Luigi Belluzzo
Belluzzo International Partners, Milan
luigi.belluzzo@it.belluzzo.net

Domenico Sannicandro
Belluzzo International Partners, Milan
Domenico.sannicandro@belluzzo.net

Ilaria Di Tonto
Belluzzo International Partners, Milan
ilaria.ditonto@belluzzo.net

Italian tax implications on talent mobility – cross-border movement of employees

1. Overview of the tax system

The individual income tax system is governed by the Italian Income Tax Code. In particular, the legislation sets out the scope of application of the Personal Income Tax (*Imposta sul Reddito delle Persone Fisiche* or IRPEF) to individuals, which is based on the possession, by the individual, of income in cash or in kind. This framework must be assessed in conjunction with the temporal and territorial scope of the taxation of individuals.

Individuals who are subject to the IRPEF are either resident or non-resident in the territory of the Italian state for a given tax year. Individuals who are tax resident in Italy are subject to taxation based on the worldwide income principle, while individuals who are non-tax resident in Italy are subject to taxation on the income produced in Italy during the relevant tax year. In addition to this, Italian tax residents are subject to fiscal monitoring obligations and wealth taxes on foreign assets.

An individual is considered tax resident in Italy for a given tax year (which in Italy coincides with the calendar year) if, for the greater part of the tax year (183 days or 184 days in a leap year):

- their residence is in Italy (understood as 'habitual abode' according to the definition provided by the Italian Civil Code); or
- their domicile is in Italy (ie, the place where the individual's personal and family relationships primarily develop); or
- they are physically present in Italy.

In addition, registration on the register of the resident population (*Anagrafe della popolazione residente*) for the greater part of the year constitutes a rebuttable presumption of tax residency, meaning that the taxpayer may provide evidence to the contrary. It is worth noting that individuals who have deregistered from the *Anagrafe della popolazione residente* but reside in so-called 'blacklist jurisdictions' (as defined by a specific list issued by the Ministry of Economy and Finance) are deemed to be resident in Italy, unless evidence is provided to the contrary.

If any one of the conditions is satisfied for the greater part of the tax year, the individual is considered to be tax resident under Italian law.

For individuals, taxable income for IRPEF purposes falls into the following categories: employment income, self- employment income, income from real estate, income from business, income from investments and miscellaneous income.

2. Taxation of employment income

2.1 Scope of taxable income

The scope of taxable income includes an individual's salary, bonuses, allowances, benefits in kind and equity compensation (stock options, restricted stock units (RSUs)).

2.2 Source rules

Italian tax law does not draw a distinction between 'local' and 'foreign' employees for the purposes of the taxation of employment income. Under Italian law, employment income is taxable in Italy, for a given tax year, where the employment activity to which such income relates is carried out within the territory of the state.

Employment income consists of all sums and value of any kind, received by the employee for any reason during the tax period in connection with the employment relationship, even if paid by a third party. This general rule, under which salary, bonuses and income received under incentive plans also in form of shares, is subject to certain exemptions. In addition, the law provides the rule for determining the taxable cash value of allowances and benefits in kind (the so-called 'normal value') for tax purposes.

Special rules apply to Italian tax resident employees who are seconded abroad and only a few specific tax exemptions for certain benefits in kind may be granted to employees through a so-called 'welfare plan', where such a plan is implemented by the employer.

2.3 Tax rates

Progressive rates

Employment income is considered ordinary income and contributes to the formation of the so-called '*reddito complessivo*' (ie, the total taxable income of the individual taxpayer), taxed at ordinary IRPEF rates. The applicable tax rates, updated for the tax year 2026, are detailed in the graph below.

Taxable income		Rate
Exceeding €	Not exceeding €	
0	28.000	23 per cent
28.001	50.000	33 per cent
+ 50.000	-	43 per cent

In addition, regional and municipal taxes apply (up to three per cent).

