



Italy: 'IRES premiale' tax relief

Tax & Legal Alert
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The 2025 Budget Law¹ reduced – subject to certain conditions – the Italian corporate income tax (IRES) rate by four percent for the tax period following that in progress on 31 December 2024. A Ministerial Decree of 8 August 2025 (the “Decree”) has set out the implementing provisions for this tax relief, which is known as “*IRES premiale*”.

Eligibility requirements

The IRES rate reduction can be used by IRES taxpayers, i.e. companies resident in Italy and non-resident companies with permanent establishments in Italy. It can also be claimed by financial intermediaries that are subject to the IRES surcharge of 3.5 percentage points.

The above entities may benefit from the reduction if they satisfy all of the following conditions.

- They allocate at least 80 percent of their profit for the financial year ended on 31 December 2024 to a special retained earnings reserve.
- At least 30 percent of this special reserve – and, in any case, no less than 30 percent of the profits for the financial year in progress on 31 December 2023 – must be invested in so-called “Transition 4.0” and “Transition 5.0” capital goods.
- In the tax period following that in progress on 31 December 2024, the workforce must not be lower than the average of the previous three-year period. Moreover, there must be at least a one percent increase in the average number of permanent employees and not less than one new employee with a permanent employment contract.
- The “*cassa integrazione guadagni – CIG*” furlough scheme must not have been used in the tax period in progress on 31 December 2024 or in the following one.

¹) Article 1(436- 444) of Law no. 207 of 30 December 2024

Grounds for forfeiture

The difference between the lower IRES rate and the ordinary IRES rate will be forfeited under either of the following scenarios.

- If the special retained earnings reserve is distributed in the two financial years following that in progress on 31 December 2024.
In the case of an Italian branch of a non-resident company, a reduction in the endowment fund – deriving from i) the sums that the Italian branch attributes to its non-resident headquarters, and ii) the application of OECD criteria, taking into account the functions performed, the risks assumed, and the assets used by the Italian branch – will be treated like an income distribution to a parent company.
- If, in the five tax periods following that in which the investment is made, the assets in which the retained earnings reserve is invested are sold or permanently allocated to production facilities located abroad, even if belonging to the same entity.

Tax group

In the case of IRES taxpayers that form a tax group, the amount of eligible income is determined by each participant and then used by the controlling entity, within certain limits².

Look-through taxation

If look-through taxation is elected, the amount of income eligible for the lower IRES rate is determined by the company and allocated to each shareholder in proportion to their share of the profits.

Coordination of tax rules

In coordinating the *IRES premiale* relief with the Italian Income Tax Code provisions that govern the calculation of the nominal and effective tax rates, the Decree establishes that the four percentage point reduction will not be considered when calculating (i) the nominal tax rate applicable in Italy (to identify countries or territories with preferential tax regimes), or (ii) the virtual tax rate that would apply to controlled foreign entities if they were resident in Italy (to identify non-resident controlled companies subject to the CFC regime).

Corporate reorganisations

The effects that corporate reorganisations have on the relief are based on the following principles.

- If both IRES entities in a reorganisation are eligible for the lower IRES rate, it is passed on to the transferee.
- The entity resulting from the reorganisation may continue to make further relevant investments to “complete” those made by the entity that has ceased to exist.
- If the entities involved in the transaction are not all eligible for the IRES rate reduction, a proportionality criterion must be adopted to identify the portion of income produced by the successor entity that is eligible for the relief.
- Monitoring of grounds for forfeiture is also transferred to the entity which, because of the reorganisation, takes over from the entity that has qualified for the *IRES premiale* relief.

Combining of reliefs

Purchased assets qualifying for the *IRES premiale* relief might also benefit from other incentives. For this reason, the Decree establishes that the *IRES premiale* relief cannot exceed the investment cost remaining after other possible incentives have been applied.

Other rules

The amount of eligible income is adjusted to a year if the duration of the financial year following that in progress on 31 December 2024 exceeds 12 months.

IRES taxpayers entitled to the *IRES premiale* relief have the right (but not the obligation) to use prior losses to offset income eligible for the reduced IRES rate.

2) To give an example, a tax group has:

- ordinary income (subject to 24 per cent IRES): 100
- prior losses: 120
- income eligible for the IRES reduction (20 per cent IRES rate): 50.

In this case, the final income eligible for *IRES premiale* relief will be 30, i.e. 50 minus the residual 20 loss (120-100).

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