



Taxation of Income for Italian Residents Who Are U.S. Citizens

Descrizione

Understanding Tax Obligations for Dual Tax Residents

Italian residents who are also U.S. citizens face a unique and complex tax situation, as they are subject to taxation by both Italy and the United States. This article provides an overview of the key aspects of their tax obligations, double taxation treaties, and potential tax planning strategies.

1. The U.S. Tax System and Its Implications

The United States follows a **citizenship-based taxation system**, meaning that all U.S. citizens, regardless of where they reside, must file and potentially pay U.S. taxes. This includes Italian residents who hold U.S. citizenship.

Key U.S. tax obligations include:

- Filing an annual **U.S. tax return (Form 1040)**, reporting worldwide income.
- Declaring foreign bank accounts via **FBAR (FinCEN Form 114)** if the total value of all foreign accounts exceeds \$10,000.
- Filing **Form 8938 (FATCA requirements)** if foreign financial assets exceed certain thresholds.
- Reporting foreign business interests through **Form 5471** or **Form 8865**, if applicable.

2. The Italian Tax System and Residency Rules

Italy imposes taxes based on **residency**, meaning individuals who are considered Italian tax residents must pay taxes on their **worldwide income**. A person is considered a resident for tax purposes if they meet any of the following criteria:

- They are registered in the **Anagrafe (Resident Registry)** for most of the tax year.
- They spend **more than 183 days** in Italy within a calendar year.
- Their principal place of business or economic interests is in Italy.



As a result, U.S. citizens residing in Italy are subject to **Italian income tax (IRPEF)**, which applies progressively, as follows:

Income Bracket (€) Tax Rate (%)

0 - 28,000	23%
28,001 - 50,000	35%
Over 50,000	43%

3. The U.S.-Italy Tax Treaty and Avoiding Double Taxation

To prevent double taxation, the **U.S.-Italy Tax Treaty** offers mechanisms to mitigate tax burdens:

- **Foreign Tax Credit (FTC):** The U.S. allows citizens to credit taxes paid to Italy against their U.S. tax liability, reducing the risk of double taxation.
- **Foreign Earned Income Exclusion (FEIE):** U.S. citizens who meet the physical presence or bona fide residence test can exclude up to a specified amount (\$120,000 in 2023) of foreign-earned income.
- **Totalization Agreement:** This determines which country's social security system applies to a taxpayer, depending on employment circumstances.

4. Special Tax Regimes for Foreigners in Italy

Certain foreign residents, including U.S. citizens moving to Italy, may benefit from **preferential tax regimes**, such as:

- **Regime Impatriati:** Offers a tax reduction (70-90%) on employment income for highly skilled workers relocating to Italy.
- **Flat Tax Regime for New Residents:** A fixed tax of €100,000 per year on foreign income, available for wealthy individuals.
- **Pensioner Tax Regime:** Retired individuals moving to specific southern Italian regions may benefit from a 7% flat tax on their foreign income.

5. Practical Tax Planning Considerations

To navigate these complex obligations efficiently, U.S. citizens residing in Italy should consider the following:

- **Work with tax professionals** who understand both U.S. and Italian tax laws.
- **Monitor foreign financial accounts** to comply with FATCA and FBAR rules.
- **Optimize tax credits and exclusions** to minimize overall tax liability.
- **Plan for social security contributions**, as Italy and the U.S. have different systems.

Conclusion

Italian residents who are also U.S. citizens must carefully manage their tax responsibilities to avoid penalties and optimize their tax situation. By leveraging tax treaties, special regimes, and professional



advice, they can ensure compliance while minimizing double taxation.

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