Flat expatriate rates

No provision is contemplated in regard to flat rates for expatriates by the Italian tax system. Some specific provisions as per the special tax regime for inbound workers apply, as well as the special tax regime for professors and researchers.

The inbound workers tax regime that was in force until 31 December 2023 has been reformed and substituted by a new version of the regime, which became effective from 1 January 2024, and aims to attract global talent.

A grandfathering rule has been implemented to protect those already benefitting from the inbound workers tax incentives and those who moved their residence to Italy before 31 December 2023. Those individuals have not been affected by the change in law, which means that they continue to benefit from more generous tax incentives.

From 1 January 2024, the regime is aimed at attracting only highly qualified or specialised workers, who have not been tax residents in Italy for at least three tax years before coming to the country. The tax regime also applies to workers engaged in research activities, including applied research, in the field of artificial intelligence.

The reduction in the taxable base applied to employment or self-employment income is now equal to 50 per cent (up to 60 per cent), compared to the previous 70 or 90 per cent, for those with a maximum annual employment income of €600,000.

Moreover, a new employment relationship with a new employer is required to benefit from the regime. For intra-group workers, the decree provides for the extension of the application of the regime but with more stringent pre-transfer time requirements than apply ordinarily.

If the worker who moves to Italy works in the territory of the state in favour of the same entity for which they were employed before their transfer or in favour of an entity belonging to the same group, the minimum requirement in terms of their residence abroad (ordinarily three tax periods) applies as follows:

- six tax periods, if the employee has not previously been employed in Italy in favour of the same entity or of an entity belonging to the same group as the employee; and
- seven taxable periods, if the employee, prior to their transfer abroad, has been employed in Italy in favour of the same entity or of an entity belonging to the same group.

Lastly, the individual's tax residence in Italy must be maintained for five years, that is, the entire duration of the regime, with no possibility of an extension.

Professors and researchers who move their tax residence to Italy can benefit from a special tax regime when the following conditions are met:

- being in possession of a university title;
- having 'non-occasionally' being tax resident abroad;
- having carried out teaching and research activities for more than two years continuously; and
- they transfer their tax residence to Italy.

In this case, there is a 90 per cent reduction in the taxable base applicable to the employment income related to their new teaching and research activities in Italy (ie, only ten per cent is subject to taxation every year, starting from the first year of their tax residence and the following five years). The regime can be extended for additional tax years when specific personal conditions apply (ie, dependent children).

2.4 Miscellaneous issues

The employer qualifies as a withholding agent under Italian law for tax purposes and is subject to the obligation to withhold taxes monthly in relation to the payment of gross employment income.

Penalties and interests apply to the employer (they are jointly liable with the employee) in the case of non-compliance.

The employer is also responsible for withholding mandatory social security contributions, calculated based on the gross employment income, payable to the social security fund with which the employee is registered. The employee is subject to mandatory registration in regard to the applicable statutory pension funds.

It is worth noting that withholding obligations are not only related to Italian resident employers and permanent establishments (PEs) of foreign employers. For example, some employers that are non-Italian resident entities and do not have a PE in Italy must register/appoint a representative to pay the applicable social security contributions and taxes to employees who perform employment activities in Italy.

3. PE risks

In the context of global workforce mobility, special attention should be paid to PE risks. This issue is particularly relevant because, once a PE of a foreign company is deemed to exist in Italy, the profits of the PE become taxable in Italy. Against this background, it is necessary to outline the concept of PE under the Organisation for Economic Co-operation and Development's (OECD) Model Tax Convention, which has shaped the definition of PE at international level and remains the main reference point for bilateral tax treaties designed to avoid double taxation.

A PE may arise in two main forms: a fixed place or via a dependent agent.

A fixed-place PE is defined as a fixed place of business through which the business of an enterprise is wholly or partly carried on. The Italian legislation provides a non-exhaustive list of examples, including: a place of management; a branch; an office; a factory; a workshop; a mine, oil or gas well; quarry; or any other place of extraction of natural resources. A building site or construction or installation project is a PE only if it exists for more than 12 months.

