

GMS Flash Alert

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Italy – Tax Changes in the ‘Manovra Fiscale 2025’ and other Updates

This *GMS Flash Alert* reports on measures in Italy’s Budget Law that concern, among others, adjustments in income tax thresholds, the tax exemption for lower incomes, deductions allowed for taxpayers, and the tax treatment of fringe benefits. A recent Circular also makes changes to social security.

The 2025 Italian Budget Law no. 207 of 2024 was published in the Italian official gazette (*Gazzetta Ufficiale*) at the end of December.¹

The Budget Law continues the trend to a simplification of the Italian tax system and the journey towards a single flat-tax rate. In addition, the Budget Law confirms some changes which had already been announced. Specific measures limit the availability of some tax credits and deductions for high-earning individuals. There are also some adjustments related to “green” taxation, particularly a change to the taxation of company cars, which now favours electric vehicles.

WHY THIS MATTERS

For the most part, the Budget Law measures aimed at individuals represent some degree of stability in terms of the main income tax rates and brackets; however, there are changes that limit the availability of deductions for high-earning individuals. This could have the effect of raising their tax burdens. From an employer’s perspective, where assignees subject to Italian tax law are concerned, this could also raise their tax costs tied to international assignments.

Attention should be given to the measures in the Budget Law as there could be an effect on cost projections for future assignees and on budgeting for international assignments to Italy and from Italy where such assignees will be subject to Italian taxation. Furthermore, any resultant tax differentials may impact tax equalisations. Finally, if appropriate, payroll administrators should already have made adjustments to withholdings.

Tax Brackets for 2025

The three-bracket IRPEF (National Income Tax) rates, already introduced for 2024 remain unchanged

up to EUR 28,000	23%	23% of total amount
from EUR 28,001 up to EUR 50,000	35%	EUR 6,440 + 35% on income exceeding EUR 28,000 and up to EUR 50,000
above EUR 50,000	43%	EUR 14,140 + 43% on income exceeding EUR 50,000

Source: KPMG Studio Associato

Any changes in Additional Regional and Municipal tax rates will be announced by 15 April 2025.

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The move from multiple tax rates to a more streamlined tax system is confirmed and continues, with the current situation of only three progressive tax rates.

Increased Tax Exemption for Lower Incomes

The cut in the tax 'deduction' for medium-to-low incomes has been confirmed and made structural, and also has been extended to incomes up to €40,000. With the new Budget Law, the cut in the deduction applies only to social security on incomes up to €20,000, while for incomes between €20,000 and €40,000 it applies for tax purposes also, with a fixed deduction of €1,000 for income up to €32,000; the deduction decreases progressively (until it is zero) between €32,000 and €40,000.

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Although beneficial for lower-income individuals, the 'withdrawal' – or phase-out – of the deduction could lead to an increase in their marginal tax rates, as the taxpayer moves from one band to another.

Restriction in Tax Deductions

The Budget Law introduces a maximum limit on several tax deductions for taxpayers with incomes above €75,000, while providing greater benefits to families with more than two dependent children and families with disabled children.

The following expenses are excluded from the effects of the newly-introduced limit:

- **Health expenses and expenses related to mortgages** contracted until 31 December 2024.
- **Investments in start-ups and innovative SMEs.**

- **Expenses incurred** on or before 31 December 2024, that provide a benefit that is **spread over several annual instalments** (for example, expenses related to the recovery of the building heritage, or for energy re-qualification interventions in buildings, and certain other similar expenditures).
- **Insurance premiums** contracted before 31 December 2024.

Taxpayers may claim deductions up to a maximum of €14,000 where their incomes fall in the bracket between €75,000 and €100,000, while for the income bracket between €100,000 and €120,000, the maximum deduction will be €8,000.

There will no longer be a tax deduction for:

- children over 30 years of age, with the exception of disabled children, for whom deductions continue to be guaranteed without age limits;
- dependent parents/grandparents not living with the individual (previously a deduction was available for dependent parents or grandparents, but henceforward such persons must cohabitate with the taxpayer);
- non-EU citizens with family members abroad.

Deductions for tax-dependent family members are no longer available:

- to taxpayers with tax residence in Italy who are not Italian citizens or citizens of a European Union member state or of a state party to the Agreement on the European Economic Area (Norway, Iceland, and Liechtenstein);
- in relation to family members residing abroad.

KPMG INSIGHTS

The measures restrict some tax credits for those with incomes of more than €75,000.

Some important deductions, for example medical expenses and mortgage interest on one's main residence, remain unrestricted.

Specific tax credits designed to boost the green economy and assist family budgets are increasingly restricted to lower-income taxpayers.

Fringe Benefits

The exemption threshold for taxation of fringe benefits has been confirmed for the three-year period 2025-2027 (€1,000 for all workers and up to €2,000 for those who have dependent children).

