

## **The Property Purchasing Process**

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### **Introduction**

There are no restrictions placed upon non-residents wishing to purchase in Italy but before you start your search it is important to understand something about the system. You do not have to become a resident in order to purchase a property, unless you intend to spend more than 6 months of the year in Italy.

The process may seem involved, but no more so than in any other country, and as much of the work takes place behind the scenes, being handled by the relevant professional, just a basic understanding of what happens is all that is really required for the buyer. It is probably more important for the buyer to be aware of what actions they will need to take and when, such as payment deadlines and signing of documents plus the additional costs involved.

There are generally 3 stages to the process, although there are minor variations sometimes, the following notes are intended to give a general overview. We have tried to simplify the process for the reader, whilst still aiming to cover all the main points. One major difference between the UK and Italy is that property transactions take place in front of a notary public. The role that the notary plays is so important that we explain this before going on to deal with the actual buying process.

## **The Role of the Notary Public (Il Notaio)**

The notary represents the Italian government and acts to ensure the transaction is properly executed in accordance with the law, regardless of whether you are buying a new or second hand home. The notary is completely independent and impartial to both parties. The notary witnesses the preliminary agreement (il compromesso or preliminare di vendita) and later prepares the final contract of sale, or final deed of sale (atto di compravendita or il rogito). This is a public contract signed by both the vendor and the purchaser in front of the notary who then authenticates it with their signature and stamp. If the purchaser or vendor cannot be present then their representative will sign on their behalf provided they have been given a power of attorney. Before the signing of the final deed and transfer of any property to its new owner, it is the responsibility of the notary to ensure:

- Investigation of the vendor's title as legal owner, and that they are entitled to sell the property.
- All documentations are relating to the actual property in question.
- Verification of the identity/identities of all parties involved.
- There are no debts, mortgages or outstanding bills on the property.
- Local searches have been carried out and planning permissions are checked.
- Any taxes due are collected and paid to the government.
- Registration details are updated with the Land Registry Office (La conservatoria dei registri immobiliari).
- The full and final payment for the property.

Once the transaction has been successfully completed the notary will register the new title within twenty-one days. If a mortgage has been taken the notary will also register the mortgage deed. It may be some weeks before the new owner actually receives their copy of the registered title deed.

## **The Role of the Real Estate Agent (Agenzie Immobiliari)**

Anyone purchasing a resale home in Italy is most likely, and advised, to use the services on offer from the local estate agent who has helped them to find the property. Agenzie immobiliari are not just there to market property they are highly trained and licensed agents, and therefore must adhere to strict rules and procedures. The role of the agent is not only to assist in the search and selection of a suitable property, but together with the notary, the agent will be able to carry out all the work which would normally be done by a solicitor. The agent will offer support and assistance throughout, including guiding you through the process and arranging and accompanying you to the notary appointment. They are usually bi-lingual so can help with translations, and often have useful local knowledge and contacts for the buyer. Fees charged by the agent will vary but are usually between 3% -5% and though fees may seem high, remember they do ensure everything is done properly and legally, and could save you a lot of time, money and stress. Also note that both the buyer and the seller each have to pay this level of fees to the estate agent.

A summary of the functions of the agent follows:

- Introduce to the client a selection of suitable properties.
- Prepare any letter of offer and translations.
- Negotiate the purchase.
- Draft the preliminary contract (compromesso) and translate.
- Assist with application for codice fiscale.
- Open bank account for client.
- Co-ordinate transfer of funds.
- Assist with power of attorney if required.
- Arrange and co-ordinate signing of contracts, accompany client to the bank and the Notary.
- Transfer of, or setting up of utilities; water, electric, gas, telephone etc.
- Insurance.

Additional services may include:

- Restoration and renovation.
- Furnishing and interior design.
- General repairs and maintenance.
- Management and rentals.