At the domestic level, the notion of a PE is currently contained in the Italian Income Tax Code, which defines the Italian domestic concept of a PE and provides the basis for the national rules.

In this respect, once a PE of a foreign enterprise is deemed to exist in Italy, it is treated for tax purposes as a company functionally separate from the parent company, although the income attributable to the PE is taxed in Italy in the hands of the foreign enterprise. Accordingly, the taxable income attributable to the PE must be determined based on separate accounts.

3.1 Dependent agent PE

Similarly to the OECD Model Tax Convention, Italian domestic legislation sets out the notion of a dependent agent PE. In broad terms, a dependent agent PE may arise where a person, whether an individual or a legal entity, acts in Italy on behalf of a foreign enterprise and habitually concludes contracts in the name of that enterprise or habitually plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise.

A dependent agent may also be an individual employed by the foreign enterprise. As clarified in the OECD 2025 Commentary, what matters is not the formal legal relationship between the individual and the enterprise, but whether that person is acting on behalf of the enterprise in a way that materially involves it in business activities carried on in Italy. In the same way, Italian administrative practice treats the domestic rule as the starting point for assessing whether activities performed in Italy give rise to a taxable presence of the non-resident enterprise.

Conversely, a PE should not be regarded as existing where the agent acts independently and in the ordinary course of its business. In determining whether such independence is genuine, regard must be given to whether the agent acts for a closely related enterprise.

Employees concluding contracts

A dependent agent PE may arise where employees or other personnel operating in Italy habitually negotiate and effectively settle the essential terms of contracts on behalf of the foreign enterprise, even where the formal execution takes place abroad. Mere participation in meetings or negotiations, however, is not sufficient in itself.

Sales roles

A PE risk may also arise where the Italian-based sales function operates, in substance, as the sales force of the foreign enterprise, for example, by approaching customers, collecting or securing orders, and performing the decisive commercial activity that leads clients to enter into contracts, which are subsequently formalised by the foreign enterprise with no material modifications. By contrast, pure marketing, promotional or advertising support should not, in itself, trigger a dependent agent PE where the actual commercial decision-making and contract approval remain abroad.

3.2 Fixed-place PE

A fixed-place PE may arise where the foreign enterprise has a place of business at its disposal in Italy, through which its business is wholly or partly carried on, provided that the place has sufficient geographic and temporal permanence. In line with the OECD 2025 Commentary and as reflected in Italian administrative practice, the key elements are therefore the existence of a place of business, its availability to the enterprise, its fixed nature and the carrying on of the business through that place.

Home office risks

A PE risk may arise where business activities are carried out from a home office in Italy on a continuous basis and the relevant facts show that the home is effectively used as a place of business of the foreign enterprise. The analysis should not focus merely on the fact that an employee works from home, but rather on whether the enterprise has that location at its disposal and requires or commercially relies on it for the conduct of its business. The OECD reinforced this point in its 2025 update to the Model Tax Convention, clarifying that remote working arrangements must be assessed in light of the overall facts and circumstances, and that an individual’s home will not automatically become a place of business of the enterprise merely because business activities are performed there. The same update also introduced more specific guidance, including a general indication that a home will usually not be treated as a place of business of the enterprise where the individual works there for less than 50 per cent of their working time over the relevant 12-month period. In Italy, the same fact-based approach is reflected in the praxis of the national tax authorities regarding remote working.

Long-term project offices

A PE risk may also arise in connection with project offices or other on-site structures used in Italy for construction, installation, assembly or similar operational activities. Under Italian domestic law, a building site or project may constitute a PE where it exists more than three months, as also recognised in a circular letter issued by the Italian tax authorities.

3.3 Service PE

Italian domestic law does not provide for a separate standalone service PE rule. Accordingly, as a matter of domestic law, services performed in Italy become relevant only to the extent that they fall within the ordinary fixed-place PE or dependent agent PE concepts.

