2026 Budget Law

Tax & Legal Alert
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This Tax & Legal Alert summarises the main measures introduced by Law no. 199 of 30 December 2025 (the "2026 Budget Law"), published in Official Gazette no. 301 of 30 December 2025 (Ordinary Supplement no. 42/L) and in force since 1 January 2026.

Unless indicated otherwise, a fiscal year means that in progress on 31 December.

Article 1(44 and 45) – Renewed removal of the tax-deferred status of certain reserves

The 2026 Budget Law renews the possibility of removing the tax-deferred status of certain revaluation surpluses, reserves and funds recorded in the FY 2024 financial statements and still existing at the close of FY 2025. As in the previous iteration of this rule, this status can be removed, in part or in full, by paying a 10 percent substitute tax in lieu of income tax and IRAP.

Upon exercise of this option, the reserves lose their tax-deferred status and may be freely distributed to shareholders, or used for other purposes, without the company having to pay tax at the time of distribution or use.

Any substitute tax credit available under the original revaluation rule that gave rise to the reserve will no longer apply.

The removal process, described below, can be applied to one or more tax-deferred revaluation surpluses, reserves or funds, or just part of one or more of them.

a) *Eligible reserves*

The following items are eligible, even if allocated to share capital:

- tax-deferred revaluation surpluses recorded as a result of a step-up in the tax bases of business assets under certain statutory provisions;
- tax-deferred funds or other reserves (except those generated by allowable tax deductions not booked in the accounts).

Monetary revaluation reserves (established under various laws passed between 1983 and 2020) are one example of eligible reserves.

Amounts are ineligible if their distribution to shareholders is approved by a resolution pre-dating FY 2026, regardless of when distribution actually takes place.

b) *Substitute tax basis*

The substitute tax on the release must be calculated on the net reserve, as reported in the financial statements.

c) *Completion of the process and payment of the substitute tax*

The process is completed by declaring, in the tax return for FY 2025, the amount of revaluation surpluses, reserves and funds to be stripped of their tax-deferred status, and the amount of substitute tax.

The election must be declared in the income tax return for FY 2025 and the substitute tax must be paid in four equal instalments: the first by the deadline for payment of the balance of income taxes for FY 2025 and the subsequent instalments by the deadlines for payment of the balance of income taxes for the following fiscal years. No interest accrues.

Payment must likely be made using tax code 1867. Failure to pay the substitute tax, or underpayment, will not nullify the election; the unpaid amount will merely be registered for collection.

The substitute tax cannot be deducted for income tax and IRAP purposes.

d) *Rules for IRPEF taxpayers*

Sole proprietorships, general partnerships (*società in nome collettivo*), limited partnerships (*società in accomandita semplice*) and entities treated as such, keeping ordinary accounts, may elect to remove the tax-deferred status of revaluation surpluses, reserves and funds. The substitute tax is paid by the party exercising the option. In the case of a partnership, the amount stripped of tax-deferred status is attributed, under transparency rules, to the partners.

e) *Procedures*

The procedures for income tax calculations, assessments, collections, refunds, penalties and litigation apply.

f) *Nature of the tax-paid-up reserve*

Once the operation is completed, the tax-paid-up reserve is treated like ordinary retained earnings. This follows the principle that the reserve retains its original nature and loses only its tax-deferred status. The reserve may also revert to a capital reserve.

Article 1(56-58) – Deductible write-downs of loans to customers due to expected losses

From FY 2026 and for the three following fiscal years, banks and other financial intermediaries may deduct certain loan write-downs in equal instalments, in the year they are recognised in the financial statements and in the four subsequent years. The qualifying write-downs are customer loan write-downs classified under IFRS 9 stages 1 and 2 and calculated in accordance with the expected losses model.

Deferred tax assets (DTAs) recognised in the financial statements in respect of the staggered deductions cannot be converted into a tax credit and are therefore excluded from the basis for calculating the annual DTA conversion fee.

To calculate the advance payments for FY 2026, the effect of the new staggered deductions must be reflected by neutralising four-fifths of the write-downs of stage-1 and stage-2 loans to customers.

Article 1(68-73) – Change in the rules on the special windfall tax and reserve for banks

In the case of banks and other financial intermediaries that have opted not to pay a special tax on windfall profits but to allocate, to a non-distributable reserve, an amount at least two and a half times the tax due, it will be presumed, from fiscal years starting on or after 1 January 2028, that any distributions will come first from that reserve. Therefore, distributions made from FY 2029, regardless of the shareholder meeting resolution and the amount distributed, will trigger an obligation to pay the windfall tax (plus interest) within 30 days of the date of the resolution. However, the presumption will not apply if, and to the extent that, the reserve is formed from profits allocated to the legal reserve of a cooperative bank (*banca di credito cooperativo*).

