



# How to buy a House in Italy

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## Summary

<b>Summary</b> .....	<b>2</b>
<b>1. What is it about Italy that sets it apart from other destinations?</b> .....	<b>3</b>
Is it difficult buying a house in Italy?.....	3
<b>2. What should I do buying an house in Italy?</b> .....	<b>4</b>
Rent before you buy. ....	4
Establish the budget.....	4
Choose the location .....	4
Where can I find my house in Italy? .....	5
Define the property.....	6
<b>3. What do I need to do when I find a house that I like ?</b> .....	<b>7</b>
First of all: the plans. ....	7
Make sure that your estate agent is registered .....	7
Get the property surveyed.....	7
Hire a local lawyer. ....	8
Ask for a reservation contract. ....	9
<b>4. What Happens When I'm Ready to Sign Contracts?</b> .....	<b>9</b>
1) Proposta irrevocabile di acquisto (optional). ....	9
2) Contratto preliminare and compromesso.....	10
3) Rogito. ....	11
<b>5. Signing Before Notary</b> .....	<b>12</b>
Power of Attorney .....	12
Watch out: the compromesso is legally binding! .....	12
The Notary's role .....	13
<b>6. What Fees Am I Expected To Pay?</b> .....	<b>14</b>
Legal value (Valore Catastale) and declared value .....	14
<b>7. I need to finance my property, can I get a mortgage?</b> .....	<b>16</b>
What the bank will ask me?.....	16
Document needed:.....	17
How much money can I ask for?.....	18
How long will it take? .....	18
<b>8. What kind of mortgage should I choose?</b> .....	<b>18</b>
Four boring (but important) explanations.....	19
What the bankers won't tell you .....	19
When it is an adjustable rate mortgage suitable for me?.....	20
<b>9. What sort of taxes will I pay?</b> .....	<b>21</b>
Taxes payable on the transfer of property .....	21
Property taxes.....	21
Personal taxes.....	22
<b>10. About the author</b> .....	<b>23</b>

## **1. What is it about Italy that sets it apart from other destinations?**

Choosing Italy as your destination to purchase a property may not be such a difficult decision to make. Excellent weather, beautiful surroundings, good food & wine, healthy living, culture, history and friendly people are reasons why Italy is second to none as a destination for overseas homebuyers. Italy offers great diversity to the potential homebuyer from lakes to beautiful coastline, from rolling countryside to breathtaking mountains and from magnificent cities to quaint medieval hill towns.

Many famous personalities fell in love with my country.

**Orson Welles**, for example, said once:

*«In Italy for thirty years under the Borgias they had warfare, terror, murder and bloodshed but they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love; they had five hundred years of democracy and peace and what did that produce? The cuckoo clock.»*

Or **Forster, E.M. (Edward Morgan)**:

*«Italy is such a delightful place to live in if you happen to be a man. There one may enjoy that exquisite luxury of Socialism, that true Socialism which is based not on equality of income or character, but on the equality of manners. In the democracy of the caffè, or the street the great question of our life has been solved, and the brotherhood of man is a reality. But it is accomplished at the expense of the sisterhood of women. »*

Or, again, **Edith Warthon**:

*«I think sometimes that it is almost a pity to enjoy Italy as much as I do, because the acuteness of my sensations makes them rather exhausting; but when I see the stupid Italians I have met here, completely insensitive to their surroundings, and ignorant of the treasures of art and history among which they have grown up, I begin to think it is better to be an American, and bring to it all a mind and eye unblunted by custom.»*

### **Is it difficult buying a house in Italy?**

Buying a house in Italy isn't easy, but it's not impossible. You just need to make sure you've done your homework in advance. Perhaps the key to a successful real estate transaction in Italy is working with a lawyer - the legal process for buying Italian property is maze-like, and completely unrelated to any other house-buying process you may be familiar with. Getting independent legal advice from someone in your own country, who speaks your language, and who deals with overseas property purchases will be invaluable to you in getting through the process with as few headaches as possible.

## **2. What should I do buying an house in Italy?**

Buying property is an expensive, important step. Therefore, never rush any decision and follow these wise steps.

### **Rent before you buy**

If you haven't yet lived in Italy for more than the duration of a holiday here, it's a very good idea to rent property first. That's the best way to make you sure that the reality of living in Italy is as good as you thought it would be. Plus, renting will give you a chance to see whether the particular town or city you chose will be a good fit for you long-term.

### **Establish the budget**

Buying property abroad is a big financial commitment and it is very important to be realistic about your financial limitations. The costs of buying the property need to be seriously considered. It is important to establish a realistic budget from the outset and make sure that you stick to it. Establishing your budget early on will save both your time and your estate agents.

In Italy, you have to allow for on-costs; typical agent fees are 3%, purchase taxes are 10% (3% if you are using as your main home), and on top of this you have to allow for *Notary* costs and *geometra* fees (local surveyor). If you use a solicitor of your country, this should also be costed in. If you propose to take out a mortgage, find out what the limits are and repayment terms and costs.

Also remember that the costs don't stop at the purchase of the property, as you will have annual community charges (ICI), utility charges and on-going maintenance charges.

