



The Italian 7% Retiree Tax Regime: A Strategic Opportunity — Including for U.S. Citizens

Descrizione

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Italy offers a [highly attractive tax incentive](#) for foreign retirees who choose to relocate to certain areas of Southern Italy. The regime, introduced by Article 24-ter of the Italian Income Tax Code, allows qualifying individuals to benefit from a 7% flat substitute tax on their foreign-source income for up to ten tax years — the year of transfer plus the following nine.

The measure was designed to attract pensioners willing to establish their tax residence in smaller municipalities located in specific Southern regions. It combines a low and predictable tax burden with simplified compliance obligations, making it one of the most competitive retiree regimes currently available within the European Union.

Under this regime, individuals who receive a foreign pension and who have not been tax resident in Italy for at least five previous tax years **may opt for a substitute tax equal to 7% on all foreign-source income**. This includes not only pension income, but also foreign dividends, interest, capital gains and rental income. The substitute tax replaces ordinary progressive income taxation, which in Italy can exceed 40%, as well as regional and municipal surtaxes.

Italian-source income remains subject to ordinary taxation and is not covered by the 7% regime.

A decisive element of the regime is geographic location. The taxpayer must transfer tax residence to a municipality with **fewer than 30,000 inhabitants** located in one of the eligible Southern regions, such as Sicily, Calabria, Sardinia, Campania, Basilicata, Abruzzo, Molise or Puglia. If this territorial requirement is not met, the regime cannot be applied. The policy objective is clearly linked to encouraging demographic and economic revitalization in smaller Southern communities. Under **Law No. 34 of March 11, 2026 (Article 26)**, the population threshold for eligible municipalities has been increased:

- **From 20,000 inhabitants (previous) ? to 30,000 inhabitants (now)**

This seemingly technical adjustment has a substantial practical impact:

- **Around eighty additional municipalities** became eligible, bringing the total to more than 2,400. No official list is published, so each address should be checked against the relevant year's population figures
- Broader geographic coverage across Southern Italy
- Access to more developed towns with better infrastructure

Regions benefiting from the expansion include Campania, Sicily, Puglia, Sardinia, Abruzzo, Calabria and Molise.

Notably, newly eligible municipalities include internationally recognised locations such as:

- Pompei
- Noto
- Ostuni
- Milazzo

This marks a clear shift: the regime is no longer limited to small, often remote towns, but now includes **fully functional urban centres**.

An additional advantage of the regime concerns compliance obligations. During the period of application, foreign assets are exempt from Italian wealth taxes (IVIE on foreign real estate and IVAFE on foreign financial assets), and the taxpayer is exempt from the foreign asset reporting obligation normally required under Italian monitoring rules. This considerably simplifies annual tax compliance for retirees with diversified international holdings.

The regime can apply for up to **ten consecutive years**. It may be revoked by the taxpayer and automatically ceases if the eligibility conditions are no longer satisfied. Once terminated, it cannot be reactivated.

From a planning perspective, the regime can produce substantial tax savings. A retiree receiving significant foreign pension and investment income may reduce the effective Italian tax burden to a small fraction of what would otherwise apply under the ordinary progressive system. However, careful analysis remains essential. Double tax treaty interaction, foreign withholding taxes, and the timing of relocation during the tax year should all be evaluated before moving.

Special Considerations for U.S. Citizens

For U.S. citizens, the analysis becomes more complex because the United States taxes its citizens on worldwide income regardless of residence. A U.S. retiree relocating to Southern Italy under the 7% regime will still be required to file annual U.S. federal tax returns and report worldwide income.

The 7% Italian substitute tax does not eliminate U.S. taxation. Instead, coordination depends on the foreign tax credit (FTC) mechanism and the Italy–U.S. tax treaty.

In principle, the Italian 7% substitute tax qualifies as an income tax and may be creditable for U.S. purposes. However, the credit is subject to U.S. limitation rules. The foreign tax credit cannot exceed the portion of U.S. tax attributable to the same category of income. If the U.S. effective rate on that pension income exceeds 7%, a residual U.S. tax liability may remain.

In addition, differences in taxable base calculations between the two systems can affect the amount of usable credit. Each case requires modeling based on the nature of the pension (private pension versus U.S. Social Security), overall income levels, and treaty allocation rules.

A common misconception deserves correction here. Under the Italy–U.S. tax treaty, private pensions are taxable *only in the State of residence*, and the Protocol expressly confirms that social security payments not covered by Article 19 fall under the same rule. An Italian resident receiving U.S. Social Security is therefore taxable on it in Italy — which means it can fall within the 7% regime, not outside it. This is the opposite of the position often assumed, and it is one of the features that makes the regime attractive for retirees arriving from the United States.

Two qualifications apply. First, the saving clause means U.S. citizens remain taxable in the United States on their worldwide income regardless of treaty allocation, so the practical outcome depends on the foreign tax credit rather than on the allocation alone. Second, Article 19 governs pensions arising from government service, which stay taxable in the paying State unless the recipient is both a resident and a national of the other State — so federal, state, military and other public-service pensions follow a different rule from Social Security and must be classified individually.

For U.S. retirees, therefore, the real question is not whether Italy taxes at 7%, but what the combined Italy–U.S. effective burden will be after applying treaty provisions and foreign tax credit limitations.

Final Considerations

The 7% Retiree Regime represents a powerful and predictable tax incentive for foreign pensioners willing to relocate to eligible Southern municipalities. For many non-U.S. retirees, it can significantly reduce overall taxation while simplifying compliance.

For U.S. citizens, the regime can still be attractive, but it requires coordinated cross-border planning. The headline 7% rate is only one part of the analysis. A proper evaluation must consider treaty interaction, U.S. foreign tax credit mechanics, and the overall combined tax position.

As with any international relocation, detailed planning is essential before making the move.

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