

Pre–Move *Assessment*

A personalized analysis of your United States and Italian
tax obligations

PREPARED FOR
Gary & Diane Sutterfield

RELOCATION
Salem, OR → Cefalù (PA), Sicilia

SECTION 01

Your Move

Gary and Diane's income is Social Security benefits for each of them, Diane's government pension from her years as a public-school teacher, withdrawals from Gary's traditional IRA, and dividends and interest from a joint brokerage account. They are considering the 7% pensioner regime under Article 24–ter for each of them and the Treaty Article 19 treatment of Diane's pension, which this report models. They want to understand how the U.S. and Italian tax systems interact on that income, and they want to know their next steps.



DEPARTING

Salem, OR



ARRIVING

Cefalù (PA), Sicilia

Italy

SECTION 02

Summary

Under the elected structure, Gary and Diane's combined U.S. and Italian tax is lower than if they stayed in the United States, and far lower than Italian residence with nothing elected. Gary and Diane each elect the 7% pensioner regime, which replaces Italian income tax on their income from abroad with a flat 7%. Diane claims Treaty Article 19, which keeps her government pension taxable only in the United States.

SECTION 03

Regimes, Elections, and Treaties

Here is a comparison of your potential tax burden compared across three scenarios: (1) stay resident in US, (2) become Italy tax resident, and (3) Italy tax resident with potential elections, treaty treatments, and other savings.

U.S. AND ITALY TAX COMPARISON, WITHOUT ELECTIONS

US RESIDENCE

\$6,997

6.8% effective • PROJECTED



ITALIAN RESIDENCE

\$20,291

19.7% effective • WORST CASE

ELECTIONS AND TREATY POSITIONS

7% pensioner regime (Art. 24-ter) Gary Sutterfield and Diane Sutterfield

Gary Sutterfield

7% pensioner regime (Art. 24-ter)

– \$11,034

Diane Sutterfield

7% pensioner regime (Art. 24-ter)

A 7% tax on all income from abroad, in place of Italian income tax.

– \$2,560

Treaty Article 19 Diane Sutterfield

Treaty Article 19

A U.S. government-service pension is taxed only by the United States.

– \$568

How these are calculated: each election is priced in the order the structure is built. The largest is measured on its own against the unelected column, and every election after it by what it adds on top of the ones above — so the figures sum to the total saving without any of them being estimated or apportioned.

U.S. AND ITALY TAX COMPARISON, WITH ELECTIONS

ITALIAN RESIDENCE

\$20,291

19.7% effective • WORST CASE



ITALIAN RESIDENCE — WITH ELECTIONS

\$6,697

6.5% effective • RECOMMENDED

Gary's 7% election taxes his Social Security, IRA withdrawals and half of the brokerage income in Italy. Diane's 7% election taxes her Social Security and her half of the brokerage income. Treaty Article 19 leaves Diane's government pension to the United States alone. The United States keeps a small tax on the dividends and interest. The structure costs less than staying in the United States because Oregon's income tax no longer applies. That outweighs the Social Security and IRA withdrawals, where Italy's 7% is larger than the U.S. tax they bear at home.

SECTION 04

Income

This section lists your projected annual income by type and owner.



#	INCOME TYPE	OWNER	AMOUNT
1	U.S. Social Security	Gary	18,000
2	U.S. Social Security	Diane	12,000
3	Government pension	Diane	40,000
4	IRA distribution	Gary	30,000
5	Qualified dividends — U.S. ETF (OICR)	Joint	2,000
6	Interest	Joint	1,000
Total projected annual income			103,000

SECTION 05

Income Tax

Here we take each category of income and show how the United States and Italy each tax it.



INCOME SOURCE 01

Investment income

\$3,000 / year

Gary and Diane's joint brokerage account pays U.S. index ETF dividends and interest on cash and CDs, which together come to **\$3,000** a year. Their 7% elections tax this income in Italy at a flat 7%, which comes to **\$210**. The United States credits Italy's tax on the dividends only above the 15% share of U.S. tax the treaty keeps for it, and on the interest only above 10%, so the U.S. return still carries \$56. After the move this income costs \$266 a year combined, which is more than the \$142 it costs staying in the United States.