If you are planning to renovate a property, then always allow for a contingency sum (at least 10%), if things don't go according to plan.

Remember to be realistic. Don't push yourself to the limit, as the property that you are going to buy in Italy, should be a pleasure and an achievement, rather than a financial burden.

### **Choose the location**

Italy is a large and beautiful country. It is also varied and when it comes to location, you will find yourself spoilt for choice. Italy is blessed with a good climate but the weather varies considerably, so if you are looking for milder winters then it is better to check the regional temperatures.

Historical and regional differences are an intrinsic part of life in Italy and it is important to establish which region is the right location for your new life in Italy. Among the regions there are several well-known locations that have been popular for many years; the Ligurian Riviera, the northern Lakes, the Cities of Rome, Florence and Venice, Taormina in Sicily and Tuscany and Umbria.

Central Italy is very popular with its abundance of medieval towns and beautiful countryside and Tuscany still remaining the first choice for many. Those looking for more affordability in central Italy, can opt for the up-and-coming regions of Le Marche and Abruzzo, which share some similarities with their neighbours Tuscany and Umbria.

In you are interested in looking further south, Puglia is opening up with direct flights from the UK and Sicily is now also becoming a consideration for many. You will find that the coastline in the south of Italy can be breathtaking. Sardinia is also a wonderful destination and a good investment with an excellent coastline.

Transport is an important consideration. Flights to northern Italy have always been good (Venice, Milan, Bologna), central Italy is improving (Pisa, Rome, Florence, Ancona) but the south is still generally struggling in terms of choice of carrier and availability from the UK. Proximity to the airport must be considered, if you are looking at renting your home in Italy, then most clients will be looking at no more than 90 minutes from the airport. You also have to consider that if this is a holiday home, then you will travel to the property at least six to eight times a year.

Before you start contacting potential agents, read up on the country. Buy a couple of books or use the internet (try Italian tourist board [www.enit.it](http://www.enit.it)), familiarise yourself with the different regions and select a couple for your initial search.

### **Where can I find my house in Italy?**

First have a look at their website to see the type of properties that they offer and browse to see if there is anything of interest. Be warned that many Italian agents still advertise properties that are no longer on the market. In some cases, this is to give the impression that they have a larger portfolio of properties. In other cases, it is genuinely not their fault as many vendors do tend to use multiple agencies to sell a property in Italy and when sold, they may not even inform the agent of this fact.

You can usually complete an on-line request form on many sites or if you are not web literate, then give them a call and have a chat. If they advertise in the UK, then there will be someone who speaks English in their office. A good conversation with them will help them to understand what you are trying to achieve and will also give you a general feeling about their knowledge and competence.

Another route to finding a suitable agent is by visiting an overseas property exhibition. This will usually give you the opportunity to speak to multiple agents under one roof and also access legal and financial advice. Make sure that you do contact the exhibition organiser beforehand and find out which regions are present as many exhibitions claim to cover Italy, although Italian exhibitors are short in supply.

If you find that through your research none of the agents that you have found covers a specific town or area that you are interested in, then you will have no option but to go direct.

You can search the national federation of Estate Agents website ([www.fiaip.it](http://www.fiaip.it)) under the section 'Agenzie' or try [www.casa.it](http://www.casa.it) or the on-line version of the Italian Yellow pages [www.paginegialle.it](http://www.paginegialle.it) (and type 'Agenzia Immobiliare'). This is going to be difficult as most Italian agents are not familiar with working with foreign clients and most will not speak English. Travelling to the destination and walking in the office in person will probably be easier.

## Define the property

The majority of Italian homes are of a high standard and Italy does have a lot of options available in terms of types of property; apartments (both new and old), townhouses, houses, villas, Casali (country houses).

Most buyers prefer more rustic properties but don't discount new build properties too easily as they are generally well designed and many blend in very sympathetically with their environment. These are generally found along the coastlines and in the more modern parts of a town. Make sure that you do allow for the costs of a kitchen when looking at new-build as this doesn't usually automatically come with the property.

Unlike many other European countries, Italy's historic town centres are usually thriving residential districts where you can buy restored houses and apartments. Many smaller medieval towns are built on hilltops, so make sure that you are fit and able to reach the property by foot.

The idyllic farmhouses that are found in Tuscany and Umbria and displayed in endless books about Italy are many people's idea of a dream property. Demand, however has outstripped supply in many areas and you should expect to pay a premium for renovated properties. It is important to realise that many of these properties are isolated and the reality of having to drive to see another property or person, can be daunting for some perspective buyers. Many, of course who are living in the city are more than happy to be lost in their very own corner of Italy.



### **3. What do I need to do when I find a house that I like ?**

At last, you'll find a place that is perfect for you.

#### **First of all: the plans.**

Ask for the plans, have the property surveyed. The cadastral history of the property is very important if you are purchasing the property with a mortgage: if the property was donated within the last twenty years you will have a very slim chance of getting a mortgage from an Italian bank. Donations may in fact be contested by the legitimate descendents of the person who made the donation within twenty years. The bank will not finance you the money for such property! This situation is of no significance if you are buying without a mortgage.

