News on IRPEF and employee income - Clarifications by the Inland Revenue Agency

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1 FOREWORD

In Circular 16.5.2025 No. 4, the Italian Revenue Agency analysed and provided clarifications in relation to the changes in IRPEF and employee income contained:

- in Legislative Decree No. 192 of 13.12.2024, enacted in implementation of the proxy for tax reform set forth in Law No. 111 of 9.8.2023;
- in Law No. 207 of 30.12.2024 (Budget Law 2025).

Below are the most relevant clarifications in relation to the topics of greatest interest.

2 MEASURES TO REDUCE THE SO-CALLED 'TAX WEDGE

Art. 1 par. 4 - 9 of Law 207/2024 provides from 2025, in favour of employees:

- a *bonus* (or sum), if the total income does not exceed EUR 20,000.00 (the amount is determined by applying a specific percentage to the employee's income);
- an additional tax deduction if the total income exceeds EUR 20,000.00 and up to EUR 40,000.00 (the maximum amount of which is EUR 1,000.00 and is progressively reduced to zero).

In Circular 16.5.2025 No. 4 (§ 1.2), the Inland Revenue provided clarifications on how the *bonus is* to be determined, on total income, on the use of the measures, and on the obligations of the withholding agent and the worker.

2.1 DETERMINATION OF THE *BONUS*

With regard to the *bonus*, it is determined by applying the percentage of the bonus to the employee's income:

- 7.1%, if the employee's income does not exceed EUR 8,500.00;
- 5.3%, if the employee's income exceeds EUR 8,500.00 but not EUR 15,000.00;
- 4.8%, if the employee's income exceeds EUR 15,000.00 and up to EUR 20,000.00.

Work for part of the year

To identify the applicable percentage and determine the *bonus*, the employee's income is related to the entire year. In the event that a taxpayer has worked for part of the year, in order to determine the amount due, it is necessary:

- calculate the employment income that the employee would have received if he/she had worked for the entire year (theoretical annual income);
- determine the corresponding percentage by reference to the theoretical annual income;
- apply this percentage to the employee's income actually received during the year.

Presence of several employment relationships

If there is more than one employee's income, in calculating the number of days by which to divide the income received in the year for the purpose of calculating the theoretical annual income, the days included in simultaneous periods must be counted only once.

2.2 USE OF THE ADDITIONAL DEDUCTION

The additional deduction is in the amount of:

- 1,000.00 euro, if the total income exceeds 20,000.00 euro but not 32,000.00 euro;

- the product of EUR 1,000.00 and the amount corresponding to the ratio of EUR 40,000.00, reduced by the total income, and EUR 8,000.00, if the amount of the total income is higher than EUR 32,000.00 but not EUR 40,000.00 (in which case the further deduction decreases to zero).

In order to take advantage of the additional deduction, the taxpayer must have an allowance in terms of gross tax and, in the event of partial allowance, the benefit accrues within that limit.

In particular, when determining the net tax liability, the maximum amount of the further deduction is added to the amount of any other deductions granted; the total amount thus determined is deducted from the gross tax liability up to the amount of the latter.

2.3 DETERMINATION OF TOTAL INCOME

By express provision of the law, in the determination of total income and employment income (the latter necessary for calculating the *bonus*) is also relevant:

- the exempt portion of the subsidised income for the return to Italy of researchers and lecturers living abroad (Article 44, paragraph 1 of DL 78/2010);
- the exempt portion of the tax-privileged income for impatriated workers (Art. 16 of DLgs. 147/2015 and Art. 5 of DLgs. 209/2023).

On the other hand, the total income is taken net of the income of the real estate unit used as principal residence and that of its appurtenances, pursuant to Article 10(*3-bis*) of the Consolidated Income Tax Act.

In relation to the determination of total income, Revenue Circ. 16.5.2025
No. 4 specifies that the amount of the so-called 'reference income' must also be taken into account:

- of rental income subject to the 'cedolare secca' (Art. 3 of Legislative Decree 23/2011);
- of income subject to substitute tax in application of the flat-rate regime for persons engaged in business, the arts or professions (Article 1, paragraph 75 of Law 190/2014);
- of the share of the ACE relief referred to in Article 1 of Decree-Law 201/2011;
- of tips of staff in the hotel and restaurant sector subject to substitute tax pursuant to Art. 1, paras. 58 - 62 of Law 197/2022.