It will also be possible, by the end of FY 2028, to unlock such reserves by paying a “special contribution” of 27.5 percent on the reserve recorded at the end of FY 2025 or 33 percent on the reserve recorded at the end of FY 2026. In the case, for example, of a bank whose windfall tax amounted to EUR2,000,000 and whose shareholder meeting resolved to allocate EUR5,000,000 to a special reserve, the special contribution to unlock the reserve would amount to EUR1,375,000 if applied in FY 2026 and EUR1,650,000 if applied in FY 2027 or FY 2028. The special contribution must be paid by the deadline for payment of the balance of income taxes for the fiscal year in which it is applied. It is non-deductible.

Article 1(74-75) – Increase in the IRAP rate for banks and insurance undertakings

For FYs 2026, 2027 and 2028, the IRAP rate for banks, other financial intermediaries (other than SIMs, SGRs, SICAVs and non-financial holding companies) and insurance companies has been increased by two percentage points.

For FYs 2027 and 2028 a tax deduction is allowed, equal to the difference between the tax calculated at the new higher rate and the tax calculated at the old rate. The tax deduction is capped at EUR90,000.

In calculating the advance IRAP instalments for FY 2026, the effect of the increased rate must be considered.

Article 1(76-81) – Deferred deduction of DTA-related costs

The 2026 Budget Law reschedules the deduction in instalments of write-downs of trade receivables, amortisation expenses and other intangible assets, and the costs of first-time adoption of IFRS 9. Deduction of the FY 2027 instalment has been deferred (in equal parts) to FYs 2028 and 2029. Moreover, the offsetting of prior losses and surplus ACE has been restricted: for FY 2026, the amount to be offset cannot exceed 35 percent of the additional taxable income arising from the deferrals introduced by the 2025 Budget Law; for FY 2027, the amount cannot exceed 42 percent of such additional taxable income. In calculating the advance tax payments for FYs 2027 and 2028, taxpayers must consider the effect of the deferral and of the reduced offsetting of prior losses and surplus ACE.

Article 1(46-50) – Overhaul of the IRAP rules on dividends paid between different Member States and on refund claims

The objective of Directive 2011/96/EU, on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, is to exempt dividends and other profit distributions paid by subsidiary companies to their parent companies from withholding taxes and to eliminate double taxation of such income at the level of the parent company.

In its judgment of 1 August 2025, in joined Cases C-92/24 - C-94/24, the Court of Justice of the European Union ruled on how article 4 of Directive 2011/96/EU should be correctly interpreted, in relation to partial IRAP refund claims submitted by an Italian bank.

According to the Court of Justice, article 4 must be interpreted as: "*precluding national legislation pursuant to which a Member State that has opted for the exemption system may levy tax on more than 5% of the amount of the dividends which the financial intermediaries resident in that Member State receive, as parent companies within the meaning of that directive, from their subsidiaries resident in other Member States, including where that is done by way of a tax which is not a tax on corporate income, but which includes in its basis of assessment those dividends or a fraction thereof*". Moreover, the fact that IRAP is not included in the taxes set out in Part B of Annex I to that directive, to which Article 2(a)(iii) of that directive refers, does not mean that that tax is excluded from the material scope of that directive.

Accordingly, the 2026 Budget Law establishes that, from FY 2025, 95 percent of the dividends received from EU or EEA Member States (with which Italy has concluded an agreement ensuring an effective exchange of information) by Italian banks, financial intermediaries and insurance undertakings will not be included in the IRAP basis of assessment, provided that:

(a) a direct holding of not less than 20 percent of the capital of the distributing company is held;

(b) the distributing company takes one of the forms listed in Part A of Annex I to Directive 2011/96/EU;

(c) the distributing company, according to the tax laws of a Member State, is considered to be resident in that Member State for tax purposes and, under the terms of a double taxation agreement concluded with a third State, is not considered to be resident for tax purposes outside the European Union;

(d) the distributing company is subject to one of the taxes listed in the directive, without benefitting from an option or an exemption that is not restricted to certain territories or timeframes, or to any other tax which may be substituted for any of those taxes;

(e) the shares have been held continuously for at least one year;

(f) the dividends come from non-resident companies and entities and are generated by securities and financial instruments for which, in the issuer's State of residence, the corresponding remuneration is non-deductible from taxable income.