If the property is still registered at the land cadastre and therefore is not considered an urban building, it must be transformed from rural to urban prior to the deed of sale. Who the fees for this transformation (which is normally done by a land surveyor) should be charged to is often the object of negotiations. If, on the other hand, you intend to purchase more property around the house, with a courtyard that is larger than what was there previously, then you, as the purchasing party, will have to pay the expenses for the new parcelling of the estate.

Ask your estate agent for all this information, he or she will deal with your queries in the shortest time possible. Sometimes the owners of the property no longer have the plans of the property, we are often dealing with very old buildings, which were frequently inherited and farmers are not very precise with such matters, in cases such as this, the estate agent will have to request a copy of the plans from the Cadastre. This process normally takes a few days, you'd be surprised at the number of technicians who go to the Cadastre every day!

#### **Make sure that your estate agent is registered**

All agents should be professionally qualified and registered with their local chamber of commerce. They act for both the seller and buyer and are responsible for any claims they make about a property.

#### **Get the property surveyed.**

Get a surveyor to look at the property before deciding to buy it; this is very important in rural areas and with old buildings. They will check the structure of the house, as well as ensuring there are no local disputes.

- **Ask the experts.**

Your surveyor may recommend that you instruct a Geometra to confirm the land usage and status of the property and whether it has a Certificate of Habitation. If the property is not connected to mains water and has a well, you may be advised to commission a Hydrographic survey to determine if the water flow will be sufficient.

- **Unfurnished really means unfurnished.**

Even if you're renting an apartment in Italy, and especially if you're buying, the kitchen is likely to be completely empty (no cabinets, no appliances), there will be no light fixtures anywhere (only raw wires protruding from holes in the walls) and you may even find that the wood floor has been removed. All of these things are considered personal property, and people take them when they leave. So if you're looking at a house or apartment, be sure to ask exactly what stays and what goes - arriving to unpack the fridge only to find not only is there no fridge but there's no lights or floorboards would be a rude shock, indeed. Just find the local IKEA and you should be able to fill in any holes left by the previous owners.

- **Test everything.**

Turn on every light switch. Ring the doorbell. Flush the toilet. Turn on all the heaters. Run the hot and cold water in every faucet. Test all electrical outlets. In most cases, the properties you'll be looking at in Italy are old, and all electrical and plumbing additions were made years ago - so just because you see an electrical outlet or a radiator, don't assume they're all in top working order.

- **Check measures.**

Unlike other countries – like France, for instance - there is no Italian law on the measures of an house. You may discover that the measures of a flat or of a villas, are precise. Do not believe at the dimensions sellers will tell you. Always check with an expert the real measures of the house you want to buy.

- **Heating and air conditioning.**

Most Italian homes do not have air conditioning, and in many the heating systems are inefficient. If being too hot or too cold is going to be a problem for you, be sure to look into modernizing the existing heating and cooling systems if they haven't been already. And if you're planning to "do as the Italians do" and just cool your house in the summer by opening the windows in the evening, make sure you've got screens on those windows or you could be eaten alive by mosquitoes or other biting bugs!

## **Hire a local lawyer.**

I know, I said this above - but it's important enough that it bears repeating. Find a lawyer who knows Italian real estate laws inside and out, and who can help you not only figure out how to navigate the difficult waters of house buying in Italy but also how such a purchase will impact your taxes and finances in your home country.

Buying a house in Italy is no more complicated than buying a house in Britain or USA provided that the appropriate precautions are taken, especially with regard to legalities. This means ensuring that you have independent legal advisors. Many agents offer legal advice as part of their range of services. Though this may seem to simplify the purchasing process, there may be a conflict of interests should you require changes or clarifications of the contract. An independent lawyer is motivated solely by the desire to make sure that the property you buy has good title, appropriate planning consent, is free of debt, charges and other burdens. This motivation is compromised if the agency selling a property to you is also advising you legally.

An English-speaking lawyer working with overseas property transfers is the best option for several reasons:



A lawyer based in your own country will be obliged to work at the legal standards of that country, which tend to be more stringent and efficient than in Italy.

You will generally receive far more information than you would receive using the services of a local Italian lawyer [though even an English/American lawyer can only make the queries that are 'normal' for property transfer in Italy]

Native English speakers may be better able to explain difficult concepts relating to the transfer of the property.

A lawyer from your own country will advise you on choosing the best form of ownership as it relates to your tax and inheritance situation at home.

If you aren't completely put off the idea of buying a house in Italy, that's great! Really, while the process is certainly complicated (some would say more complicated than it needs to be), it's definitely do-able - countless people do it every year. This year you could be one of them.

### **Ask for a reservation contract.**

You'll be asked to pay a deposit of around € 2500 - € 3500 (£2,000-£3,000), to take the property off the market for 2 or 3 weeks. This gives you time to get the legal ball rolling and have the property surveyed. If you decide not to proceed because your surveyor finds a problem, you should be able to get this money back. If you decide to pull out for any other reason, you'll have to forfeit the money.

