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2027 ITALIAN DRAFT BUDGET LAW

The Italian Council of Ministers has approved the draft law on the State budget for the 2027 financial year.

The text has been submitted to the Chamber of Deputies and may be amended during the parliamentary process, potentially to a significant extent. Therefore, the measures outlined below may be supplemented, revised or removed. For the provisions to enter into force on 1 January 2027, they must receive final approval by the end of the year.

The following information is therefore based on the draft budget law submitted to the Chambers of Parliament and its accompanying technical report.

EXIT TAX FOR INDIVIDUALS

It is planned to introduce an exit tax on financial assets — including shareholdings, securities and financial instruments — held by taxpayers who do not carry out commercial business activities. The transfer of tax residence abroad would be treated as a taxable disposal. Consequently, any capital gains accrued but not yet realised would become taxable in Italy as if the assets had been sold on the date on which tax residence in Italy ceases. The capital gains would be taxed under the ordinary rules applicable to each income category. More specifically, financial capital gains classified as other income would be subject to a 26 percent substitute tax.

Taxpayers concerned

The tax would apply where all the following conditions are met:

- Taxpayers are individuals, Italian simple partnerships or similar entities which do not carry out a commercial business activity, or non-commercial entities;
- the taxpayers have been resident in Italy for tax purposes for at least six of the ten tax years preceding the transfer;
- the total fair market value of the relevant assets and rights generating income covered by the rules (shareholdings, securities and financial instruments) is equal to at least EUR 800,000, where the relevant amount is the value of the underlying assets, not the amount of the capital gain;
- the transfer entails the loss of Italy's taxing rights.

Effective date

The rules will apply to individuals who cease to be tax residents of Italy with effect from 1 January 2027.

Tax residence is determined with reference to the entire tax year according to the criteria set forth in article 2 of the Italian income tax code (TUIR). The exit tax may therefore apply to individuals who intend to transfer, or have already transferred, their residence abroad with effect from 1 January 2027. This may generally occur in the case of transfers taking place in the second half of 2026, although the assessment must be carried out on a case-by-case basis.

However, the new rules would not apply to individuals or entities for whom the loss of Italian tax residence had already taken effect during 2026.

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Calculation and payment of tax

The taxable base would consist of the sum of the positive differences between the fair market value of each individual asset and right, as at the last day of the tax year preceding the year in which the loss of tax residence takes effect, and its corresponding acquisition cost or purchase value. Other income arising from Italian government bonds and bonds issued by foreign states included on the Italian white list would be included in the taxable base to the extent of 48.08 percent.

Payment must be made within 180 days from the date on which the loss of tax residence takes effect.

In the event of a transfer to an EU Member State, or to a country that ensures adequate exchange of information and mutual assistance in tax collection, the taxpayer may opt to defer payment until the disposal of the assets, subject to a prepayment equal to 50 percent of the tax due and the provision of adequate security. The deferral would apply for the five tax years following the transfer in the case of relocation to an EU Member State, and for the ten subsequent tax years in all other cases. If this option is exercised, upon the disposal of the assets for consideration, the tax would be levied on the lower of the capital gain accrued as at the relevant reference date and the capital gain actually realised.

In the event of a disposal without consideration or a transfer to family members, controlled companies or controlled entities, the tax would apply to the entire capital gain accrued.

The tax would not be payable on assets and rights that have not been disposed of by the end of the deferral period, on those transferred upon death during that same period, or in the event that the taxpayer re-establishes tax residence in Italy. In such cases, any excess amounts previously paid would be refunded. The implementing provisions are to be laid down in a decree to be issued by the Italian Minister of Economy and Finance.

INDIVIDUALS

Personal income tax (IRPEF) and flat-rate tax scheme

For 2027 only, the 33 percent rate applicable to the second personal income tax (IRPEF) bracket would apply to income exceeding EUR 28,000 and up to EUR 55,000, replacing the current upper threshold of EUR 50,000. The 23 percent rate on income up to EUR 28,000 and the 43 percent rate on income exceeding EUR 55,000 would remain unchanged.

The threshold for eligibility for the flat-rate tax scheme is set to increase from EUR 85,000 to EUR 100,000 for income tax purposes. For VAT purposes, the threshold would remain unchanged at EUR 85,000, pending authorisation from the European Union.

The scheme would cease to apply in the same tax year in which the revenues or fees received exceed EUR 115,000 for income tax purposes and EUR 100,000 for VAT purposes.

For 2027 only, the threshold for employment income and income treated as equivalent thereto, above which access to the flat-rate tax scheme is precluded, would be increased to EUR 35,000.

Tax deductions for building works

Tax deductions for the renovation of existing buildings, energy-efficiency improvements and anti-seismic works would be available for expenses incurred in 2027 at a rate of 36 percent and increase to 50 percent for expenses incurred by individuals holding ownership rights or other rights in rem over residential properties used as main home. The deductions would be spread over ten equal annual instalments. In any case, expenses incurred for replacing winter heating systems with single boilers powered by fossil fuels would be excluded from the tax benefit, both for energy-efficiency improvements and building renovation purposes. The furniture bonus would also be extended to 2027 at a rate of 50 percent, subject to a maximum limit of EUR 5,000.