Adhesion to the two-year composition agreement

For parties entering into a two-year composition agreement, the actual and not the agreed red- finger is taken into account (Art. 35 para. 2 of Legislative Decree 13/2024).

2.4 OBLIGATIONS OF THE WITHHOLDING AGENT

The tax withholding agent must:

- recognise the *bonus* or the additional deduction at the time of payment of wages, without the need for a request by the employee (who may instead request not to apply such benefits), on the basis of the projected income and deductions referred to the sums and values that will be paid during the year, as well as on the basis of the data communicated by the employee through the delivery of the Single Tax Certificate relating to income from other employment relationships during the reference year;
- recover the credit generated by the *bonus* payment by offsetting it on the F24 form (using the codes established by Res. Agenzia delle Entrate 31.1.2025 no. 9);
- check the entitlement to the *bonus* or the additional deduction at the time of the adjustment and proceed to any recovery (in 10 instalments starting from the salary to which the effects apply).

of the adjustment if the amount exceeds EUR 60.00, subject to recovery in a lump sum in the case of an end-of-contract adjustment);

- report the data in the Single Certification and Form 770;
- keep the documentation submitted by the worker.

2.5 OBLIGATIONS OF THE WORKER

The Inland Revenue has specified that, in the case of several employment relationships during the year, the employee must

- communicate to the employer that grants the *bonus* or further deduction the information on income from other employment relationships (if the employment relationships are at different times during the year); if the employee does not communicate this data, the withholding agent will use the income data at its disposal;
- identify the employer who will have to recognise the *bonus* or further deduction if these employment relationships are at the same time of the year (e.g. several *part-time* employment relationships). In that case, the employee must inform the other employer not to apply the benefits.

2.6 USE IN THE TAX RETURN

The worker may also benefit from the *bonus* or the additional deduction (subject to the requirements) in his or her tax return.

For example, this can occur when:

- the employer is not a tax withholding agent (e.g. a domestic employer);
- the employer did not recognise the *bonus* or the additional deduction in the adjustment.

2.7 RETURN ON TAX RETURN

If, on the other hand, the employee has benefited from the *bonus* or additional deduction in the absence of the required conditions or to an extent greater than that to which he is entitled, and it is no longer possible for the withholding agent to make the debit adjustment, the employee must repay the amount unduly received in the relevant tax return, thus resulting in a greater IRPEF debt to be paid or a smaller credit.

3 NEW RULES ON IRPEF DEDUCTIONS FOR FAMILY LOADS

As a result of Article 1, paragraph 11 of Law no. 207/2024, the regulation of IRPEF deductions for family burdens, pursuant to Article 12 of the Consolidated Income Tax Act, was amended.

Effective date

The new provisions came into force on 1.1.2025 and apply from tax year 2025. They are therefore not relevant in the 730/2025 and REDDITI PF 2025 forms relating to the 2024 tax period.

3.1 ABOLITION OF DEDUCTIONS FOR NON-DISABLED DEPENDENT CHILDREN AGED 30 OR OLDER

It is established that IRPEF deductions for tax dependent children are payable in relation to:

- children aged 21 or over but under 30 who are not disabled;
- each child aged 21 or over with a disability ascertained in accordance with Article 3 of Law 104/92.

In practice, IRPEF deductions for dependent children aged at least 30 who are not disabled have been abolished, whereas previously there was no 'maximum' age limit. It remains that the deductions

IRPEF are not due for children under the age of 21, as they are replaced by the single, universal allowance under Legislative Decree 230/2021.

In this regard, Circ. Agenzia delle Entrate 16.5.2025 No. 4 (§ 1.3) clarifies that the deduction is due until the month before the child turns 30.

3.2 EXTENSION OF DEDUCTIONS IN RELATION TO CHILDREN OF THE DECEASED SPOUSE ONLY

Compared to the previous rules, children of the deceased spouse are now also eligible for the deduction, provided they live with the surviving spouse.