## ***4. What Happens When I'm Ready to Sign Contracts?***

There are certain legal precautions that can be followed throughout each stage to protect your interests and ensure your purchase goes successfully. Outlined in the following pages is an overview of all the necessary steps and precautions that you need to take when buying a property in Italy. Don't be too anxious about the process. Despite the cogs of the bureaucratic machine moving more slowly in Italy, it is in some ways a safer environment in which to buy property, for example, "gazumping" is not possible when buying a property in Italy.

There are at least three important steps in the purchase of an Italian property:

- the Proposta Irrevocabile d'Acquisto;
- the Preliminare and
- the Rogito.

The first two steps could be avoided, but in this case while all the paperwork to prepare the Rogito is being done by the Geometra (local surveyor) and the Notaio (Public Notary), the vendor may decide to sell to someone else and the buyer has no legal recourse. Therefore, without the first two contracts, you cannot claim any rights of purchasing the property at the agreed price. Hence we strongly suggest making use of all the three instruments when willing to purchase your property.

### **1) Proposta irrevocabile di acquisto (optional).**

Although not obligatory, the Proposta Irrevocabile d'Acquisto (irrevocable purchase agreement) is a sort of preliminary intention to buy by which you can reserve a property for purchase.

When you sign this first agreement, you pay a deposit by cheque in any currency for the equivalent of usually 2000/3000 euros, which is not cashed immediately but rather is held by the notary or the agency, and returned to you when you sign the *Compromesso*. This amount shall be given back free of any penalty or indemnity, in case the seller does not accept the offer.

This agreement is signed by buyer and seller when both have agreed upon a mutually acceptable price. This initial agreement identifies both parties, the property in question, and gives an expiration date for signing the *compromesso*. In the offer, the seller has to give some guarantees to the purchaser, such as: availability of the property, that it is in order with the building regulations in force, that all taxes have been paid.

If the buyer changes his or her mind, the buyer will then forfeit the deposit, since the owner will have effectively taken the property off the market for a certain period of time. If the sale does not go ahead in the specified date through no fault of your own, then your deposit will be returned to you.

Before any sale can be completed there are a number of searches and inspections to be carried out on the property. Those responsible for these inspections are the Geometra (Local surveyor) and the Notaio (Public Notary). If these searches reveal any problems regarding the sale of the property, then the sale cannot be completed. Usually these inspections and searches take two to three weeks to carry out.

## **2) Contratto preliminare and compromesso.**

This is a legally binding and private contract between the signatories that details all terms and conditions of the actual purchase of property.

This preliminary agreement will contain the following:

» Identification of the parties: full names, place and date of birth, passport number, nationality, codice fiscale (tax identification number). In the case of companies which are selling, they must provide their partita IVA (VAT number) and their legal registration number.

» Indication of the location of the property in question (town and province).

» Identification in Land Registry Office or urban areas, this identification is achieved by citing the register sheet, the units of property or parts thereof.

In the case of segments (*frazionamento*) of property, the seller must undertake to obtain at his expense, their identification in the national register. Such action must take place before the final sales agreement (*Rogito*) with the notary.

» In the case of land and/or for portions of buildings, the agreement must be accompanied by a map from the register, which will be signed by both parties.

» Verification of the seller's title to the property.

» Verification of whether any limitations exist to the title, for example judiciary or bank obligations, inheritance or property rights, rights to pre-emption (first choice of purchase) or any other limitations that reduce or in some way curtail the right to full title of the property. The seller must commit him/herself to eliminating such limitations prior to or simultaneously with the final sales act.

» Identification of all servitudes that might weigh on the property (roads, trails, pipelines etc that are located on the property to be purchased) and those from which the property should benefit (access to water from nearby natural sources or

- wells, rights of passage, and rights to access to pipelines etc).
- » Building licenses issued after 1967.
  - » Building licenses in the process of being issued: in the case of purchase of a building to be constructed, agreement to purchase and total payment must be conditional on the issuance of the required license.
  - » The sales price, indicating the amounts paid at signature (or at various successive moments) and the balance to be paid at the time of the final sales act. The initial payment (anticipo) should be identified as the down payment (caparra confirmatoria).
  - » The date established for the final sales act. This must be at least 30 days after the private sales agreement.

This contract has to be done with the assistance of a Public Notary who will perform a title search and insure that there are no loans, liens, or other impediments such as rights of way on the property, that the property is the exact one that is for sale and that all permits and permission for the building are in order. Once the agreed deposit has been paid (the deposit amount can vary between 15% and 50% of the sale price depending on the property and the negotiated percentage agreed upon between the Purchaser and Vendor) and the compromesso has been signed, both parties are bound to complete the purchase of the property as designated in the compromesso. Should the Purchaser back out of the contract, he or she will lose his or her deposit. If the Vendor fails to fulfil his or her obligations as specified in the compromesso, he or she has to repay DOUBLE the deposit amount to the purchaser. This is called a "caparra confirmatoria". It makes the penalty for default an equal amount for both parties.

The agency fee is payable when the compromesso is signed (between 2 to 5%, usually 3%).

### **3) Rogito.**

The final contract must be signed and finalized in the presence of the Public Notary. The Notary represent the Italian government. He is a public officer who serves as an impartial witness to the signing of documents and to the acknowledgement of signatures on documents.