For prior fiscal years, it is possible to submit an IRAP refund claim for the portion of dividends exceeding 5 percent (that is, the IRAP paid on 45 percent of those dividends) that were included in production revenue, provided that the 48-month window is still open on 1 January 2026.

It is possible to opt to use the refundable amounts to offset tax payments.

The use of that credit for offsetting is permitted from the tenth day of the month following submission of the claim.

Article 1(51-55) – Changes to the rules on dividends and capital gains

There have been changes to the tax treatment of dividends and capital gains received by resident entrepreneurs and companies.

The 2026 Budget Law tightens access to the "exclusion regime" − which excludes from taxation 41.86 percent of dividends in the case of IRPEF taxpayers and 95 percent in the case of IRES taxpayers. These percentages remain − but only if the shareholding passes a "size test", i.e. represents (directly or indirectly through controlled companies) at least 5 percent of the investee or amounts to at least EUR500,000. The same size test also applies to capital gains from shares qualifying for the "PEX" participation exemption regime (41.86 percent exemption for IRPEF taxpayers and 95 percent for IRES taxpayers).

Also in the case of the 1.2 percent withholding tax at source, applied as a final tax on dividends paid to companies or entities that are resident and subject to income tax in EU or EEA Member States, the shareholdings must pass the size test, i.e. they must represent (directly or indirectly through controlled companies) at least 5 percent of the investee or amount to at least EUR500,000.

The new rules apply to distributions of profit for the fiscal year, reserves and other funds approved from 1 January 2026.

Article 1(82-101) – Facilitated settlement of tax liabilities assigned to the tax collector (so-called "*rottamazione quinquies*")

The 2026 Budget Law has introduced a fifth iteration of the "*rottamazione*" scheme, which facilitates the settlement of tax liabilities demanded in collection notices assigned to the tax collector from 1 January 2000 to 31 December 2023. Eligible tax liabilities are those arising from: (i) failure to pay taxes declared in annual returns or resulting from the automatic calculation and checking of those returns; or (ii) failure to pay INPS social security contributions. Liabilities resulting from a tax assessment are excluded.

These liabilities can be settled by paying the full tax bill, as well as the costs of enforcement and service of the payment notice. Penalties, interest (including late-payment interest) and collection fees are waived. In the case of liabilities arising from violations of the Highway Code, only interest and collection fees are waived.

If a taxpayer has already made partial payments, only the amounts paid towards tax and enforcement/service costs are counted when calculating the outstanding amount. In all cases, any sums paid by the taxpayer before the facilitated settlement are non-refundable.

The scheme can also be used to settle liabilities included in personal or consumer debt restructuring schemes or small-debtor arrangements with creditors. The rules governing priority claims apply to sums covered by insolvency or business crisis procedures, i.e. such sums cannot be used for the facilitated settlement of tax liabilities while such procedures are pending.

Liabilities covered by previous settlement schemes that have since lapsed without being completed may also be extinguished. If, however, under the previous (fourth) iteration of the scheme, all the instalments due by 30 September 2025 were paid, the taxpayer cannot access this new scheme but must follow the original deadlines for the remaining payments.

To benefit from this scheme, the taxpayer has until 30 April 2026 to declare online that they intend to apply for a facilitated settlement. They must indicate the number of desired payment instalments, declare any existing court proceedings involving the liabilities, and undertake to withdraw from those proceedings.

The liabilities can all be settled in full by 31 July 2026 or paid in up to 54 equal two-monthly instalments starting from 31 July 2026. In the event of payment by instalments, a 3 percent rate of interest applies from 1 August 2026.

Upon presentation of a copy of the declaration of withdrawal, court proceedings are suspended pending the full single payment or first instalment. Termination of the proceedings is declared automatically upon presentation of the debtor's declaration, the tax collector's communication and proof of the full single payment or first instalment. Termination renders ineffective any judgments of the lower courts and rulings that have not become final.

Submission of the taxpayer's declaration has the following implications for liabilities eligible for settlement: (i) the statute of limitations and forfeiture period are suspended; (ii) obligations arising from previous instalment arrangements are suspended until the due date of the full single payment or first instalment (31 July 2026), after which the suspended instalments are automatically revoked and new ones are not allowed; (iii) no new seizures and mortgages can be registered; (iv) the initiation of new enforcement procedures and continuation of existing ones are prohibited, unless a first auction has successfully taken place; (v) since the debtor is no longer considered to be in default (a) tax refunds no longer have to be obligatorily offset against outstanding liabilities, and (b) payments of over EUR5,000 from public administrations and majority publicly owned companies are no longer blocked; (vi) a DURC (certifying compliance with social security contributions) can be issued.

