

Buying a Residential Property in Italy

Expert knowledge means success

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

Italy – the country of romance – has always been a popular holiday destination with Britons. It offers a warm climate and varied landscape characterized predominantly by two mountain chains: the Alps – which extend over 600 miles from east to west – and the Apennines. The Alpine foothills are home to the large lakes: Lake Maggiore and the lakes of Como, Iseo and Garda. The principal islands are Sicily, rising up to the great volcanic cone of Etna (10,860 feet) and Sardinia.

In the past, most Britons seeking a holiday home abroad looked to France or Spain, but Italy is fast becoming a popular alternative. As a result, property value is starting to increase in certain areas especially in Tuscany and the coastal areas. Small properties in need of refurbishment can still be picked up for as little as £20,000. Habitable rural homes can be purchased for around £60,000. The Lakes and Tuscany always remain popular, with apartment prices starting at around £80,000; small farmhouses will easily be over double this.

The northern and central regions are more expensive than the southern part of Italy, but in general in the major cities the cost of living is similar to Britain.

The appreciation of the Euro in 2008 against the pound means that mortgage payments for Britons with mortgages in Italy are now 25% higher than a year ago. This is going to reduce the buying power of many but the Italian property market, unlike some of its European counterparts, is expected to remain stable for the next two years. Generally speaking, there is still demand for houses and the prices have not decreased.

There are many growth areas identified by the Italian Federation of professional estate agents, where property prices are still very reasonable. These include Puglia, Calabria, Piedmont, Emilia Romagna or Abruzzo, where increases are expected to be higher than the national average.

Where to buy

Italy is divided into 20 regions. Each region is divided into Provinces, and each province is

divided into municipalities. The Italian regions are important in that many customs and cuisines are regional in Italy.

The following areas are among the most popular.

Northern Italy

Liguria

Liguria in the north-west borders France and includes the province of Genoa. With its long stretch of coastline, the picturesque cliffside villages of the Cinque Terre, the elegant Italian Riviera and the steep and dramatic Maritime Alps it offers a picturesque landscape.

Piemonte

Piemonte in the north-west also borders France. Piemonte was the home to the Savoy family, the monarchs of the short-lived “Kingdom of Italy”. The region is one of contrasts with rich rolling vineyards and snow covered mountains including those of the Gran Paradiso National Park.

Lombardy

Located in the north, Lombardy is a wealthy commercial region, and is home to a number of prime tourist destinations including the scenic attractions of the Alps, the Lakes and the Po Basin and the commercial attraction of Milan. Lombardy's scenery is varied: the mountainous Alps with its steep valleys and lakes contrast with the flat Milan.

Central Italy

Lazio

Lazio includes the busy commercial and tourist province of Rome with the popular Vatican City. The surrounding regions are much quieter and more dilapidated but offer unspoilt countryside.

Tuscany

Tuscany is one of the most beautiful and popular tourist destinations in Italy along the Mediterranean coast and includes the popular provinces of Florence, Livorno, Pisa and Siena. Known for its vineyards and olive groves, it has a rich undulating landscape. Its natural attractions are complemented by art and architecture.

Umbria

Umbria is one of the few Italian regions to have no coastline. Its countryside is green and fertile and of its attractions is that it offers a scenic landscape without being overrun with tourists.

Southern Italy and Islands

Campania

Campania is a warm mountainous and green

Italy property bucks the downward trend

Overall, the market in Italy is “cooling,” but it continues to show “modest” growth, according to a newly released report from Cluttons Italy, the property firm. In 2007 valuations increased a slim 4 percent in metropolitan areas, compared to 10 percent growth in 2004, data shows. But Italy didn't experience the huge run-ups of Spain and the U.K., making a steep drop less likely, Cluttons concludes.

“The risk of a downturn seems considerably lower than in the ‘price bubble’ markets,” according to the report.

That's good news for investors, but discouraging for buyers who thought the credit crisis and assorted market factors might lead to a discount on their Tuscan dream property. Italy remains a key market for international buyers. One in five property sales will be completed by a foreign buyer in 2008, according to a recent analysis by CRESME, the research institute.