● US RESIDENT		● ITALY RESIDENT	
Total	\$142	Total	\$266
■ U.S. — federal income tax	\$76	■ U.S. — federal income tax	\$56
■ Oregon — Income Tax	\$66	■ Italy — 7% substitute (art. 24-ter)	\$210

CHANGE IN ANNUAL TAX ON THIS INCOME ↑ + \$124

INCOME SOURCE 02

Government service pension — Art. 19

\$40,000 / year

Diane's pension from the Oregon Public Employees Retirement System, for her years as a public-school teacher, comes to \$40,000 a year. Treaty Article 19 keeps this pension out of Italian tax, so Italy taxes none of it under the elected structure. Because Italy levies no tax on the pension, the U.S. return has nothing to credit, and the United States taxes it in full. Article 19 saves the household \$568 a year. After the move this income costs \$2,232 a year, which is less than the \$3,917 it costs staying in the United States.

• US RESIDENT

Total	\$3,917
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■ U.S. — federal income tax	\$3,033
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■ Oregon — Income Tax	\$884
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• ITALY RESIDENT

Total	\$2,232
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■ U.S. — federal income tax	\$2,232
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CHANGE IN ANNUAL TAX ON THIS INCOME

↓ \$1,685

INCOME SOURCE 03

Other income — pension

\$60,000 / year

Gary's Social Security benefit comes to \$18,000 a year, Diane's to \$12,000, and Gary's traditional IRA withdrawals to \$30,000, for \$60,000 in all. Their 7% elections tax all of it in Italy at a flat 7%, which comes to \$4,200. For both Social Security benefits and the IRA withdrawals, the treaty between the United States and Italy lets the U.S. return treat the income as foreign-source, so Italy's 7% is credited against the U.S. tax on it. After the move this income costs \$4,200 a year combined, which is more than the \$2,938 it costs staying in the United States.

• US RESIDENT

Total	\$2,938
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■ U.S. — federal income tax	\$2,275
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■ Oregon — Income Tax	\$663
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• ITALY RESIDENT

Total	\$4,200
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■ U.S. — federal income tax	\$0
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■ Italy — 7% substitute (art. 24-ter)	\$4,200
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CHANGE IN ANNUAL TAX ON THIS INCOME

↑ + \$1,262

SECTION 06

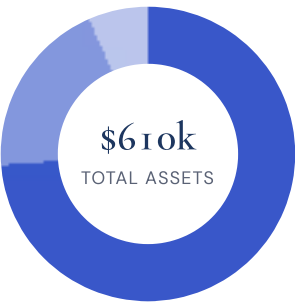
Assets

This section maps your assets by type and location and identifies the Italian taxes that attach to them.



ASSET ANALYSIS

4 accounts



Retirement	\$450,000
Taxable investments	\$120,000
Cash	\$40,000

BY JURISDICTION

United States · \$610k

BY ACCOUNT

■ U.S. accounts ■ Italian holdings

U.S. custodian — Traditional IRA · Gary		450,000
U.S. custodian — Joint taxable brokerage account · Joint		120,000
U.S. bank — Joint savings account · Joint		30,000
U.S. bank — Joint checking account · Joint		10,000

Total assets \$610,000

ASSETS

Tax on assets

\$610k total assets

This section lists your assets by jurisdiction and type. The United States taxes only what your assets earn while Italy imposes some taxes based on the assets value. The location and type of the asset determines which tax amounts apply. There are also extensive reporting requirements for most asset types. Some of these requirements are waived under certain tax regimes. The sections below apply to your tax situation:

- **7% regime waiver of asset taxes** — Both IVAFE, a wealth tax applied to financial assets held abroad at a rate of 0.2%, and the *Quadro RW* disclosure, the annual disclosure of assets held abroad, are not required for those under Italy's 7% flat tax regime.

• US RESIDENT

Total	\$0
■ U.S. — tax on assets	\$0

• ITALY RESIDENT

Total	\$0
■ U.S. — tax on assets	\$0
■ Italy — IVAFE (foreign financial assets)	\$0