The rogito is the contract which is registered in the Property Registry Office (Conservatoria dei Registri Immobiliari) and is the one that is recognized as the contract on which all government taxes and fees are calculated. After the signing of this contract there is a period of approximately three weeks before the new owners receive this document. This is the equivalent of a Title Deed and is the document of ownership of the property.

It is necessary for the Vendor and the Purchaser (or their nominated representatives) to be present at the signing of the Final Deed. The Notary is bound by law to read aloud the contract to the interested parties. Prior to the actual signing, the balance of the purchase price is handed over to the Vendor. The Deed is signed by the Vendor and by the Purchaser and is then countersigned by the Notary.

If the buyer or seller cannot be present, it is possible to organize a power of attorney. If the buyer wishes to be present but the notary considers that he/she

does not understand Italian well enough to completely comprehend all details of the contract, then an official certified translator is required or the agent can sign on the buyers' behalf with a power of attorney.

This document can either be prepared or signed before the Notary while the Purchaser is still in Italy, or alternatively, at the Italian Consulate in the Purchaser's country of residence.

Another option is that the document can be drawn up and then emailed/faxed/sent to the buyer. Next, the buyer needs to print it off and sign it in the presence of a solicitor. The buyer then needs to send or take it to the Foreign Office in his/her country (in Dublin for Ireland; in London for the UK) who need to stamp it (small fee of around £5 /9 euros payable) and it is then sent to the agency in Italy.

The purchase taxes and notary fees due, are payable when you sign the final contract and are collected by the Notaio.

## **5. Signing Before Notary**

There is normally a binding legal agreement to complete the purchase of the property at some future specified date, in the offices of a local Notary Public (Notaio). In view of the fact that this is an unequivocal commitment to buy the property and pay the agreed price at the time of signature, it is vital to have acquired all the documentation and search reports necessary to complete the purchase, or, at the very least to have ascertained all legal and practical difficulties / problems, and agreed a timetable to sort them out before completion. Italian law requires all contracts relating to land or buildings to be in writing, signed by both parties.

Notaries have a special duty of drafting the Purchase Deed [Rogito] and to ensure the proper execution, registration, and payment of all Italian taxes ancillary to the completion.

### **Power of Attorney**

The person buying the house may attend in person before the Notary, but, if this is inconvenient, arrangements can be made for a Power of Attorney (" procura ") to be granted enabling another person to attend on their behalf. This must be in the Italian form and signed in front of a Notary. Your lawyer may appoint an associate in the area to sign on their behalf. However you can have a Power for signature drafted in your home country.

### **Watch out: the compromesso is legally binding!**

Italians are used to signing the *compromesso* very quickly and an agent may ask you to sign this when you are in Italy. It is important to bear in mind that the *compromesso* is a legally binding document and once you have signed, if you withdraw you will lose your initial deposit to the vendor (of around 20% of the agreed sale price). The *Compromesso* will state the names of the buyer and seller, the property details, the date of completion and the agreed price of the property. If you are working with a UK based agent, then they will usually translate the *compromesso* for you so that you understand what you are signing. The document can either be signed in Italy with the vendor or also arranged from the UK or Usa. You will be expected to pay the agent for their services at this stage.

## The Notary's role

In Italy, the Notaio (notary) performs the role of the solicitor and once they have received the signed compromesso, they will conduct all the necessary final checks in order to prepare the Rogito (Deed of Sale). The notary works for both parties and is strictly neutral. Italians do not employ the services of a solicitor in addition to the notary but many English buyers will not understand the differences between English and Italian law. If buyers are not using a UK or Usa based agent to support them through the process, it is advisable to use a solicitor based in the UK or Usa from the outset. Your regular solicitor will not understand Italian property law, so it is advisable to use a specialist solicitor.



## **6. What Fees Am I Expected To Pay?**

Land Registration tax is the main tax on real property. This is levied at 10% of the declared value for 'urban' property, and 17% of the declared value for 'rural' property. Most houses, even if the most remote rural areas have been 'urbanised', and the 'rural' property refers to land, or land with an agricultural building on it. In some cases, the property being sold is owned by a Company, in which case I.V.A. (VAT) at a rate of up to 20% is payable on the declared value instead of the Registration tax.

The declared value is based on the official rateable value of the property, which depends on the local comune, the category and location of house and the size. This is generally considerably less than the actual purchase price. The amount payable depends on many factors including whether the property is your first and only home or a second home, whether it's a new home and whether you are a resident.

New Property. Value added tax ( IVA ) is levied at 10% on new (for non-luxury properties) and at 20% (on luxury homes with a rating of A1 in the property register), and is included in the price charged by the builder or developer. If you build your own home you pay a reduced rate of IVA at 4%.

You may have to pay all or part of the Estate Agents fees. These would typically be 3% - 5% of the actual value of the property. Though some agents have been known to charge up to 10%, especially when selling to foreigners. It is important that you are aware of this and query any unreasonably high fees.

You will also pay the Notary's fee. This amounts to approximately 2.5% of the total declared value of the property, with a minimum charge of approximately €1,300. Bear in mind that there can be variation between notaries.

You will also pay the Geometra's fee for the conveyance of the property. These can vary between €500 and €2,000 depending upon what work is involved in the conveyance.

