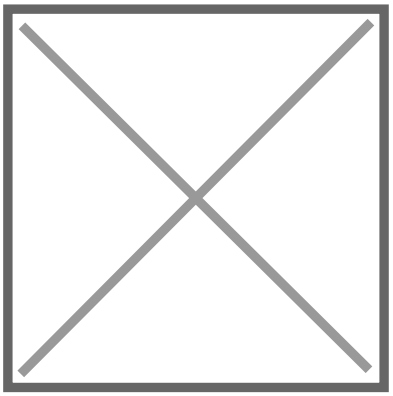

Taxation of Income for Italian Residents Who Are U.S. Citizens

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	33%
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 of foreign-earned income, indexed annually — $132,900 for the 2026 tax year.
- **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:** Exempts 50% of qualifying employment and professional income from Italian tax — 60% for those with a minor child — up to €600,000 a year, for five years, for those transferring their residence from 2024 onwards. The earlier version of the regime, with reductions of 70% to 90%, continues to apply only to those who moved before that date.
- **Flat Tax Regime for New Residents:** A fixed annual substitute tax on all foreign income, available to individuals who have not been Italian tax resident in at least nine of the previous ten years. The amount is €300,000 a year for those transferring their residence from 1 January 2026, plus €50,000 for each family member. Earlier figures of €100,000 and €200,000 remain in force for those who transferred before the respective increases.
- **Pensioner Tax Regime:** Retired individuals with a foreign pension who move to a municipality of up to 30,000 inhabitants in specified southern regions may benefit from a 7% flat tax on all their foreign income, for ten tax years. The population threshold was raised from 20,000 in April 2026.

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.

Tag

1. U.S. citizens

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