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## MARKETS

# Give Us Your Rich, Europe Tells the U.K.

Italy and other European countries are slashing taxes and rolling out incentives to persuade the wealthy to relocate



A gondola sails at sunset on the Grand Canal in Venice. Italy has introduced favorable laws to compete with the U.K. for the rich.  
PHOTO: LUDOVIC MARIN/AGENCE FRANCE-PRESSE/GETTY IMAGES

*By Simon Clark*

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As rich people in the U.K. fret over Brexit and the possibility of an avowed socialist coming to power, Italy and other European countries are slashing taxes to tempt the jet set to relocate.

Of mounting concern for many of Britain's wealthiest is the possibility that Prime Minister Boris Johnson's embattled government could give way to a high-tax Labour government led by Jeremy Corbyn. A fund manager described the anxious attitude of the wealthy as "in case of Corbyn, break glass."

That concern coupled with the uncertainty created by Brexit and its potential impact on the U.K. economy, means some of the wealthiest citizens are unsettled and weighing their options.

Countries like Italy, which has introduced favorable laws to compete with the U.K. for the rich, will stand to benefit, wealthy people and their lawyers say. Advocates of the Italian option call it “la dolce vita,” a play on la dolce vita, or the sweet life. The top 1% of earners paid 29.1% of U.K. income tax, or £55.3 billion (\$69.9 billion), in the last fiscal year.

“Our demise is everyone else’s opportunity,” British lawyer James Quarmby said in an interview after returning from a conference in Venice where Italian tax planners promoted their nation’s new rules at a luxurious hotel in a converted monastery on a private island. “It’s Corbyn. It’s not Brexit. Let’s be clear.”

Unlike famous rich bolt holes like Switzerland, Italy’s history of high taxes, volatile politics, stifling bureaucracy and slow economic growth has for years driven money and young people away. Yet political parties have found something they agree on: welcoming residents and expatriates with low taxes if they have money. A center-left government approved a favorable flat tax on non-Italian income for new residents in 2016. The populist coalition which followed in 2018 enhanced tax rules for new residents with jobs and money.

Italy’s new rules to attract the wealthy followed Portugal’s introduction of a new law in 2009 which has drawn more than 29,900 new residents, including 3,352 from the U.K., according to the Portuguese tax agency.

Under the Portuguese rule, overseas income isn’t taxed and local income is taxed at a flat 20% for new residents working in sectors classified as adding high value. Accounting firm PricewaterhouseCoopers LLP describes Portugal as “a top choice for ultra and high net worth individuals who wish to take up residence in the European Union.”

Malta and Cyprus specialize in providing financial services and citizenship to the wealthy. Greece’s new prime minister, a former banker, may introduce tax incentives for rich foreigners. Crafting tax laws is one of the few financial policy tools available to member states of the euro currency because the European Central Bank sets interest rates for all members.



The Labour Party under Jeremy Corbyn, above, said it would only raise taxes for the richest 5%. PHOTO: DARREN STAPLES/GETTY IMAGES

Spain and France have also brought in laws to attract the wealthy. Johannes Huth, U.S. private equity firm KKR & Co.'s European chief, moved to Paris in 2017 after living in London for many years. A spokesman declined to comment on Mr. Huth's tax affairs and said he moved to help lead KKR's expansion across Europe.

Italy introduced a new tax law in 2017 designed to provide better incentives than the U.K.'s so-called non-domiciled rule which has enabled foreign-born billionaires including steelmaker Lakshmi Mittal to avoid U.K. tax on overseas income, just as the British government was imposing a 15-year limit on the status. While British-born citizens aren't usually eligible for the status unless their father was born overseas, the Italian law is open to all, including expatriates.

"I don't think anyone will stay one week if Corbyn wins," an Italian finance executive who lives and works in London said in an interview. He declined to be identified and said he would hasten his return if the Labour Party wins.

Wealthy Britons have long sought out tax havens worldwide. Rock star Mick Jagger was among a rich exodus in the 1970s. More recently, private-equity tycoon Guy Hands moved to Guernsey and hedge-fund billionaire Alan Howard moved to Switzerland for a time.

The Italian rule is a flat tax charging €100,000 (\$110,338) a year on earnings outside the country for 15 years. More than 300 applied between 2017 and 2018, Italy's tax agency said.

"Labour will tax the rich and giant corporations to end austerity, properly fund public services free at the point of use, and rebuild our economy so it works for the many, not the few," John McDonnell, the likely finance minister in a Labour government, said in a statement this month.

Labour has said it would only raise taxes for the richest 5% and abolish the non-dom rule. Mr. McDonnell has said he favors banning bankers' bonuses, jailing advisers who help people evade tax, and described the non-dom rule as a "spurious scam" that "offended ordinary people."

The number of people in the U.K. with non-dom status fell 13% to 78,300 in the fiscal year ending in April 2018, partly because of the introduction of the 15-year time limit.

The wealthy and their advisers argue they are important contributors to the U.K. economy. Mr. Johnson's Conservative Party is traditionally much friendlier to them.

“Uncertainty about taxation in the U.K. is now real, so a lot of people are saying shall I stay in England or should I look around? Then they look at Italy,” Italian lawyer Andrea Tavecchio said. “Lifestyle, as well as tax, is a very important consideration.”

Italy has also introduced rules offering new residents a tax exemption on 70% of Italian income, rising to 90% for people moving to Italy’s poorer south. New rules for foreign pensioners moving to southern Italian towns offer a 7% tax on foreign pensions.



Keith Richards of the Rolling Stones poses next to Anita Pallenberg and his son at their home in Villefranche-sur-Mer, France in 1971. Mr. Richards and the Rolling Stones relocated to the South of France in the early 1970s to escape the U.K.’s tax regime for high earners. PHOTO: GETTY IMAGES

The Italian incentives are a sensitive subject in cities like Milan because an Italian returnee might pay a lower tax rate than citizens who never left, according to the Italian finance executive who is considering returning from London.

“At dinner parties, when you ask have you relocated for tax purposes you don’t get an answer,” he said. “Non-doms in the U.K. aren’t usually U.K. nationals so they aren’t comparable to the locals. In an Italian crowd you have an Italian with a great career who has come back and doesn’t pay the same tax as everyone else.”

The Italian executive said he met visiting Italian government officials and advisers in London to discuss the details of the flat tax before it was introduced. “They were quite skillful in doing it,” he said.

Soccer stars and finance chiefs stand to benefit. Romelu Lukaku transferred to Inter Milan from Manchester United this year. Davide Serra, a top Italian fund manager, has returned to Milan from London. “U.K. politics it’s a civil war,” Mr. Serra said in an interview. He declined to comment on whether he is benefiting from the new tax laws.

“I don’t think Mr. Corbyn recognizes how mobile the wealthy are and how dependent we are on them in the U.K.,” Mr. Quarmby said.

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