

GMS Flash Alert

2026-029 | 5 February 2026

Italy – 2026 Budget Law and Social Security Updates

Italy's 2026 Budget Law introduces targeted amendments to income tax rates, inbound tax regimes, substitute taxation on compensation, asset reporting, and sector-specific incentives, directly affecting globally mobile employees, expatriates, and organizations overseeing international assignments and payroll.^{1,2} Separately, the Italian Social Security Agency (INPS) announced slight changes for 2026.

WHY THIS MATTERS

The Budget Law's provisions affect the cost and compliance of cross-border assignments, inbound moves, and payroll planning for HR leaders, global mobility managers, and mobile employees. Substitute tax measures, stringent eligibility for tax reliefs, and expanded asset reporting highlight the importance of policy review and compliance readiness for both employers and assignees.

Background

Italy's recent budget laws have sought to incentivize talent attraction (notably through the "impatriati" regime and flat tax for new residents), simplify payroll management, and align with EU standards. The 2026 law continues this trend but tightens access to existing tax reliefs, refines substitute tax mechanisms, and expands reporting for social benefits.

Key Highlights

Personal Income Tax Changes

- Second imposta sul reddito delle persone fisiche (IRPEF) personal income tax bracket reduced from 35 percent to 33 percent for income between EUR 28,000 and EUR 50,000.
- Tax deduction reduced by EUR 440 for individuals with income above EUR 200,000, excluding medical expenses.

Flat Tax for New Residents (HNWI)

- Substitute tax for new residents increased to EUR 300,000 per year; EUR 50,000 for each additional family member.
- Alternative to impatriati regime for high-net-worth individuals on foreign income.

Other Relevant Measures

- Increased non-taxable threshold for meal vouchers from EUR 8 to EUR 10.
- The exemption limit for supplementary contributions was increased slightly to EUR 5,300.
- Changed the regulations on short-term rentals, the activity is now considered a business from the third property onward (previously from the fifth).
- No new outbound or international reliefs; the regime for outbound workers remains unchanged.
- Public sector: mandatory fiscal compliance checks before payment of professional fees (from 15 June 2026).
- Tobin tax doubled from 0.2 percent to 0.4 percent.
- Productivity bonuses (based on measurable increases in productivity, profitability, quality, efficiency, or innovation) received by eligible employees during FY 2026 will be taxed at one percent up to a maximum amount of EUR 5,000.
- New tax amnesty for debts (incurred between 2000–2023) payable over 54 bimonthly installments (nine years) – rottamazione.

Social Security

Separately, INPS announced slight changes to employee social security bands for 2026.³

For 2026, the additional social security rate of one percent applies to incomes over EUR 56,224.

The Social Security earnings cap for employee contributions is increased to EUR122,295. Remember that the earnings cap applies to employees who first began paying social security contributions (either to Italy or a state with which Italy has a social security agreement after 1 January 1996).

Company Car Benefits

In another development, the updated ACI tables used for calculating the fringe benefit for cars provided for mixed business and kilometrage reimbursement rates for private cars used for business purpose for 2026 were published in the Gazzetta Ufficiale n. 297 del 23/12/2025 supp. ord. 40.⁴

KPMG INSIGHTS

The law's stringent eligibility for the impatriati regime, in force since 2024, and a higher flat tax for new residents signal a move to target reliefs more precisely, maintaining Italy's appeal for inbound talent while controlling fiscal cost.

Substitute tax measures for salary increases and bonuses support payroll simplification and net pay planning but require careful eligibility management. The expanded asset reporting may necessitate updates to compliance processes and employee communications, especially for those with digital or foreign assets.

In light of the changes, organizations may wish to consider:

- Implementing audit assignment packages and payroll arrangements to support compliance with new substitute tax eligibility and reporting.
- Advising inbound assignees on the choice and requirements of impatriati versus flat tax regimes.
- Training HR/payroll teams on sector-specific incentives and clawback risks for the impatriati regime.
- Reviewing digital asset reporting processes to anticipate compliance challenges under the expanded rules.

If assignees and/or their programme managers have any questions or concerns about the scope of the update, its application and potential impacts, and appropriate next steps, they should consult with their qualified tax professional or a member of the GMS tax team with KPMG in Italy (see the Contacts section).

FOOTNOTES:

1 Realizzazione Istituto Poligrafico e Zecca dello Stato S.p.A. (in Italian), "[Gazzetta Ufficiale](#)," published on 30 December 2025.

2 Ministero dell'Economia e delle Finanze (MEF) (in Italian), "[Principali misure della legge di bilancio 2026 - MEF](#)," published on 30 December 2025.

3 INPS (in Italian) "[Circolare numero 6 del 30-01-2026 | Dettaglio di Circolari, Messaggi e Normativa | INPS](#)," published on 30 January 2026.

4 Automobile Club of Italy (in Italian) "[Fringe benefit - ACI Gov.](#)"

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Contacts

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