In this regard, Revenue Circ. 16.5.2025 No. 4 (§ 1.3) clarifies that:

- the deduction is also due to the other parent (living) of the same child of the deceased spouse; in this case, the division of the deduction between the taxpayer cohabiting with the child of the deceased spouse and the other non-cohabiting parent follows the ordinary rules;
- the taxpayer cohabiting with the child of the deceased spouse and the other surviving parent may not benefit from the deduction provided for the spouse in care, where more convenient.

3.3 ABOLITION OF DEDUCTIONS FOR DEPENDENTS OTHER THAN COHABITING ASCENDANTS

As a result of the new rules, IRPEF deductions for other fiscally dependent family members, i.e. other than the spouse who is not legally and effectively separated and children, are only payable in relation to each ascendant who cohabits with the taxpayer.

In practice, IRPEF deductions in relation to other family members who are not ascendants (i.e. parents, grandparents or great-grandparents) are abolished, i.e:

- the legally and effectively separated spouse;
- brothers and sisters (also unilateral);
- sons-in-law and daughters-in-law;
- father-in-law and mother-in-law.

It also becomes indispensable that the ascendant cohabits with the taxpayer; previously, as an alternative to cohabitation, it was possible to prove that the family member received maintenance payments not resulting from court orders.

3.4 EFFECTS ON OTHER PROVISIONS REFERRING TO THE 'FAMILY MEMBERS' OF THE TAXPAYER

Revenue Agency Circular 16.5.2025 No. 4 (§ 1.3) specifies that the amendments made by Law 207/2024 also affect the other provisions referring to the persons referred to in Article 12 of the TUIR, for example in relation to:

- the possibility to benefit from income deductions and tax deductions due for charges and expenses incurred in the interest of family members (pursuant to Articles 10 and 15 of the TUIR);
- the exclusion from the employee's income of sums paid, supplies of goods or pre-stations of services in relation to the employee's family members, including in the context of so-called 'company *welfare*' (Article 51 of the TUIR);
- the increase to EUR 2,000.00 per year of the threshold of non-taxability *of fringe benefits*, in the absence of tax dependent children (Art. 51, para. 3 of the Consolidated Income Tax Act and Art. 1, paras. 390-391 of L.
207/2024).

Safeguard clause for children

The Revenue Agency Circular no. 4 of 16.5.2025 (§ 1.3) confirms that the provisions of paragraph *4-ter* of Article 12 of the TUIR remain applicable, which, following the introduction of the single and universal allowance, established that, for the purposes of the tax provisions referring to the persons referred to in Article 12 of the TUIR, also referring to the conditions laid down therein, children for whom the deduction is not due are considered to be on an equal footing with children for whom the deduction is due.

In fact, this provision can now also be extended to children aged 30 and over, without an established disability.

Therefore, the exclusion from the employee's income of *welfare* measures recognised by the employer in favour of the employee's children, and the possibility of taking advantage of the deductions and deductions due for charges and expenses incurred in the interest of the children, continue to apply regardless of the child's age requirements, without prejudice, where required, to compliance with the income requirement for the child to be considered a dependent for tax purposes (€2,840.51 per year, raised to €4,000.00 per year for children up to 24 years of age).

Children of the deceased spouse living with the surviving spouse

As a result of the new rules, the provisions on deductions/deductions for expenses and company *welfare* become applicable in relation to the children of the deceased spouse living with the surviving spouse.

Other family members

In relation to other family members (other than the spouse who is not legally and effectively separated and children), on the other hand, according to Revenue Agency Circular 16.5.2025 No. 4 (§ 1.3, 2.1 and 2.2), from 1.1.2025 the provisions on deductions/deductions for expenses and corporate *welfare* are only applicable with reference to ascendants living with the taxpayer.

4 *FRINGE BENEFIT*

The Revenue Agency, in Circular 16.5.2025 No. 4, also provided clarification in relation to the *fringe benefits*, with particular reference:

- the value of goods and services to the production or exchange of which the activity of the enterprise is directed and which are supplied to employees (§ 2.3);
- the increase in the non-taxable threshold for *fringe benefits* (§ 2.7).

