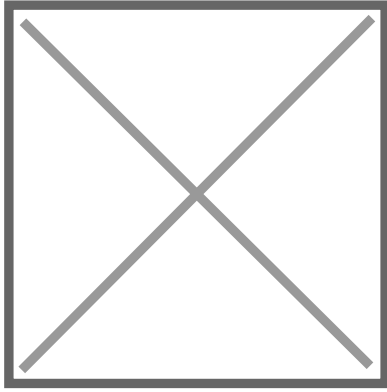




Italy's Inheritance and Gift Tax Reform: What International Families Need to Know

Descrizione

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Italy has overhauled its rules on inheritance and gift taxation through two legislative decrees — Decree 139/2024 and Decree 123/2025 — with the most significant changes taking effect on January 1, 2026. For expats, foreign nationals with property in Italy, and international families with cross-border estate plans, the reform introduces both meaningful opportunities and new compliance obligations.

Tax Rates Are Unchanged — But the Thresholds Just Got Better

Italy's headline inheritance and gift tax rates remain the same: 4% for transfers to spouses and direct descendants (children, grandchildren), 6% for siblings and other relatives up to the fourth degree, and 8% for unrelated beneficiaries. What changed is how the tax-free threshold — called the *franchigia* — is calculated.

Under the old system, a mechanism known as the *coacervo* required the tax authority to aggregate all lifetime gifts made to a beneficiary with whatever they ultimately received through inheritance. A child who received a €600,000 gift from a parent during their lifetime had only €400,000 of their €1 million threshold left when the parent died. This aggregation rule, abolished as of January 1, 2026, had long been criticised as penalising families who used gifting as part of their estate plan.

From 2026 onward, gifts and inheritances each carry their own separate €1 million threshold per qualifying beneficiary (spouse or direct descendant). A child can now receive up to €1 million in lifetime gifts and still benefit from a full €1 million threshold upon inheritance. For siblings, the separate thresholds stand at €100,000 each. In practical terms, this change doubles the potential tax-free transfer capacity between generations for families who use both instruments.

Trusts: Now Expressly Addressed in Italian Succession Law

For the first time, Italy's succession tax legislation expressly addresses the treatment of trusts. Previously, the framework had developed through administrative circulars and case law, leaving considerable uncertainty for international structures.

The new rules confirm that transfers of assets via trust are subject to inheritance and gift tax whenever they result in a gratuitous enrichment of beneficiaries. Crucially, the reform gives trustees and settlors a planning choice: they may elect to trigger the tax at the time assets are contributed to the trust, or defer it until assets are distributed to beneficiaries. Where beneficiaries are not yet identified, the 8% rate — applicable to transfers between strangers — applies by default. Once the tax is paid at either stage, subsequent distributions in the same kinship category are not taxed again.

The territorial rules for trust taxation follow the settlor's residency at the time assets are contributed to the trust, not at distribution. If the settlor was an Italian tax resident when the assets entered the trust, Italian succession tax applies to all transferred assets, wherever located. Non-resident settlors face Italian tax only on Italian-sited assets.

Self-Assessment Is Now the Taxpayer's Responsibility

Another structural change affects how the tax is collected. Under the previous system, the Agenzia delle Entrate calculated the tax owed and issued a formal notice. The reform shifts this obligation to the taxpayer: heirs and beneficiaries must now calculate, declare, and pay the inheritance tax themselves, within 90 days of the succession opening. The tax authority retains a two-year window to challenge the calculation. Electronic filing is required in most cases, though non-resident heirs may still submit declarations by registered mail.

This change increases the importance of getting professional advice promptly after a death, since errors in self-assessment can lead to penalties.

Cross-Border Estates: Who Is Taxed on What

Italy's territorial scope for inheritance tax follows the residence of the deceased at the time of death, not the location of the assets. If an Italian tax resident dies, their worldwide estate — including foreign bank accounts, foreign real estate, and financial investments held abroad — is subject to Italian succession tax. Conversely, if a non-resident dies but owned property in Italy, only the Italian assets are within scope. Beneficiaries who are themselves Italian residents must report and pay tax on all assets received from an Italian-resident decedent, regardless of where those assets are physically located. There is no bilateral inheritance or estate tax treaty between Italy and most countries, including the United States. Families with assets in multiple jurisdictions should model the combined tax exposure carefully.

A Note for U.S. Citizens

U.S. citizens are subject to U.S. federal estate and gift tax on their worldwide assets, regardless of where they live. Unlike the Italy-U.S. income tax treaty, there is no Italy-U.S. estate and gift tax treaty. This means a U.S. citizen who is an Italian tax resident may face both Italian inheritance/gift tax and U.S. estate or gift tax on the same transfer, with limited mechanisms to avoid double taxation.

Italy's rates — 4% to 8% — are substantially lower than the U.S. federal estate tax rate of 40% on amounts above the exemption. The U.S. does provide a foreign death tax credit under Section 2014 of the Internal Revenue Code for foreign estate taxes paid on assets that are also subject to U.S. estate tax, but this credit has specific limitations and does not always provide full relief. For gifts, the interaction is more complex: Italy now taxes certain gift transactions that the U.S. would treat as taxable gifts, but the tax systems operate independently.

U.S. citizens in Italy who hold assets in trust structures — particularly grantor trusts used in U.S. estate planning — should review how the new Italian trust taxation rules interact with their existing structures.

Final Considerations

The 2026 reform makes Italy's succession tax framework more transparent and, for many families, more generous in terms of available exemptions. The abolition of the coacervo is a genuine planning improvement. At the same time, the shift to self-assessment raises the stakes for accurate compliance, and the new trust rules introduce mandatory analysis for anyone with a trust structure linked to Italy. For international families — particularly those with assets, heirs, or residency ties in multiple countries — the practical impact of these changes depends heavily on individual circumstances. Professional advice is recommended before making gifts, establishing trusts, or updating cross-border estate plans in light of the new framework.

Tag

1. Retiring in Italy
2. U.S. citizens

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