In many cases you may not wish to be in Italy at the time when the public title deed needs to be signed. In these circumstances you need to have a Power of Attorney prepared authorising either someone nominated by you or a person associated with your lawyer to sign on your behalf. Bear in mind that you will also then have to pay the expenses of the person who attends to sign and pay the taxes on your behalf. Obtain an estimate from your lawyer in advance. Preparing the documents to authorize Power of Attorney should not cost more than €250

In order to buy property in Italy, you need to be registered with the Italian tax authorities and to have a tax identification number. The fee for obtaining one should not be any more than €250.

### **Legal value (Valore Catastale) and declared value**

With the new property tax legislation introduced by Italy's 2006 Budget everything is more simple and clear.

Under Italian Law, a property has a legal value also known as Valore Catastale. The legal value is a statutory value placed on the property by the Government and it is generally substantially less than the actual purchase price.

Please note that, from Italy's 2006 Budget approval, the taxes due on the purchase of a dwelling are calculated on the legal value of the property (Valore Catastale) and not the purchase price, i.e. on the value stated in the Land Registry which is usually much lower than the actual price paid.

The legal value of land is extremely low, unless it is valuable land like building land. The amount of taxes payable is, therefore, a lot less than it appears at first sight in most cases as well as the Notary's honorarium (based on the declared value). The declared value of a property is the amount you declare in the Rogito as purchase price.

You're supposed by law to declare the full price paid to the vendor, in reality most of the people would declare the minimum legal value. You may often find lots of sellers that will require to under declare the price paid. This custom is in place for various reasons, firstly to decrease the taxes due but mainly is to generate or spend cash money; it is very common in Italy to work with large amounts of cash.



## **7. I need to finance my property, can I get a mortgage?**

If you require financing to assist you with your real estate purchase, mortgages in Italy for European purchasers are widely available both locally in Italy and internationally from banks and lenders with a more global reach.

The first thing you need to consider is the fact that you shouldn't make an offer to buy any property in Italy if you require financing to assist your purchase until you have a mortgage at least discussed and maybe even agreed in principle – this is because you risk holding up the entire buying process otherwise, and possibly even losing out on your dream home if the vendor loses patience with you while you wait for all the paperwork to be done.

What this means is that you should speak upfront with a lender or with multiple lenders to determine how much money you will have to work with based on the deposit you can find, the amount you earn and interest rates you will have to pay for example.

As a foreigner buying property in Italy, we recommend obtaining the mortgage through a European bank for two very important reasons :

first, because our agency is in daily communication with several of the largest financial institutions in Europe and can therefore help you receive the credit you are looking for (which you could not necessarily obtain by your own devices);

second, because in the case of a Leaseback program you will receive your rental income in Euros.

In other words, it is advisable to open a bank account with the mortgaging bank into which you receive your rental income and also expense your mortgage payments, thereby avoiding transfer and currency exchange fees.

Your Italian estate agent should be willing to assist you, alternatively local banks, brokers and high street lenders in Italy will be able to help. There are also a number of international mortgage brokers around who specialise in securing finance for overseas properties and there is one international lender with significant presence in Italy who can lend as well, meaning that you can be assured of securing the best deal.

If on the other hand, you choose to take an international approach you could also try speaking to your bank about their international presence.

The translation of 'mortgage' into Italian is *mutuo ipotecario*, and just like most things in Italy securing your mortgage locally can take quite some time and a significant amount of form filling! If you are prepared for this and make sure any contract to purchase that you sign is conditional to you securing your finance you shouldn't have too much to worry about!

### **What the bank will ask me?**

The information required by the bank aims at defining your actual income and thus your ability to repay the mortgage. Loans are granted as long as the payments do not increase your debts unreasonably. The basic rule of thumb is that annual mortgage payments cannot exceed 30% of your annual income.



Generally speaking your mortgage repayment should exceed no more than 30-40% of your net monthly income and affordability checks are quite strictly enforced to ensure that borrowers do not run the risk of losing their home should circumstances or interest rates change. This level of protection is for the borrower's benefit, but to foreign borrowers for example it can feel a little restrictive.

### **Document needed:**

In order to obtain financing, all financial institutions require specific information about you and your financial background in order to determine answers to the following documents :

#### **About you**

- Two proofs of identification certified at Italian Consulate or at a bank agency (passport, driving licence, etc.)
- Two proofs of your home address (electricity bill, phone bill, etc.)
- Completed loan application
- Completed insurance form

#### **About your financial situation**

Non status or self certification mortgages don't exist in Italy, all applications have to be supported by solid proof of income. Usually you can borrow up to 85% of the value of your primary property and up to 50% for a second home purchase. The 85% for a first property can be extended to 95% if the house needs significant renovation for example.