### **Solicitors (Avvocati)**

It is not compulsory to use the services of a solicitor for the conveyancing process, particularly when purchasing a **resale**; this is because your agent will be handling the process for you. You only need to employ a solicitor if you feel more comfortable using one. This will add to your extra costs and will be a duplication of much of the work already done by the agent. On the other hand when buying **off-plan** property you may not have the services of an estate agent involved in the sale, because you may be purchasing direct from the developer or his agent, in this case **you are strongly advised to use an independent solicitor**. The solicitor will draw up the contract, carry out the process known as "due diligence" and protect your interests at every stage. It may be useful but not essential to find a solicitor within a law firm having both UK and Italian offices, so that you have bi-lingual assistance throughout both in Italy and in the UK. The fees will probably be in the region of £2,500 and upwards, plus VAT, and may be either on fixed fee basis, hourly rate, or depend upon the value of the property.

For details of Italian law firms please contact us.

## Taxes & Additional Charges

When you purchase property in Italy, as is the case with many overseas countries, you have certain taxes that you must pay on the purchase. For most non-residents the tax will be 10% based upon the selling price of the property, for a luxury property the rate will be 20%. If you are resident or applying for residency then the tax reduces to 4%. To qualify for the reduced taxation rate the residency must be applied for at the time of contract and your residency in Italy should become effective within 18 months of the purchase date.

You will pay one or the other of the following forms of taxes:

- On property purchased from a **private seller** (normally resales) you pay a total of 10% (a combination of 3 separate taxes; 7% registration tax, 2% mortgage tax and 1% land registry tax), these normally relate to resale properties.
- On property purchased from a **company, such as a brand new build or off-plan from a developer**, you will pay a total of 10% in IVA tax, which is the Italian equivalent to VAT.

For the purchaser, apart from the tax, there are additional costs to allow for; the notary's fee and the estate agent's fee. For most sales it is wise to allow an additional 16%-17% approximately on top of the net price of the property to cover all these taxes and other purchasing costs.

For resale property the extra costs which will be included in the 16%-17% are:

- Taxes totalling 10%,
- Notary fees between 2.5% and 3% of the cadastral value (rateable value).
- Estate agent fees around 3% (payable at preliminary contract stage).
- Solicitor fees, only if appropriate.

For new or off-plan property the extra costs which will be included in the 16%-17% are:

- Taxes totalling 10%.
- Notary fees between 2.5% and 3% of the cadastral value (rateable value).
- Solicitor fees, if using UK and Italian based Law firm allow at least £2,500 plus VAT.
- Connection charges for the various utilities; water, electric etc allow at least £1,200.

Further extra costs are likely when a mortgage is involved, and also further legal fees so allow 2%-3% of the actual mortgage value to cover these. The seller of the property (vendor) has two main items to pay for; their capital gains tax and estate agent's fee; there is no CGT after five years of ownership but a vendor is liable to pay CGT if the property is sold before then. If the vendor is a private individual CGT is 20%.

## **Codice Fiscale & Bank Accounts**

In order to enter into any contract or official transaction you will require a codice fiscale. This is a fiscal number required under Italian law, and without which you cannot purchase a property. It takes the form of a plastic card and is issued by the local town hall (commune) or tax office, or through an Italian consulate. The codice fiscale application requires a copy of your passport. Your agent or solicitor can make the application on your behalf or it is possible to do this yourself, just visit [www.codicefiscale.com](http://www.codicefiscale.com). You will need the number for your codice fiscale at a fairly early stage of the process. It will also be necessary at some time to open an Italian bank account, the agent or solicitor can assist with this or it is very straightforward to do yourself whilst in Italy, you need only take your passport to any bank. You will need the bank account set up at the latest by completion, so that regular direct debit payment for utilities can be made.