Source: *The International Herald Tribune*

region, with the contrasts of volcanoes and orange and lemon groves. The coastline, particularly the Sorrento Peninsula, is dramatic and attractive with a deep blue sea in which lay the islands of Capri, Ischia and Procida.

Naples

Naples is a region of history and culture where you can experience museums, ballet, opera and three of the world's greatest archaeological sites: Pompeii, Herculaneum and Paestum. The beach is also available.

Sicily

Sicily has a long history of invasion and conquest and the influences of its mixed heritage: Greek, Arab, Roman and Norman can all be felt here in the architecture, landscape and culture. Sicily is subject to earthquakes and extreme weather conditions and Mount Etna, in the eastern part of the island, is Europe's highest and most active volcano.

Puglia

Puglia, at the southern tip of Italy is becoming fairly industrialised, particularly in the Bari, Brindisi and Taranto areas, but there are still large tracts of attractive countryside.

Getting there

Italy is easily accessible from Great Britain. Destination airports from the UK include: Genoa, Pisa, Turin, Milan Linate, Milan Malpensa, Milan Bergamo, Rome Fiumicino, Rome Ciampino, Florence, Bologna, Ancona, Naples, Capodichino, Palese and Brindisi. Sicily also has airports at Palermo and Catania.

The Eurostar service runs every day between London and Ashford to Calais. From there the motorail runs to Nice in France across the border from Italy. Within Italy, there is an extensive efficient train network.

Sicily can be reached by ferry from Naples: Sardinia can be reached by ferry from Genoa, Livorno and Naples. Ferries also connect Italy with Greece, Turkey, Tunisia, Malta, Albania, Croatia and Spain.

EU citizens require only a passport or ID card to stay and work in Italy.

Geography

Italy is located in Southern Europe with its recognisable boot shape peninsula extending

into the central Mediterranean Sea. Its land area – including Sardinia and Sicily - is just over 300,000 square kilometres. Bordered by Austria, France, San Marino, Slovenia and Switzerland, there is easy access for tourists. The islands of Elba, Sardinia, Ischia, Capri, the Aeolians and Sicily lie offshore.

Italy is a mountainous country with mountain ranges across the north from Genoa in the west to Trieste in the east. The Apennines, extend from Genoa right down to the southern tip: Calabria. The Po River Valley in the northeast forms the largest lowland area. Italy has three active volcanoes - Stromboli in the Aeolian Islands, Vesuvius near Naples and Etna on Sicily.

Italy is a country of natural beauty, but also a country of pollution, particularly in the big cities and along the coastal areas.



Climate

Italy is a long country with lowlands and mountain tops, and therefore has a variable climate. In the Alps, winters are long and can be severe, with snow falling from as early as mid-September. The northern regions have climatic extremes with chilly winters and hot summers. The further south you head, the milder the climate becomes. The sirocco - a hot and humid African wind - produces some stiflingly hot weeks in summer in the regions south of Rome.

Mortgages

You can choose to apply for a mortgage in Italy or from the UK. Typically, interest rates

for borrowing in Italy are slightly lower than in the UK, but this needs to be balanced against the strength of the Euro against the Pound. Note that the Sterling/Euro rate has made Italian Euro mortgages more expensive in 2008.

Italian mortgages are full status. Proof of income and outgoings and a deposit of 30% of the purchase price are required. Both repayment and interest only mortgages are available over variable year terms.

Exchange rate fluctuations

The price you pay for a property in Italy is usually based upon the exchange rate prevailing at the time of your offer; changes in the exchange rate will affect the end price you pay.

If you believe the exchange rate could increase the price you will pay, you should consider either buying your currency at the time the offer is accepted or buying your currency over a period of time to offset exchange rate fluctuations. Exchange rates are usually linked to interest rates and can therefore be affected by economic growth, war and natural disasters. Banks and currency specialists can advise on currency purchases.

Right of first refusal

If you have your heart set on a piece of beautiful Italian countryside, you will need to heed the *right of first refusal* ruling in favour of neighbouring farmers.