4.1 DETERMINATION OF THE VALUE OF GOODS AND SERVICES SELF-PRODUCED AND TRANSFERRED TO EMPLOYEES - NEW CRITERION

With reference to the goods and services for the production or exchange of which the employer's activity is directed and which are supplied to employees, the second sentence of Article 51(3) of the Consolidated Income Tax Act, in its previous wording, indicated as a specific criterion for determining the value to be assigned to such goods or services the average price charged by the same company in sales to wholesalers.

With the intervention of Article 3 Para. 1 lit. b) No. 2.1 of Legislative Decree 192/2024, the criterion for determining the value of the aforementioned goods and services was changed, considering that the previous criterion had become unsuitable for regulating increasingly diverse and heterogeneous cases in a market for goods and services that is constantly evolving.

This value is now determined on the basis of the average price at the same marketing stage at which the supply of goods or services to the employee takes place or, failing that, on the basis of the cost borne by the employer.

Therefore, as clarified by the Inland Revenue Agency, for goods and services produced by the company and given to employees, there are now only two criteria for determining the value of the *fringe benefit*, in graduated order, namely

- the average price at the same marketing stage at which the supply of goods or services to the employee takes place;
- or, failing that, the cost incurred in its production.

4.2 INCREASE IN THE NON-TAXABLE THRESHOLD FOR *FRINGE BENEFITS*

With reference to the increase to €1,000.00 or €2,000.00 of the threshold for the non-taxability *of fringe benefits* for the tax periods 2025, 2026 and 2027, provided for in Article 1 co. 390 - 391 of L. 207/2024, it is specified, inter alia, that:

- the amount of the limit is raised to €2,000.00 in the case of an employee with dependent children for tax purposes within the meaning of Article 12, paragraph 2, of the Consolidated Income Tax Act (TUIR), also taking into account children born out of wedlock, recognised, adopted, affiliated or fostered, and, for logical-systematic reasons, children cohabiting with the deceased spouse;
- the aforementioned relief is granted in full to each parent, holder of employment income and/or assimilated income, even in the presence of only one child, provided that the same child is fiscally dependent on both;
- The relief is also available in the event that the taxpayer cannot benefit from the deduction for dependent children for tax purposes pursuant to Article 12 of the Consolidated Income Tax Act (TUIR) because he/she receives the single, universal child allowance for them or the requisite age requirements are not met;
- If the parents agree to allocate the entire deduction for dependent children to the one of the two who has the higher total income, pursuant to Article 12(1)(c) of the Consolidated Income Tax Act, the benefit is granted to both, since the child is considered to be a dependent child - even in the absence of the age requirements set out in the above provision - of both parents.

Exceeding the limit

If the limit of EUR 1,000.00 or EUR 2,000.00 is exceeded (depending on whether the employee does not have or has children for tax purposes, respectively), the entire amount is taken into account in determining taxable income in the ordinary way, and not only the portion exceeding these limits.

Compliance

The employer shall implement the measure after informing the unitary trade union representatives, where present.

The increase of the income non-competition limit to EUR 2,000.00 is recognised if the employee declares to the employer that he/she is entitled to it, indicating the tax code of each dependent child. In the absence of an explicit indication in this regard, the Inland Revenue considers that the declaration can be made in a manner agreed between employer and employee.

The declaration must be kept for possible control by the competent bodies.

5 RENTAL FEES FOR NEWLY TRANSFERRED EMPLOYEES - EXCLUSION FROM EMPLOYMENT INCOME - CONDITIONS

With Circular 16.5.2025 no. 4 (§ 2.7), the Italian Revenue Agency provided the first clarifications on the temporary income tax exemption regime for employees hired on an indefinite-term basis in 2025 who transfer their residence, if certain conditions are met (Art. 1 paras. 386 - 389 of Law 207/2024).

5.1 REQUIREMENTS

The sums paid or reimbursed by employers for the payment of rents and maintenance costs of buildings rented by the aforementioned employees do not contribute, for the first two years from the date of employment, to forming income for tax purposes within the overall limit of EUR 5,000.00 per year.