CHANGE IN ANNUAL TAX ON THESE ASSETS

↓ \$0

SECTION 07

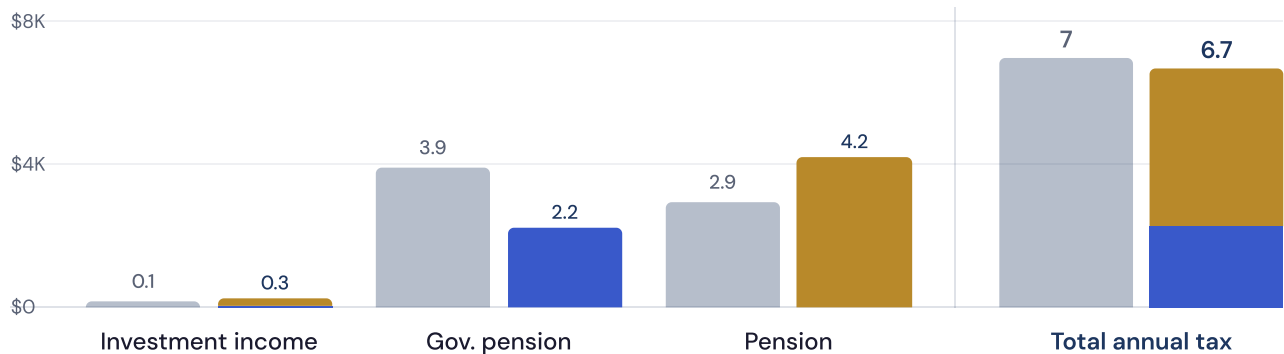
Tax Summary



This section summarizes the total change in tax burden by type.

ANNUAL TAX BY CATEGORY

■ US Resident (projected) ■ Italy Resident — U.S. share ■ Italy Resident — Italian share



TAX TYPE	US RESIDENT	ITALY RESIDENT		TOTAL
		U.S. SHARE	ITALIAN SHARE	
Investment income	142	56	210	266
Government service pension — Art. 19	3,917	2,232	0	2,232
Other income — pension	2,938	0	4,200	4,200
Total projected annual tax	6,997	2,288	4,410	6,698

SECTION 08

U.S.–Italy Interaction

Because you remain a U.S. taxpayer, both systems reach the same income, and the treaty decides who ultimately collects. This section explains how the foreign earned income exclusion, the foreign tax credit, and treaty re-sourcing work together for your specific mix of income. It is where the two returns are reconciled so the same dollar is not taxed twice.



Italian inheritance and gift tax

Once a person is resident in Italy, the worldwide estate falls under Italian inheritance and gift tax. The rate is 4%, 6% or 8% depending on the relationship between giver and recipient. Each beneficiary receives an exemption before the tax applies. The larger issue is forced heirship. Italian law reserves fixed shares of an estate for a spouse and children, and those shares can override a U.S. beneficiary designation. The 7% regime does not change any of this.

ESTIMATED EFFECT

This assessment does not calculate Italian inheritance or gift tax. The exposure arises at death or on a gift, not in the annual figures.

Foreign tax credit

The United States taxes its citizens on worldwide income, and Italy taxes its residents the same way. The foreign tax credit keeps the same income from being taxed in full by both. The treaty decides which country has the first right to tax each type of income. The other country then credits the tax already paid, up to its own tax on that income. The U.S. credit is claimed on Form 1116. The credit never produces a refund, so income usually ends up bearing the higher of the two taxes.

ESTIMATED EFFECT

Every figure in this assessment already reflects the credit on income that both countries tax.

Italian citizenship and the government pension

ESTIMATED EFFECT

Treaty re-sourcing of U.S. income

U.S. tax law treats pensions, Social Security, interest, dividends and gains on U.S. assets as U.S.-source income. The United States normally gives no credit for foreign tax on its own-source income. The treaty changes that for income Italy is allowed to tax. It lets that income count as foreign-source, so Italian tax on it can reduce U.S. tax. On interest, the credit reaches only U.S. tax above 10%. On dividends, it reaches only U.S. tax above 15%. Pensions and Social Security have no such limit.

ESTIMATED EFFECT

This rule sets how much Italian tax on this household's U.S.-source income the U.S. return can credit.

Uncredited Italian tax on U.S. dividends

The United States taxes a citizen's U.S. dividends at full U.S. rates wherever the citizen lives. The treaty lets the United States keep 15% of that tax before any Italian credit applies. Italian tax on the dividend can offset only the U.S. tax above that 15%. Where the U.S. rate on a dividend is 15% or lower, the Italian tax gets no credit and both countries collect in full. Switching to funds domiciled outside the United States does not fix this, because U.S. rules tax those funds harshly.

ESTIMATED EFFECT

This household pays \$140 a year of Italian tax on U.S. dividends that the United States does not credit.

SECTION 09

Recommended Next Steps

This section lists our recommendations for you to avoid excess taxation.



01 Meet the 7% regime requirements

BEFORE RESIDENCY

The 7% regime is open to a person who receives a pension from a foreign payer and was not tax resident in Italy in any of the five prior years.

Residence must move from a country that exchanges tax information with Italy, such as the United States, to a qualifying *comune*. Qualifying *comuni* are those of up to 30,000 residents in Sicilia, Calabria, Sardegna, Campania, Basilicata, Abruzzo, Molise and Puglia, and certain earthquake-area *comuni* in

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03

04