In Italy, if a piece of cultivated land is sold, the neighbouring farmers have the right to be preferred in the purchase of the property, at the same terms and conditions as on general offer. Once the preliminary contract is signed, the contract and the identity of the prospective buyer must be sent to all neighbouring farmers, who have 30 days to decide whether to buy the property under the same terms and conditions. This right is not waivable in advance.

The Legal Process

There are two stages to the legally regulated process of purchasing a property in Italy: the preliminary contract (*compromesso*) and the completion (*il rogito*).

Preliminary Contract (*Compromesso di vendita*)

Once a price has been agreed with the vendor both parties will sign a preliminary contract and make a deposit of 10%-30% of the purchase price (except in the case of a new construction where this deposit is considerably less). The deposit is forfeited if the purchaser does not proceed, and if the vendor withdraws double the deposit is paid to the buyer by the vendor.

Completion (*il rogito notarile*)

All registered property transactions in Italy must take place in front of a *notaio*. The *notaio*'s job is to check that the sale documents are correct, to verify the identities of the parties involved, to collect the tax on the sale due to the Italian government and to ensure that the entries in the land registry are updated to show the new owner. The vendor and purchaser must use the same *notaio*.

At completion, the buyer must pay a property registration fee and a land registry tax, the remaining balance of the agreed purchase price and any other fees due. Then both vendor and purchaser sign the *il rogito notarile*, the definitive contract equivalent to the Deeds of the property.

The purchase process in Italy is simple and quick. Italians do fewer checks and searches on property they are buying than we are used to when purchasing a property in the UK. To ensure that the property you wish to buy is free of debts and restrictive clauses it is recommended that you employ an English-speaking lawyer to protect your own interests. If you intend to complete the transaction from outside Italy, you can appoint a Power of Attorney to act on your behalf.

You will need a fiscal code, in order to buy property, open bank accounts and pay bills. This can be obtained by contacting the local tax office.

Tax and fees on buying residential property in Italy

Residency

Taxes and fees have some variation depending on whether you are classified as resident or non-resident. If you spend more

than 183 days in Italy during one calendar year, or if Italy is your home, or if Italy is the centre of your business and economic interests, you will automatically become liable as a resident for tax purposes. The 183 days do not have to be consecutive.

Most fees are the same for residents and non-residents, with the exception of purchase tax. The Declared Land Registry value "rendita catastrale" of a property is less than its purchase price. The purchase tax (or VAT in the case of new properties), notary's fee and stamp duty are all calculated on the Declared Land Registry value of a property.

Agent negotiation fee

In Italy, both the buyer and the seller pay estate agent fees. A negotiation fee (usually around 3% of the purchase price) is agreed between the Italian estate agency and purchaser and is paid on the successful completion of the property purchase.

Property Registration tax (Imposto de Registry)

This is the equivalent of Stamp duty (bolli) and is charged at 11% for both non-residents and residents.

Registration tax/stamp duty should be 10% of the **declared** price for urban property, up to 17% for agricultural property, with a reduced rate of around 4% for first time buyers. If you're planning on becoming a resident, you should do so before purchasing your home in Italy.

Notary's (Notaio) fees

The notaio's fees are usually 1- 2.5% of the Declared Land Value of the Italian property.

Surveyor (Geometra) fees

The surveyor's fees vary depending upon the work involved and can range from 250 Euros to 750 Euros.

UK solicitor's fees

If you choose to use a UK solicitor, the charges can range from £500 to £2,000 depending on the level of service required.

Capital Gains Tax (Imposta sostitutiva sulle plusvaenze)

Capital gains tax on the sale of property or land no longer exists. It was replaced on January 1st 1993 with an annual tax on property called ICI (Imposta Comunale sugli

Immobili). However, ICI was also abolished in June 2008 on first homes.

Additional costs for new properties

The demand for new Italian property is high and most purchasers buy properties off-plan from Italian property developers. If you are planning to buy a new property, it is strongly recommended that you engage a solicitor to liaise with the constructor and deal with any transaction complexities that arise.

