

Non-EUR based cash deposits: the 7 day tax rule

Laws might not always be respected in Italy, but they do exist and sometimes we discover some odds ones. In the case of the subject of this article this is a law which has, as yet, not been overly enforced by the Agenzia delle Entrate, but one might argue it is only a matter of time.

€51645,69

or
100 million lira

The figure quoted above is important in relation to how much money you hold in deposits in foreign currencies (cumulatively) at any one time as a resident in Italy and derives from law (L'art.67, comma 1-ter del Tuir): the applications of capital gains tax and losses.

The law states that where you hold over €51645,69, (100million lira equivalent) cumulatively, in foreign currency accounts (non EUR) for a **'period of over 7 days'**, then when you convert any of that money into EUR (or another currency), the amount exchanged is automatically subject to the calculation of capital gains tax (or losses) in Italy. This is because the transaction itself, is assumed, after 7 days of the money being held on deposit, to be a speculative 'currency trading' transaction.

How do I calculate my gains?

Without wishing to go into too much detail you take the amount of euros (or other currency) that you end up with in your account 'after exchange', but then need to refer to a EUR cost of those monies at the time at which you originally received the foreign currency in your account. You convert that sum into EUR using the Banca D'Italia exchange rate on the specific date or dates when they landed in your account, depending on whether you received the funds in one go or if they were accumulated over time.

As you might imagine this could be hellishly complicated if you have been receiving monies in from various sources over a period of time. However, reference would have to be made to each deposit in non-EUR currency, and a EUR equivalent calculated on the day when it was deposited in the account. In the case where deposits are not documented, for whatever reason, then the Agenzia delle Entrate will refer to the worst monthly conversion rate to EUR for that said currency, in the tax period in which the liability arises (i.e. calendar year). This could work in your favour in some cases, and create additional tax liabilities in others, so care needs to be taken.

Finally, if you do not convert all the funds in your foreign currency account into EUR then the 'last in first out' principle applies. This means you must refer to the latest deposit/s in any of your foreign currency accounts, which equate to the sum which you have exchanged into EUR or other currency, and use the Euro conversion value on the date that those funds arrived in your account.

Sound complicated?

It is!

Italian banks will flag this activity and automatically report it to the tax authorities. If you are using non Italian based foreign exchange services, e.g Wise, then you need to make these calculations yourself and pass the information to your commercialista.

What to do if you have more than €51645,69 in non-Euro deposits?

If you do hold *more than* €51645,69 in foreign currency deposits in any one calendar year, you are a resident in Italy, and have held the funds on cash deposit for more than 7 days, and then exchange some of that deposited money into another currency (euro or any other) then you have an obligation to calculate any potential profit/loss as a result of the exchange.

To avoid this law the simple answer is to bring the euro value of your foreign currency deposits under this €51645,69 and ensure they stay under every year.

If you are potentially in this situation then it might simply mean looking at your overall financial planning and whether you a) need to keep high deposits and b) seeing if you can find alternatives, such as money market accounts or low risk investments, whilst meeting any shorter-term cash requirements that you may have.

Our Financial section is provided by our tax expert Gareth Horsfall

Gareth Horsfall is manager and financial planner for The Spectrum IFA Group (<https://www.spectrum-ifa.com/>) in Italy. He's helped the English speaking community in Italy with their financial and tax planning since 2004 and has built up a wealth of experience and knowledge to assist people living in, or thinking of moving to Italy permanently.

Gareth has an Italian family and is a great advocate of life in Italy but admits that it takes careful preparation before making your move to navigate the bureaucracy and traps that many seeking a dream life in Italy fall into. Saying that, with a bit of planning, life in Italy can be really amazing and you can enjoy the wealth of culture, art, history, food, people, sun, sea and mountains that 'Il bel paese' provides.