- Original Recommendation letter from your bank
- Income tax papers from last three years
- Last three months bank statements
- Proof of actual assets (real estate, stock, etc.)
- Your current loan situation:
  - Starting & final dates
  - Initial amount borrowed and outstanding balance
  - Annual repayment

#### **About your employment situation**

- If You Are Company Employed:
  - Employment letter
  - Last three salary slips, bonus statement, etc.
  - If other source of income, proof of it

If You Are Self Employed:

- Last three years balance sheet
  - Letter from your accountant, certifying your income
  - Any documents that certify that you own the business
- If other source of income, proof of it

#### **Are you purchasing with your spouse?**

- Marriage Certificate
- All documents must be sent by both husband and wife if you are purchasing together

NOTE : After their initial perusal of your documents, the financial institution may request further documentation for proof of various aspects.

### **How much money can I ask for?**

Usually the maximum amount you can ask is the 80% the value of the house you want to buy. But be careful: the instalment cannot be over the 30% of your income.

It makes sense if you think like the banker.

The house is the guarantee of the money.

Your income (lets say your wage) is the guarantee for the instalments.

The banker wants to be sure he'll be able to get back his money if you won't pay the mortgage: he will sell your house.

At the same time, the banker wants to be sure that you'll be able to pay the instalments every month. That's why there's a limit.

However, today many banks offers the opportunity for 100% mortgage. These products tend to be more expensive or you can be asked many different bank suretyships.

### **How long will it take?**

As mentioned, the process to secure a mortgage in Italy from a local lender can take a considerable amount of time therefore it is wise to begin proceedings as soon as you have signed the preliminary contract to purchase. At this stage you are required to make a deposit but this is protected by law and in the unlikely event that you fail to secure finance it will be returned to you. Some lenders allow you to arrange a mortgage in advance, and the terms of the loan offer are guaranteed for up to 3 or 4 months. Therefore if you have a property in mind you can go ahead and try and secure your mortgage even before you've signed contracts to purchase.

When it comes to types of mortgages available and fees etc., most mortgages are repayment where the borrower pays a combination of capital and interest back each month. Fees are usually detailed up front and include a 1% arrangement fee, a 1% administration fee and a 2% registrations tax. Some lenders also charge a one off set sum of around € 100 for assisting you as well.

International mortgage brokers offer to do all the leg work for you and if you're not resident in Italy but purchasing property there, these brokers can often prove invaluable. They will research the market to get you the best deals and complete forms and submit all paper work on your behalf. Using a middle man who has such a depth of experience in arranging foreign mortgages can take such a huge strain off the whole buying process.

## ***8. What kind of mortgage should I choose?***

In my banking experience, that's the most important question for all homestead buyers: a fixed rate mortgage or an adjustable rate mortgage (Arm)?

In my opinion, the answer is straight and simple: always fixed!

Only in some particular cases the wiser choice can be different.

Before any further explanations, I'll try to make clear the terms of this topic.

## **Four boring (but important) explanations**

1 – What's the meaning of "interest rates"? The cost of money.

"Interest rates" means the cost of the money to be borrowed. It is expressed in percentage over a period of time. E.g. if the interest rate is 6%, it means that for 100.000 euro, you'll give back to the bank 6000 euro more (within the period of time specified).

2 – Fixed interest rate = Fixed instalment

If you choose a fixed interest rate mortgage, the instalment – i.e. the money you have to get back to the bank – is fixed throughout the whole period of time you chose. Simple, isn't it?

3 – Spread: a fixed percentage for the bank

In mortgages, the word "spread" means a fixed percentage for the bank. Usually it is imposed in the composition of the instalment for an adjustable rate mortgage.

4 – Adjustable interest rate = Instalment that VARIES following a market indicator (for instance Euribor) + spread

If the interest rate is adjustable, you may not know clearly how much you have to pay each month. Part of your instalment is linked to an interbanking index (in Italy, the Euribor). The other part of your instalment is a fixed percentage called "spread" that you owe to the bank. Supposing that the index will fall to zero, you still will have to pay the spread for your mortgage.

## **What the bankers won't tell you**

For many years the adjustable interest mortgages were more interesting than the fixed. For this reason many small savers were convinced in investing in this product.

Fixed rates advantages

- who has a regular wage does not want any surprise: every month wants to pay the same amount for the whole period of the mortgage;
- the amortization schedules of the capital are clear and well defined in the notary office;
- during the time, the instalments of this kind of mortgage are less "heavy" on a family accountability.

Fixed rates disadvantages:

- the initial instalments can be expensive.

Adjustable rates advantages:

- the initial instalments can be less expensive (in comparison with a fixed rates mortgage).

Adjustable rates disadvantages:

- the instalment is linked to the market fluctuations and, therefore, it changes every now and then (monthly or every quarter);
- the amount of the instalment is based on a complex calculation which is the bank to decide;

- even if you discover a mistake in this calculation, it is hardly possible that you'll be able to face the bank;
- you're not guaranteed by a notary and therefore it is easier for the bank to induce you in linking your mortgage with other expensive products such as assurances and financial instruments.

### **When it is an adjustable rate mortgage suitable for me?**

An adjustable rate mortgage is interesting for a small saver when he is expecting a relevant amount of money in a next future. That is the case of an heritage or when he is purchasing an house knowing to reselling after a period of time. In that situation, the adjustable rate mortgage allows you to take advantage of a smaller instalment without taking the risk of unfavourable increases.