Typically, purchasers who buy a new property have to make an initial deposit of 5% to 10% of the agreed purchase price and pay regular stage payments during the property development. The final payment is normally made after any agreed outstanding minor works are completed.

You should ensure that you receive bank guaranties for each stage payment. These bank guaranties protect you if the Italian property developer has financial difficulties before the property is transferred to your name.

VAT

On new Italian properties Value Added Tax (VAT) is payable at 9% for "non-luxury" property and 19% for "luxury" property. The VAT is usually included in the advertised price for the property.

Tax Position for UK Property Investors

The Italian tax system is complex and subject to both change and interpretation.

Professional up-to-date advice should be sought regarding your personal tax affairs.

In Italy it is your responsibility to obtain a tax form - available at tobacconists and newsagents - ,complete the form, calculate the amount of taxes that you owe and submit the form to the local tax office "intendenza di finanza" together with the appropriate amount of tax due.

Local taxes

Italian properties incur local taxes based upon the Declared Land Registry value of the property. The rates of tax will vary between regions depending on the rates of tax imposed by the regional and local governments. The local taxes are as follows:

- Imposto municipale or Imposta Comunale sugli Immobili (ICI) is a local municipal property tax and is paid by anyone who owns property or land in Italy, whether they are a resident or non-resident. The amount of the tax is based on the Declared Land Registry value of the property. The tax is approximately 0.4% - 0.7% of the official value of the property. ICI is paid in two instalments in June and December.
- Tassas Comunales may be payable for services supplied by the municipality. These may include rubbish collection, cleaning of the streets and beaches etc. These charges are usually between €200 and €250 per year.

Inheritance Tax

In Italy, Inheritance Tax was abolished by the 2001-2006 Government for most people, but this was reintroduced by the subsequent Government for properties valued at over €1,000,000 euros.

The Inheritance tax laws are quite different to those in the UK. For example, in Italy there is no automatic inheritance by a wife. It is recommended that you seek up-to-date professional advice on this area when considering your purchase.

Capital gains Tax (Imposta sostitutiva sulle plusvalenze)

Residents

Capital gains tax is payable by Italian residents on gains arising from the sale of securities. The tax is levied at the rates of 12.5% or 27% depending on the type of securities being sold and, in case of shares, on the percentage of the capital represented. Capital gains on other assets may be subject to IRPEF.

Non-Residents

Capital gains tax is payable by non-residents on gains arising from the sale of Italian securities.

Income Tax (Imposta sul Reddito delle Persone Fisiche (IRPEF))

Residents

If you are resident in Italy you will be liable

for Income Tax on all income received worldwide, with allowances.

Non-Residents

If you are classified as a non-resident, you will be liable for Income Tax (on income earned in Italy. This will include any money you have on deposit with an Italian bank or income you derive from letting your Italian property. You will be able to set off certain expenses against your letting income – repairs, management expenses, local taxes etc. The residue is taxed at between 19% and 46%, depending on the amount. For most people it will be about 30%.

Notional Income Tax

There is also a Notional Income Tax due on the notional rental value of your property, even if you do not actually rent it out. Again, this is based on the Declared Land Registry value, and is normally small.

Tax on Rental Income

Britain and Ireland have a double taxation treaty with Italy. Tax is paid on the declared income from the property and your rental income must also be declared to the inspector of taxes in Britain or Ireland.

Renting Property

There is often a minimum rental period of one year in Italy although in some of the more popular areas such as Milan, Rome and Tuscany there is a shorter-term rental market. Rental amounts are increased each year by a small percentage by the government issued cost of living index.

A Civil Code dictates that the tenant is responsible for ordinary repairs and maintenance of the property and its contents and the owner is responsible for major repairs. The tenant is also usually expected to clean and paint the property, either as he moves into the property or when he moves out. In any case, at the end of the contract, the property must be returned to the owner in the condition in which it was handed over.

In addition to the rental cost (l'affitto), there may be building related expenses (spese) that cover the maintenance of the building and gardens. These expenses are variable, depending on the size, age and condition of the building, the type of heating used, and the number of tenants among whom they are divided.

