EU law provide the necessary tools to address these issues, or is it time for the European Union to take a closer look at these regimes and consider whether further action is required? As with Gulliver's explorations, the European Union could find that a fresh approach is needed to balance the benefits and challenges of these tax regimes.

IBFD references

- [IBFD Webinar: Special Tax Regimes for Inward Expatriates: Recent Trends in Selected Jurisdictions \(9 July 2024\)](#)
- [G. Beretta & C. Cipollini, *The New Italian Tax Regime for Inbound Workers: Has the "Bel Paese" Become Less Attractive for Inward Expatriates?*, 64 Eur. Taxn. 4 \(2024\), Journal Articles & Opinion Pieces IBFD](#)
- [R. Botelho Moniz, *The New Portuguese Tax Incentive Regime for Expatriates*, 64 Eur. Taxn. 5 \(2024\), Journal Articles & Opinion Pieces IBFD](#)
- [F. Krajcuska, *The Future of Special Individual Income Tax Regimes for Inward Expatriates in the European Union*, 64 Eur. Taxn. 2/3 \(2024\), Journal Articles & Opinion Pieces IBFD](#)
- [F. Avella, *Italy – Individual Taxation sec. 7.*, Country Tax Guides IBFD](#)
- [G. Gallo, *Italy – Individual Taxation sec. 6.*, Country Tax Guides IBFD](#)
- [A. Valente Vieira, *Portugal – Individual Taxation sec. 7.*, Country Tax Guides IBFD](#)
- [M. Duro Teixeira, *Portugal – Individual Taxation sec. 6.*, Country Tax Guides IBFD](#)
- [Á. de la Cueva González-Cotera & E. Quintana Ortiz, *Spain – Individual Taxation sec. 7.*, Country Tax Guides IBFD.](#)
- [B. Rodriguez, *Spain – Individual Taxation sec. 6.*, Country Tax Guides IBFD](#)