## **Purchasing an Established Property (Resale)**

Once you have selected your property the timescale before you can move in can vary from just a few weeks to 2-3 months. The process can vary a little depending upon circumstances, but below is an outline of the procedure and the 3 main stages which now take place:

### **1. Offer/Negotiation/Acceptance**

The first stage may be just having your verbal offer accepted and the price agreed, then you might either go straight to contract or you may be required to make a small deposit payment of around Euro 3,000 while the contract is being drawn up. Sometimes there is a more formal written offer to buy (la proposta d'acquisto) followed by the written acceptance (l'accettazione della proposta d'acquisto) this may be followed by the payment of a small deposit. Once all the negotiation and acceptance is complete you will then proceed to contract. Sometimes the agent already has certain documents in place but if not a local surveyor (Geometra) may be required to carry out land registry searches and checks with local authorities re planning regulations and permissions etc. This normally takes about 2-4 weeks to complete.

### **2. Preliminary Contract (Il Compromesso)**

The second stage is the preliminary contract (il compromesso or preliminare di compravendita). The contract is drafted by the agent and the signing of the contract takes place around 4 weeks after reservation. A deposit (caparra confirmatoria) of at least 10% is transferred at the time of signing in the presence of a notary public. The contract outlines the terms of the sale and the date by which the transfer of the property and final payment must be made. Many people wonder why, when completion can take place in just a very short space of time after the contract signing, there is the need to pay a deposit. The signing of this contract and payment of the deposit protects the purchaser as it legally fixes the price and takes the property off the market, no one else can view or put in an offer. This avoids any risk of being gazumped. It is law that once the contract is signed and deposit paid; if the vendor decides to pull out of the sale he must pay double the amount of the deposit to the buyer. If the buyer pulls out he loses the deposit entirely.

### **3. Completion & Purchase Deed (Il Rogito)**

The final stage, completion, takes place approximately 8-12 weeks from reservation by which time everything should be ready. Completion is when the purchase deed (il rogito), which is drawn up by the notary public, is signed in the presence of all parties at the notary office. At the same time the payment of the final balance (adjusted for the reservation fee and any interim deposits), plus taxes and fees is transacted and the property transfers to the new owner. For completion to happen smoothly all the checks must have been satisfactorily completed and then approved by the notary, but also the buyer must have ensured all appropriate cash or mortgage funds are in place and available in advance of the completion date.

### **The Purchase Process for Off-Plan or Property Under Construction**

Although the basic process is still very similar to buying a resale home, there are a few differences you need to be aware of when buying off-plan or a new build direct from a developer. Most likely you will purchase direct or through a promoter or introducer, even though they may offer a degree of assistance and after-sales, in this situation you will probably not have the extensive services of a registered estate agent.

**Therefore it is essential to use a solicitor to check all the paperwork and carry out the process of due diligence.** Due diligence is the process of checking the title or ownership of the land on which the property is to be built, to ensure everything is in order. Who owns the title to the land and whether the builder has the right to build on the land as well as proper legal planning consents in place are critical aspects of buying off-plan. Your solicitor will draw up the preliminary contract on your behalf, so you must ensure they act independently and impartially. Because the timescales for off-plan are longer, often 2 years or more for construction to take place, the payment schedules are quite different. Normally there are still 3 main stages to the process but this may vary with different developers, depending upon how they require stage payments to be made.

#### **1. Reservation (Prenotazione)**

Once you have decided upon the location, development and the unit or plot for your purchase, you will sign a reservation agreement and be required to make payment of a reservation fee between Euro 3,000 and Euro 6,000. Once this reservation takes place the price is fixed, the builder cannot up the price, and the property is taken off the market so no one else can view or put in an offer, this avoids any risk of being gazumped should another buyer try to offer more money for the property.