The tenant must register at the Municipal Tax Office for the subscription to the trash/garbage removal service, which is payable on a yearly or six months basis.

Timeshare

Timeshare ownership carries many risks and dangers. Prospective purchasers are advised to study any offer carefully. They should never sign anything unless there is written provision for a 'cooling-off' period (during which time they can change their mind without incurring a penalty).

Further advice is available from: The Organisation for Timeshare in Europe and the Timeshare Consumer Association.

Advice to Buyers

The following advice may be helpful:

- Determine your budget based on your capital and what mortgage you can afford. You will need a larger deposit for an existing property than a new construction.
- Determine the area of Italy you wish to consider. This will be affected by the type of climate you prefer, whether you are buying-to-let or planning to take up residence and what type of activities and facilities you enjoy. Consider renting a property while you investigate your chosen area.
- Use an estate agent. They will be able to show you a selection of properties in the area of your choice and have an idea of the value of the property of your choice.
- View the property several times, and if possible, visit the property/area at various times of day and/or on different days (e.g. early morning, during working hours and at night-time, week-day and weekend).
- If possible, speak to neighbours about the area (ask about neighbour and neighbourhood problems) and also if they are familiar or know anything about the property itself.
- Check the property has and is connected to services such as telephone, electricity, mains water and sewage – these are particularly important points for rural properties. Where the services are not currently connected, it may not be possible to obtain them or be cost prohibitive.
- Use the services of a reputable local lawyer. Only a lawyer will know all the checks that should be made before parting with money.
- Obtain an estimate of all legal fees and disbursements including the fees of the Notary and the Property Registry and for the power of attorney and confirm who is responsible for payment of the Notary's fees and any capital gains tax which may arise from the sale.
- Unless you speak fluent Italian, always have documents translated for you into English by someone you can trust. It is worth the expense of having lengthy documents translated, e.g. title deeds, so that you understand fully what the original documents say and mean.
- Ask your lawyer to confirm to you into writing that there is no mortgage or other charge or encumbrance registered on the property you are intending to buy and that it is registered in the name of the seller. Get the property surveyed for structural defects. A builder or architect may do this; however, for complete peace of mind you should use a Qualified Surveyor or Buildings Engineer.
- Seek legal advice BEFORE signing anything or handing over any money (even if a new build from a seemingly reputable building company) – ownership and outstanding debts on the property need to be checked thoroughly.
- The intestacy rules are different in Italy to the UK. Have an Italian will created to ensure that ownership of your property is dealt with according with your wishes on your death.
- If you are buying a property to let it is advisable that you choose a professional management company. You should request references from satisfied clients and ensure they can be contacted at all times in case of an emergency.

The Foreign and Commonwealth Office cannot give legal advice on buying a property in Italy but each consular post can supply a list of local English-speaking lawyers that can advise you.

Useful Addresses

The Foreign & Commonwealth Office in London
www.fco.gov.uk

HM Revenue & Customs International Division (Double Taxation)
HMRC International
Victory House
30-34 Kingsway
London
WC2B 6ES
Tel: +44 (0) 207 438 6622
www.hmrc.gov.uk/international/dtr1.htm

For legalisation of documents:
The Legalisation Office,
Foreign & Commonwealth Office,
Old Admiralty Building,
Whitehall,
London, SW1A 2LG, UK.
Tel: +44 (0) 207 008 1111
www.fco.gov.uk/legalisation

The British Embassy in Italy
www.britishembassy.gov.uk

The Italian Embassy in Britain
www.embitaly.org.uk/

Timeshare Consumers Association
Hodsock, Worksop,
Nottinghamshire, S81 0TF, UK.
Tel: +44 (0) 1909 591100 (office hours)
+44 (0) 901 607 0077 (24hr advice line)
www.timeshare.org.uk

Organisation for Timeshare in Europe
AISBL, 78-80 rue Defacqz,
4th floor, B-1060 Brussels,
Belgium.
Fax: 00 32 2 533 3061
www.ote-info.com

Further Information

This guide is for general interest - it is always essential to take advice on specific issues. We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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