dateline Italy

LUIGI PERIN

ITALY RESURRECTS DEATH TAX

After the Italian government realized that the complex tax administration could be used more productively elsewhere, the inheritance tax was abolished in Italy effective October 25, 2001. As a result, until November 2006, Italy had become an attractive retirement destination in terms of estate planning. Unfortunately, with the new government's pledge to reduce the country's budget deficit, the Italian Parliament resurrected the inheritance tax by enactng Law no. 286 on November 24, 2006, as amended by Law no. 296 of December 27, 2006. The inheritance tax applies to estates of decedents who died after October 2, 2006.

The same laws also revised the gift tax rules. The new gift tax regime applies to gifts made after November 28, 2006, except for rules introduced by Law no. 296 that apply to gifts made after December 31, 2006.

Rates and Exemptions

Inheritance and gift tax rates and exemptions vary depending on the beneficiary's status. Spouses, ancestors, and lineal descendants are subject to a 4% rate, with an exemption of Euros 1 million per beneficiary. Siblings are subject to a 6% rate, with an exemption of Euros 100,000 per beneficiary. Blood relatives and certain relatives-in-law are subject to a 6% rate, with no exemption amount. All other beneficiaries are subject to an 8% rate, with no exemption amount.

A beneficiary that is severely handicapped is subject to the above tax rates, with an exemption of Euros 1.5 million per beneficiary. A beneficiary inheriting a trade or business or company shares is exempt from tax to the extent that the beneficiary meets all of the following conditions: (1) is a lineal descendant of the decedent; (2) acquires control of the company as a result of the gift or inheritance; and (3) maintains control of the company and continues the trade or business for at least five years.

Exemption amounts are to be updated every four years by the Ministry of Finance and Economics to take into account cost of living increases. Special rules apply in determining the value of the estate. For example, while the value of real estate to be taken into account is the fair market value at the time of the decedent's death, a presumption applies that the fair market value does not exceed the assessed value (*valore catastale*) increased by a multiplier. Also, the value of shares of non-listed companies is to be determined without regard to any goodwill. ●

LUIGI PERIN, CPA, is a partner with Funaro & Co., P.C., in New York. He specializes in international taxation with an emphasis on U.S.-Italy cross-border transactions and has written previously for the JOURNAL.