By 30 June 2026 the tax collector will contact debtors who have submitted a declaration of their intention to adopt the scheme. The tax collector will indicate the total amount of the settlement, the amount of each instalment and the due date of each instalment.

The benefit will be lost if the taxpayer fails to pay the full single payment, two instalments (even if non-consecutive), or the last instalment. In such cases, the settlement will be ineffective, the statute of limitations and forfeiture period will restart, and the tax collector will resume recovery. Any amounts already paid will be retained as a prepayment against the total bill assigned to the tax collector.

Article 1(116) – Measures to counter undue offsetting of tax credits

The 2026 Budget Law tightens the rules on using (i) non-existent tax credits to offset liabilities and (ii) validly existing tax credits to "horizontally" offset liabilities of a different kind. In this second case, taxpayers will be unable to use tax credits to offset liabilities if they have more than EUR50,000 in tax debts and additional charges listed for collection/already assigned to the tax collector. This is half the previous threshold of EUR100,000.

The prohibition on "horizontal" offsetting will not apply to liabilities for social security contributions and INAIL premiums (INAIL is the National Institute for Insurance against Accidents at Work).

The Italian Revenue Agency had previously clarified that the threshold must be calculated by considering: taxes listed for collection; notices clawing back tax credits; penalties and interest. However, late-payment interest and collection charges are excluded from the calculation.

Article 1(125) – Further postponement of the plastic tax

The entry into force of the tax on the consumption of single-use plastic items, commonly known as the "plastic tax", has been postponed numerous times in recent years. It was due to enter into force on 1 July 2026 but has been deferred again, this time to 1 January 2027.

Article 1(131 and 132) − Rationalisation of business income

Three measures have been introduced — on a trial basis for FY 2026 — to rationalise business income. All three items must be entered in a **special section of the income tax return** so that the government can monitor the effects of these experimental tax measures, which concern the:

a) sale of own shares;

b) deduction of costs related to stock-option plans;

c) deduction of the costs of trademarks, goodwill and other intangible assets with an indefinite useful life.

Sale of own shares

As an exception to article 83 of the Italian Income Tax Code, the 2026 Budget Law establishes that revenue will now include the difference between the price received when a company sells its own shares and the price at which it bought those shares. This rule aligns the tax treatment of trades in own shares with that of trades in shares of other companies, overcoming the previous "fiscal irrelevance" of disposals of own shares. Until now, such transactions did not pass through P&L but merely triggered an adjustment of equity in financial statements prepared under IAS/IFRS and Italian accounting standards (OIC).

This rule will apply no matter why the company bought the shares. A FIFO rule is also introduced: the shares purchased first are considered the first ones sold.

Stock-option plans

The treatment of **cash-settled stock-option or stock-grant plans**, approved from FY 2026, has been aligned with that of equity-settled ones.

Equity-settled plans (receipt of actual shares): the company can deduct the cost only when the options are actually granted.

Cash-settled plans (receipt of cash instead of shares): the company can deduct the cost only **when the payment is actually made**.

Plans approved before the new rules take effect will remain subject to the previous rules.

Trademarks, goodwill and intangible assets with an indefinite useful life

For IAS/IFRS adopters, new rules will apply to the tax deduction of trademarks, goodwill and intangible assets with an indefinite useful life. Under the new rules:

- **up to one-eighteenth of the asset's value** can be deducted each year;
- deduction can start in the year when the asset is expensed after an impairment test;
- the deduction cannot exceed the expensed amount.

The new rule reflects the fact that, under IAS/IFRS, these assets cannot be amortised but only written down. It thus prevents companies from making tax deductions when no cost has been booked in P&L.

Any amounts not deducted in fiscal years prior to the write-down can be deducted in subsequent years, within the annual limit.

The new rules will apply to intangible assets and higher tax bases recorded in the balance sheet from FY 2026, including those arising from extraordinary transactions.

Article 1(138 and 139) – Exchanges: calculation of the VAT base

With effect from 1 January 2026, there are new rules on how to calculate the VAT base of exchanges. Exchanges consist in "goods or services supplied in exchange for other goods or services", which are "taxed separately from those for which they have been exchanged".

Until 31 December 2025, the tax base of these transactions was the fair market value of the goods and services exchanged.

Commencing 1 January 2026, the tax base consists in the total costs incurred by the supplier to provide the goods or services.