#### **2. Preliminary Contract (Compromesso)**

The second stage is the Preliminary contract (il compromesso or preliminare di compravendita). The contract is drafted by the purchaser's solicitor (and not by the developer or their solicitor). The signing of the compromesso should take place around 4 weeks after reservation and once the solicitors are satisfied that the due diligence has been completed satisfactorily. After this stage everything is binding and usually irrevocable; if the seller pulls out he must pay double the deposit, if the buyer pulls out he loses the deposit. The deposit (caparra confirmatoria) payable at this stage is much higher than with a resale, it is normally

around 40%-50%, it can occasionally be 30%-35% with a further 15%-20% interim payment a few months later normally bringing the balance still outstanding for completion stage up to around 50%. This deposit is transferred at the time of signing and exchange of the contracts. There should be within the contract a date by which time the property should be constructed and ready for completion. There maybe penalties on the constructor if they fail to complete within a stated timescale or on the buyer if they are late with any of the payments.

With such a substantial deposit at stake and effectively being paid a long time in advance of taking possession of the property, there has to be safeguards to protect the buyer's interest. Therefore a bank guarantee must be given and put in place, the solicitor should ensure this happens before forwarding money to the builder. This is an insurance which the builder has to provide to protect the purchaser; normally the builder pays for this, but there are instances when the purchaser may have to pay for it themselves, always check this point. With a bank guarantee in place if for any reason the builder goes out of business, or fails to complete the property the bank guarantees to refund the purchasers deposit. When the solicitor receives the deposit funds into a special escrow account they do not transfer the funds to the builder until the guarantee is in place and he should ensure that it will cover your purchase right up until completion.

### **3. Completion & Purchase Deed (Rogito)**

The final stage, completion, can only take place when the property is ready for occupation, for off-plan this can be expected to be around 2 years, sometimes even longer. Completion and the transfer of the property takes place when the purchase deed, which is drawn up by the notary public, is signed in the presence of all parties at the notary office and the payment of the final balance (adjusted for the reservation fee and any interim deposits), plus taxes and fees are made.

### **Extras, what is included in the price? (New Builds & Off-Plan Property)**

It is worth noting that with new builds items such as tiled floors and fitted bathrooms are normally included in the price, but the buyer should always make sure this is confirmed and in put writing in the specification which should accompany the contract. Light fittings are rarely included in a new property, they are considered a personal choice and so usually left for the buyer to select themselves to have fitted after completion has taken place. Certain items such as fitted kitchen units, kitchen sinks, heating, air-conditioning and even decorating and hot water heaters or boilers are frequently NOT included and would therefore be charged as extras, or not fitted at all. These are all aspects to be considered and the right questions must be asked when buying. If any of these extras are to be included they must be agreed upon at the time of purchase and documented clearly in writing to accompany the contract, thus saving any disagreement or disappointment later.

## **Annual Running Costs for the Property**

These will vary immensely depending upon the size and location of the property, and the amount of usage.

The following are just intended as a rough indication of the sort of ongoing expenses a purchaser should budget for, they will vary according to area, size of property and other factors:

- Annual Taxes/Local Council Taxes known as "ICI" imposta comunale sugli immobili. This annual tax is determined by the size and quality of the property. This payment is the equivalent of our UK council tax but if compared it is much less, usually about 0.5%-0.6% of the declared value of the property for an average property it will be between Euro 300 – Euro 500 per annum. It is payable either annually or six monthly and usually you have to set up a direct debit instruction with the bank.
- ICI does not cover for refuse collection, this is taxed separately, also paid by direct debit annually, allow approximately Euro 100 – Euro 250 per annum.
- Electricity, water, gas, telephone have small fixed standing charges, plus the usage and are paid usually every two months by direct debit.
- Condominium expenses, usually only payable where there are shared expenses for upkeep and cleaning of communal areas; gardens, driveways, swimming pools and other facilities. Normally when property is sited on a complex of some sort. These expenses vary immensely according to what is on offer on the development. These could be anything from Euro 50 to Euro 500 per month. With an off-plan development these are not set until after completion when either the builder or a local agent or such will normally undertake the budgeting and management of these fees. These expenses are often not applicable to individual dwellings and villas on individually owned private plots.
- Insurance for buildings and contents.

**If you have any further questions please do not hesitate to contact us.**