Where an applicable tax treaty contains a specific service PE clause, the furnishing of services in Italy may create a taxable presence even in the absence of a traditional fixed place of business, typically where the treaty threshold based on duration or the presence of personnel is met. While the OECD Model Tax Convention does not include a general service PE rule, the OECD 2025 Commentary recognises an alternative treaty formulation that states may adopt bilaterally for services performed over a sufficiently extended period. As a recent policy signal, the OECD's November 2025 public consultation on global mobility also notes that cross-border working arrangements may raise fixed-place PE, dependent agent PE or services PE issues depending on the treaty framework involved. However, that November 2025 text is a consultation document and expressly does not represent a consensus on the matter.

4. Exit tax/departure rules

When employees leave the jurisdiction, the following rules apply:

- Exit taxation. No exit tax is provided under Italian law.
- Deferred equity taxation. An employee relocating abroad will continue to be subject to taxation on deferred compensation (in cash or equity) attributable to Italian work periods, in accordance with the applicable double tax agreement. Conversely, where the deferred compensation is paid while the employee is tax resident in Italy, it will be fully taxable in Italy upon payment, with the right to claim a foreign tax credit in the source state, if applicable.
- In addition, in regard to the inbound workers regime, the Italian tax authorities have clarified that deferred compensation is subject to the cash principle. Accordingly, where such compensation is received after the employee has relocated abroad, it is subject to ordinary Italian taxation rules, to the extent that it relates to employment activities carried out in Italy during the period in which the inbound workers regime was applicable.
- Reporting requirements. The employer and the employee must ensure that the relevant payslips, annual compensation statements and, where applicable, tax returns are prepared and filed with the Italian tax authorities for as long as the employee receives compensation attributable to activities carried out in Italy, without prejudice to the application of any double taxation conventions.

5. Recent developments and case law

Recent guidance from the Italian tax authorities:

- ruling no 274/2025 on the tax treatment of deferred compensation under the Italian inbound workers regime;
- ruling no 16/2025 on the concurrent application of the Italian inbound worker's regime and the regime applicable to professors and researchers; and
- ruling no 2/2026 on remote working under the Italian inbound workers regime.

Recent court decisions:

- Supreme Court ruling no 6722, published 20 March 2026, concerning the requirements set out in Article 2, paragraph 2 of the Italian Tax Code (tax resident individuals); and
- Supreme Court ruling no 9597, published 15 April 2026, concerning the requirements to access the inbound workers tax regime before the amendment made in 2024.

Legislative changes affecting international employees

Recent changes as per domestic law:

- Article 2 of the Italian Income Tax Code (*Testo Unico delle Imposte sui Redditi* or TUIR), as amended by Legislative Decree No 209/2023, which reformed the provision governing the tax residence of individuals in Italy, that is, from tax year 2024 onwards;
- Article 49 of the TUIR governs employment income;
- Article 162 of the TUIR governs the PE rules;
- Article 5 of Legislative Decree No 209/2023, which introduce the new version of the Italian inbound workers regime, applies to individuals transferring their tax residency to Italy from the 2024 tax year onwards; and
- Article 2 of Law Decree No 38/2026 excludes the concurrent application of the inbound workers regime and the new tax resident rules apply to individuals transferring their tax residency to Italy starting from the 2027 tax year.

Recent changes as per international law:

- OECD Model Tax Convention on Income and Capital.

6. Key takeaways

The major risks for employers are as follows:

- PE risks;
- tax and social security withholding and reporting obligations;
- payroll compliance in all of the jurisdictions involved; and
- compliance with local labour law statutory requirements.

The major risks for employees concern:

- their tax residence;
- double taxation;
- the number of working days spent in Italy and abroad during the relevant tax year;
- compliance in regard to any deferred compensation payments; and
- social security coverage issues.

Key planning considerations are as follows:

- employers and employees should plan any relocation in advance in order to avoid any double taxation risks; and
- careful consideration must also be given to the social security implications.