Income not exceeding 35,000.00 euro in 2024

The non-competition in the formation of the employee's income of the aforementioned sums shall apply in relation to employees, hired under an employment contract of indefinite duration in 2025, who have received an income from employment not exceeding 35,000.00 euro in the year preceding the date of employment of indefinite duration, i.e. in the year 2024, without prejudice to the so-called 'extended cash principle'.

For the purposes of verifying the limit, only income subject to ordinary taxation (not also income subject to separate taxation) must be taken into account.

Leased buildings

The benefit relates to sums disbursed or reimbursed by employers for the payment of rents and maintenance costs of '*rented buildings*', provided that the newly employed person transfers '*his/her residence to the municipality of work, if this is located more than 100 kilometres away from the municipality of his/her previous residence*'.

In other words, the employee must be the holder of a lease of any kind, provided that it relates to the property unit located in the municipality of employment, if the latter is more than 100 km from the municipality of previous residence.

With regard to 'rents', the Agency considers that:

- Rent' shall refer to the rent resulting from the lease agreement duly registered and paid during the year;
- with reference to "maintenance expenses", those incurred in connection with the property related to the aforesaid contract (pursuant to Article 9 of Law 392/78) are relevant;
- Copies of the rental agreement and other relevant documents must be made available to the employer and retained for possible inspection.

Distance of 100 km

In order to verify compliance with the requirement of a distance of more than 100 km between the municipality of residence and the municipality of work, the shortest distance in kilometres between the two municipalities, calculated by reference to any of the existing communication routes, e.g. rail or road, must be taken into account.

The requirement is fulfilled if at least one of the above-mentioned links is longer than 100 km.

Limit of 5,000.00 euro

With regard to the '*overall limit of EUR 5,000 per annum*' of the sums paid or reimbursed to the employee, which are due for '*the first two years from the date of recruitment*', this limit must be referred to the 24 months from the date of recruitment for an indefinite period from 1 January to 31 December 2025.

For example, a worker hired on an open-ended contract on 1.10.2025 is entitled to the benefit until 30.9.2027, and the overall annual limit of EUR 5,000.00 of the sums paid or remitted for the payment of rents and building maintenance costs operates for the periods from 1.10.2025 to 30.9.2026 (first year) and from 1.10.2026 to 30.9.2027 (second year).

However, the amount paid out or reimbursed may not exceed the limit of EUR 5,000.00 for each of the two years. For example, if in the first year, against an annual fee of

EUR 10,000.00, the sum of EUR 3,000.00 was disbursed or reimbursed, in the second year the sum of EUR 7,000.00 cannot be reimbursed or disbursed, given the annual limit of EUR 5,000.00

However, it is clarified that the annual sum of €5,000.00 represents an excess, so that if the reimbursement made by the employer is higher, the part exceeding the limit contributes to the determination of the employee's income.

Transfer of residence

The employee concerned must provide the employer with a self-certification, pursuant to Article 46 of Presidential Decree 445/2000, in which he/she certifies his/her place of residence during the six months preceding the date of recruitment (self-certification with original signature and attached copy of the subscriber's identity document).

The benefit is payable from the date of recruitment provided that:

- residence in the municipality of the place of employment is transferred by the end of the adjustment operations (or by the date of termination of employment);
- the expenses disbursed and/or reimbursed by the employer relate to the property located in the aforementioned municipality which is the subject of a duly registered lease;
- the expenses were incurred from the date of recruitment.

5.2 CUMULABILITY WITH THE NON-TAXABLE THRESHOLD OF *FRINGE BENEFITS*

The relief in comment and the threshold of non-taxable *fringe benefits* under Article 1, paragraphs 390 and 391 of Law 207/2024 are autonomous and cumulative, even though they may relate to expenses of the same nature.

The employer must indicate separately the amount of the value of the goods supplied, of the pre-stated services and of the sums paid or reimbursed under the various facilitation provisions, in order to quantify the correct amount that must contribute to the determination of employment income in the event of the respective limits being exceeded.

In particular:

- in the event that the annual limit of EUR 5,000.00 provided for in para. 386 is exceeded, the surplus shall be determined according to the ordinary rules;
- If the limit of EUR 1,000.00 or EUR 2,000.00 per annum provided for in para. 390 is exceeded, on the other hand, the entire amount paid must be included in the determination of income.