## 9. What sort of taxes will I pay?

As owner of your new property, you should be aware of the various taxes and tax implications of Italy. The information contained in this document relates only to people not resident for tax purposes in Italy. A person is resident for tax purposes if he is physically present in Italy for more than 182 days in any calendar year, his main home is in Italy, and/or he is in business or employed in Italy.

The Italian Authority responsible for the collection of taxes is the "intendenza di finanza" (intendenza). This is organised on a local basis. In each comune there is an office of intendenza. In Italy it is your responsibility to obtain a tax form (usually, but not always, from the local tobacconist or newspaper shop!). It is your responsibility to complete the form and to calculate the amount of taxes that you owe to the State. It is then your responsibility to submit the form to the tax office together with the appropriate amount of tax payable.

The taxes and implications you need to be aware of are as follows :

### Taxes payable on the transfer of property

- **Imposta del Registro (Registration Tax)** This is a tax payable when you purchase either agricultural land or a house, apartment or building plot. It varies from 3 - 10% of the declared value of the property as expressed in the Rogito (Deed of Conveyance. For non residents buying a holiday home it is usually 7%. This has led people to be tempted to under-declare the value of the property. Though this practice was and is widespread, it is a serious mistake . Severe penalties are payable in respect of under declarations which, in addition, can lead to monumental Capital Gains Tax headaches at a later date, as the declared value on your purchase is the base line used by Authorities when assessing the Capital Gain you make on the disposal of the property.
- **Imposta sul Valore Aggiunto (VAT)** This is charged at 10% on all new property except luxury homes, which bear 20%. It is usually included in the advertised price of the property.
- **Notary's Fees** - Spese Notarili. These vary according to the value of the property, the number of pages in the documents prepared and various other factors. They would normally be about £1,500 for a £70,000 house.

### Property taxes

- **Imposta municipale (Local Taxes)** This is the main local property tax affecting owners of properties in Italy . The amount of the tax is calculated by reference to the "rendita catastrale" (official value of the property) registered in respect of all properties in Italy . The official values were, until recently, very very low. They are now rapidly rising, pursuant to a policy of the Italian Government that will result in the official values approaching the real value of the property. In general terms, local taxes will cost less than taxes on a similar property in the UK .
- **Tasse Comunali** Some Municipalities raise additional taxation in relation to the services that they supply to people in the area. These may include rubbish collection, cleaning of the streets and beaches etc. Municipalities also have the right

to raise a charge for the use of a vehicle in their area. Not all do so. The amounts of these charges are not generally high.

## **Personal taxes**

**Wealth Tax** There is no wealth tax in Italy .

**Imposta sul Reddito delle Persone Fisiche (IRPF) (Income Tax )** A person not resident in Italy for tax purposes must still make an annual declaration for income tax. The Italian Authorities are only concerned with the income you derive from activities in Italy , not your world-wide income. Typical examples of this will be interest on any money you have on deposit with a Italian bank or income you derive from letting your apartment or house. If you let your house you will have to declare the income received. You will be able to set off certain expenses against that 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%. As this income is part of your world wide income it will have to be declared to the British Tax Authorities but double taxation relief does exist as a result of a Treaty between the two countries. You do not need to file a tax declaration if you have no income in Italy .

**Notional Income Tax** There is also a tax to pay upon the notional rental value of your house, even if you do not actually rent it out. This is based on the official rendita catastrale (rateable value). It is normally small.

**Capital Gain Taxes** Before we get to the tax on purchasing let's see taxes on selling. Since Italy's 2006 Budget approval the capital gain tax on properties has been introduced in Italy but only for properties sold within five year from the purchase. Capital gain made from selling properties within five years of the purchase is taxed at 12.5% and don't need to be listed in the Annual Income Return. Loopholes: Properties bought under the Prima Casa status are exempt from this tax. Capital gain made from selling a property after five or more years from the purchase is exempt from any capital gain tax. All in all is good news because before there was no direct capital gain tax but to fully comply with the law you were supposed to list the capital gain from properties sold within 5 year from the purchase in Personal Annual Return (IRPEF) at an average rate of 38%-43%. A direct taxation at 12.5% is then quite fair and it's much simpler for non resident because they don't have to deal with the bureaucracy of Italian Annual Returns. Although the average buyer usually keeps the property for five years or more, in this case nothing is change: capital gain tax free (either direct or indirect).

**VAT - IVA** Most transactions in Italy involve the payment of VAT. The normal rates are 4% and 10%. Transactions involving luxury items can carry a rate of 20%.

**Codice Fiscale (Tax Code)** This is an identification number for use in Italy . If you have dealings within Italy - even if you are not full time or tax resident - you are required to have a number. This is obtained from your local tax office. However tempting it may be not to bother obtaining this number you will find that it will cause you great inconvenience in the future if you do not have one.

## **10. About the author**

Andrea Becca is a journalist and a professional translator specialized in real estate and finance. He worked several years as a chief editor for an Italian newspaper (MilanoFinanza) and as a manager in one of the most important banks in Italy (Banca Intesa).

Thank to his experience in mortgages and loans sector, he is now specialized in real estate - translating from English, French into Italian - contracts, annual reports and economic documents in general.

Remember: the words you choose describe your image.

For your translations contact a professional.

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