For new permanent hires with incomes up to €35,000 in the previous year, who agree to transfer their residence at a distance of more than 100 kilometres, the sums paid or reimbursed by employers for the payment of rent and maintenance costs will not be considered taxable income to them within an overall limit of €5,000 per year for the first two years from the date of hiring.

Taxation of Company Cars

From 1 January 2025, taxes on mixed-use company cars have changed. To calculate the tax, the amount of Co2 emissions from the vehicle will no longer count, but the type of fuel used will. Employees will pay more taxes than before if the vehicle is petrol or diesel (including non-rechargeable hybrids) and less taxes if the car is electric or plug-in hybrid.

For the calculation of the taxable benefit to employees who enter into new contracts from 1 January 2025, the percentages will be:

- 10 percent for electric vehicles;
- 20 percent for plug-in hybrids;
- 50 percent for all other cars (petrol or diesel).

These percentages will apply to the lump sum determined through the cost per kilometre on the “ACI” database (based on an annual conventional mileage of 15,000km) (*Supplemento Ordinario n. 42 della Gazzetta Ufficiale n. 304 del 30 dicembre 2024*).

The revised ACI tables for petrol, diesel, and electric cars were published in the *Gazzetta Ufficiale* on 30 December and are also available online for consultation.²

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The change represents a considerable increase in the taxation of petrol and diesel cars and is intended to favour electric vehicles. Previously, lower-emission petrol cars may have fallen into the 20 percent or 30 percent ACI value categories, but now all petrol-powered cars will be a minimum 50 percent of the scale charge regardless. Conversely, all electric vehicles will now fall into the lowest, specific, electric-vehicle bracket. Employers may need to review the composition of their company car fleets to determine the extent of extra costs in future they are willing to incur.

Expense Reimbursement

As part of the government’s long-running campaign to encourage only payments that are traceable, the Budget Law also amends the Tax Code to provide that business expenses (such as for meals, hotels, taxis, etc.) will only be tax-exempt to the recipient, and deductible by the employer for corporate tax purposes, where they are paid by a traceable method (i.e., credit card, debit card, or other electronic means). If expenses paid in cash are reimbursed, they will form part of taxable income and not be deductible for Corporate Tax purposes by the employer.

Updates to Social Security Rate Bands and Conventional Basis

An INPS (*Istituto Nazionale della Previdenza Sociale*) circular of 30 January 2025, confirms changes to the lower earnings band and maximum earnings for social security for the year 2025.³

There is a lower-rate band for social security in Italy, for which the rate is generally 9.19 percent or 9.49 percent for 2025. This applies to income up to €55,448.00; above this amount an extra 1 percent is charged.

For employees who first started paying social security either in Italy (or another state with which Italy has a social security convention) after 1 January 1996, an earnings cap applies to the employee. For 2025, this increases to €120,607.00. An element of employer contributions is uncapped.

The Decree of 16 January 2025 of the Ministry of Labour⁴ contains updated tables of “Conventional Basis Income” for 2025. Under Italian tax, where a tax-resident individual works abroad for 183 days in a 12-month period and meets certain conditions that are taxed on this imputed amount of income. The same amounts are used to pay Italian Social Security where individuals are seconded to states with which Italy does not have a social security agreement. The rates vary according to industry sector and employment grade and the full tables are published in the official gazette (*Gazzetta Ufficiale*).

KPMG INSIGHTS

It is essential to get in front of the changes described in this newsletter and to communicate quickly and clearly with key stakeholders, so that they can properly plan, budget, and make any necessary payroll and other adjustments.

Taxpayers with questions about how the above-noted measures may impact them and/or what steps they may need to take to be in compliance should consult with their usual tax service provider or a member of the GMS tax team with KPMG in Italy (see the Contacts section).

FOOTNOTES:

1 (In Italian) [Legge 30 dicembre 2024](#), n. 207 *Bilancio di previsione dello Stato per l'anno finanziario 2025 e bilancio pluriennale per il triennio 2025-2027*. (24G00229) (GU Serie Generale n.305 del 31-12-2024 - Suppl. Ordinario n. 43) (Law no. 207 of the 2024, published in the *Gazzetta Ufficiale* n. 305 of 31 December 2024).

2 *Tabelle nazionali dei costi chilometrici di esercizio di autovetture e motocicli elaborate dall'ACI* published (in Italian) in *Supplemento Ordinario n. 42 della Gazzetta Ufficiale n. 304 del 30 dicembre 2024*. See: [Gazzetta Ufficiale](#).

3 *INPS Circolare numero 26 del 30-01-2025*.

4 (In Italian) [Gazzetta Ufficiale](#), Decreto 16 gennaio 2025, *Determinazione delle retribuzioni convenzionali 2025 per i lavoratori all'estero*. (25A00820) ([GU Serie Generale n.34 del 11-02-2025](#)).

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