In exchange transactions, each supply must be treated separately for VAT purposes and follow the rules specific to the type of supply (to determine whether the supply is taxable, and to determine the tax point, the tax base and the VAT rate).

Article 1(427-436) – Higher depreciation allowance for investments in capital goods

Solely for the calculation of depreciation allowances and finance lease payments, the 2026 Budget Law allows businesses that invest in capital goods intended for production facilities located in Italy to increase the acquisition cost. The percentage increase applies to investments made between 1 January 2026 and 30 September 2028.

Percentage increase

The percentage increase varies according to the investment bracket.

Size of investment (million)	Increase in acquisition cost
Up to EUR2.5	180%
>EUR2.5 − EUR10	100%
>EUR10 − EUR20	50%

Eligible investments

The following investments are eligible.

- New tangible and intangible capital goods. The qualifying items are listed in Annexes IV and V to the 2026 Budget Law and must interconnect with the company's production management system or supply chain.
- New tangible capital goods used in the self-generation of renewable energy for self-consumption, even remotely. These include systems to store the energy produced.
- Installations incorporating certain high-efficiency photovoltaic modules identified by Italian legislation.

How to access the incentive

Businesses must upload specific communications and certifications to the online platform of the Energy Services Operator (GSE − Gestore dei Servizi Energetici).

Next steps and implementing rules

The Ministry of Enterprises and Made in Italy (MIMIT) will issue an implementing decree, explaining how to apply for the relief, what to include in the application, and when and how to send periodic reports, certifications and any other documentary evidence of eligibility. MIMIT will also clarify how the relief can be combined with other incentives and for how long the business's continued eligibility will be monitored.

Article 1(438-443) – Tax credit for investments in the Special Economic Zone in Southern Italy

The tax credit available for investments made by businesses located in the Special Economic Zone ("SEZ") in Southern Italy has been extended to FYs 2026, 2027 and 2028. The Marche and Umbria regions have been added to the SEZ.

To apply for the tax credit, businesses will have to submit certain information to the Italian Revenue Agency within designated windows.

- Between 31 March and 30 May of each year: an initial communication of the total expenses incurred since 1 January plus those expected to be incurred by 31 December.
- Between 3 and 17 January of the following year: a supplementary communication certifying that the investments indicated in the first communication have been made.

Communication templates and submission instructions will be issued by the Director of the Italian Revenue Agency.

Article 1(448-452) – Tax credit for investments in the Special Economic Zone in Southern Italy – Further tax credit for FY 2025

Those businesses that have claimed the 2025 SEZ tax credit are eligible in FY 2026 for a further tax credit. The additional tax credit is 14.6189 percent of the FY 2025 tax credit, calculated on the basis of the supplementary communication submitted for FY 2025. This further tax credit is granted only if the business has not also claimed, for one or more of the investments certified in the supplementary communication, the so-called "Transition 5.0" tax credit.

To apply for the further tax credit, businesses must submit an electronic declaration to the Italian Revenue Agency between 15 April and 15 May 2026. They must state that they have not claimed the Transition 5.0 tax credit and provide a series of further information to be indicated by the Director of the Italian Revenue Agency.

Article 1(444-447) – Tax credit for investments in Simplified Logistics Zones

This tax credit has been extended to investments made between 1 January 2026 and 31 December 2028. The eligible expenses are capped at EUR100 million per year.

To apply, businesses must, between 31 March and 30 May of the relevant year, send the Italian Revenue Agency an initial communication of the eligible investments incurred since 1 January plus those expected to be incurred by 31 December.

Businesses that have submitted this communication must then send a supplementary communication to the Italian Revenue Agency between 3 and 17 January of the following year, certifying completion of the previously declared investments.

The maximum tax credit available to each beneficiary will be a percentage of the supplementary communication. The percentage will be announced by the Director of the Italian Revenue Agency within 10 days of the supplementary communication deadline.

The content of these communications and the submission procedures will be established by the Director of the Italian Revenue Agency.

Article 1(468) – Subsidised loans for investments in new machinery, equipment and plant by small and medium-sized enterprises

For the so-called "*Nuova Sabatini*" incentive — supporting investments in capital goods by micro, small and medium-sized enterprises — the legislators have set aside an additional EUR200 million for 2026 and EUR450 million for 2027.

This incentive is only available for SMEs, to support the purchase or leasing of machinery, equipment, plant, capital assets for manufacturing, hardware, software and digital technologies.

The two-part incentive is made up of (i) a loan from a bank/financial intermediary participating in the scheme, and (ii) a Ministry of Enterprises and Made in Italy (MIMIT) contribution towards part of the interest on the loan.

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