

# Growth Decree – an overview

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## Introduction

Decree-Law 34 of 30 April 2019 (the so-called 'Growth Decree'), which was published in the *Official Gazette* on 30 April 2019 and came into force on 1 May 2019, introduced new tax provisions which apply to various sectors.

The Growth Decree is immediately effective but remains to be converted into law by Parliament. This conversion will occur no later than 60 days from its publication in the *Official Gazette* and it is likely, in this context, that material amendments will be approved.

This article summarises the Growth Decree's main provisions.

## Super depreciation

The super depreciation regime has been extended to investments in new tangible assets made between 1 April 2019 and 31 December 2019 or by 30 June 2020 in certain circumstances. This benefit is not extended to investments in transport vehicles.

The new provision states that purchase costs for investments in new tangible assets are notionally increased by 30% to determine tax depreciation for corporate income tax (ie, IRES) purposes.

The increase does not apply to any part of a total investment exceeding €2.5 million.

## Mini IRES

The Mini IRES tax regime (previously introduced by the Budget Law 2019 and consisting of a reduced IRES rate of 15%) has been substituted by a new tax regime that provides an IRES rate reduction on reinvested earnings of 22.5% for fiscal year (FY) 2019, 21.5% for FY 2020, 21% for FY 2021 and 20.5% from FY 2022.

## Deductibility of municipal tax on commercial real estate from IRES tax basis

Under the existing rules, municipal tax (IMU)<sup>(1)</sup> is deductible for the purposes of IRES up to 40%<sup>(2)</sup> for immovable properties that qualify as capital assets (not trading assets).

The Growth Decree provides for the progressive increase of the deductibility of IMU as follows:

- 50% for FY 2019;
- 60% for FYs 2020 and 2021; and
- 70% for FY 2022 (whereby a fiscal year is aligned with the calendar year).

## Patent box

Starting from FY 2019, taxpayers applying for the patent box regime can take advantage of the related tax deduction directly in their tax return, thus avoiding the preventive tax ruling procedure with the Tax Authority set out in the current rules.

## Inpatriate worker tax regime

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The Growth Decree introduces significant changes to the tax regime for inpatriate workers. In particular, workers who change their tax residence to Italy as of FY 2020 can benefit for five FYs from a reduction of 30% (previously, the taxable base was 50%) of their taxable income from:

- employment;
- income assimilated to employment income;
- self-employment; and
- business income.

Under certain conditions, the regime applies for five additional tax periods with a taxable basis equal to 50%.

Further, the Growth Decree clarifies that Italian citizens who did not register with the register of foreign-resident citizens in the two years before moving back to Italy are still eligible for the inpatriate worker tax regime.

### **Privileged tax regime for construction and renovation companies**

The Growth Decree has also introduced a temporary privileged tax regime (ie, until 31 December 2021) for the transfer of property from individuals (or non-taxable entities) to construction or renovation companies.

Under the new provisions, registration, cadastral and mortgage taxes are imposed via a lump sum of €200 each (for a total of €600) under the condition that the purchaser:

- is a construction or renovation company; and
- in the 10 years after the purchase will provide for:
  - the demolition and reconstruction of the buildings acquired in compliance with earthquake-proof regulations and energy classification (with volumetric variation where permitted by current town planning regulations); and
  - the sale of the reconstructed buildings.

If one of the above conditions is not met, indirect transfer taxes will ordinarily apply, with a penalty of 30% further to interest for late payment.

### **Tax incentives for business combinations**

The Growth Decree has restored tax incentives for business combinations, allowing companies involved in mergers, demergers or business combinations to get a free tax step-up in the book value of relevant assets up to €5 million (ie, the allocation of the exchange deficit deriving from a business combination on goodwill, tangible and intangible assets). The benefit, under certain conditions, is available for deals carried out between 1 May 2019 and 21 December 2022.

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### **Endnotes**

(1) The IMU is a general property tax levied annually (except in specific circumstance) by local authorities on all property owners, including commercial-property owners and private homeowners.

(2) Starting in 2019, the 2019 Budget Law already provided that the deductibility of IMU from IRES increased from 20% to 40% of the related amount.

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