Please note that the draft budget law sets forth an expenditure ceiling of EUR 96,000 per property unit for energy-efficiency improvement works, or of EUR 40,000 multiplied by the number of property units in the case of works carried out on condominium common areas. For anti-seismic and building renovation works, the expenditure ceiling would remain unchanged at EUR 96,000 per property unit. For projects involving works that began in previous years, the expenditure ceiling must also consider expenses incurred in earlier years for which the taxpayer has already benefited from the tax deduction.

Flat-rate tax on rental income (“cedolare secca”)

The flat-rate tax scheme on rental income is planned to be extended to leases entered into in 2027 involving properties classified under cadastral category C/1 with a floor area of up to 200 square metres. The applicable tax rate would be 21 percent, reduced to 10 percent for properties located in municipalities that are metropolitan city capitals ("*comuni capoluogo di città metropolitana*").

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The tenant would be required to use the property exclusively for carrying out a business, an artistic or a professional activity.

For agreed-rent lease agreements ("contratti a canone concordato") entered into in 2027, a reduced tax rate of 5 percent would apply to rental income received from 2027 to 2031. The rate would be further reduced to 1 percent, where the tenant is under 36 years of age at the time of signature of the agreement. These tax incentives would not apply to lease agreements extended or renewed in 2027 nor to new lease agreements entered into between the same parties and concerning the same property, where the previous agreement, which was still in force on 30 September 2026, was terminated early.

Tax benefits for "first home" buyers

The time limits applicable to "first home" buyers would be standardised at two years, both for transferring residence to the municipality in which the property is located and for purchasing a replacement property following the sale of the original property within five years of its acquisition.

Donations to political parties

The tax deduction for cash donations to political parties would be reduced from 26 percent to 19 percent, for both personal income tax (IRPEF) and corporate income tax (IRES) purposes.

EMPLOYMENT

Substitute taxes on remuneration increases and ancillary pay

For the private sector, the Italian draft budget law provides for the following tax incentives:

- 5 percent substitute tax on salary increases paid in 2027 pursuant to collective labour agreements renewed between 1 January 2024 and 31 December 2027, for employees whose employment income in 2026 does not exceed EUR 33,000;
- 15 percent substitute tax, up to an annual limit of EUR 1,500, on additional payments and allowances for night work, work on public holidays, work on weekly rest days and shift work, for employees whose income in the previous year does not exceed EUR 40,000;
- 1 percent substitute tax on income increases received by employees born after 31 December 1997, subject to specific income and amount limits;
- extension of the special supplementary payment for employees in the tourism, hospitality and spa sectors, for the period from 1 January to 30 September 2027;
- 50 percent inclusion in taxable income, up to a limit of EUR 1,500, of dividends paid to employees in respect of shares allocated in lieu of performance-related bonuses.

The substitute taxes are to be applied by the withholding agent (employer), unless the employee expressly opts out by submitting a written waiver.

Fringe benefits and new hires

The tax-exempt threshold for fringe benefits of EUR 2,000, currently available only to employees with dependent children, would be extended to employees aged 30 or under. The ordinary tax-exempt threshold of EUR 1,000 would remain unchanged.

For permanent employment contracts entered into in 2027, the additional deduction for employment costs would be increased as follows: from 20 percent to 80 percent for female employees who are mothers and from 20 percent to 40 percent for employees under the age of 36. This additional deduction would not be taken into account when calculating the 2027 tax prepayment.

TAX INCENTIVES FOR BUSINESSES

Preferential allocation to shareholders and withdrawal of business assets

It is planned to reintroduce the preferential tax scheme for the allocation and sale of assets to shareholders. Partnerships and companies would be allowed, by 30 September 2027, to allocate or sell to their shareholders immovable property not used for business purposes and registered movable property not used for business purposes. Alternatively, they could convert into simple partnerships if their sole or main purpose is the management of such assets. All shareholders would be required to be registered in the shareholders' register as at 30 September 2026, or within 30 days of the entry into force of the provisions, provided that their entitlement is supported by a document bearing a legally certain date prior to 1 October 2026.

A substitute tax of 8 percent would apply to the difference between the fair market value and the tax-recognised cost of the assets, rising to 10.5 percent for companies classified as non-operating entities in at least two of the three preceding tax years. Cancelled tax-deferred reserves would be subject to a 13 percent substitute tax. For real

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estate assets, the fair market value could be determined based on land registry data. Registration tax rates would be reduced by 50 percent, while mortgage and cadastral taxes would be payable at fixed amounts. Payment would be due by 30 September 2027.

Individual entrepreneurs would be allowed to withdraw immovable property classified as business properties owned as of 30 September 2026 from their business assets. The relevant transactions would need to be carried out between 1 January and 31 May 2027, with effectiveness as of 1 January 2027. The substitute tax would need to be paid in two instalments by 30 November 2027 and by 30 June 2028.

Revaluation of Business Properties

Companies that do not adopt international financial reporting standards (IFRS) would be allowed to revalue immovable properties, recognised in their financial statements as of 31 December 2025, in the financial statements for the financial year following the one ending on 31 December 2025. Building land and properties held as inventory (trading properties) would be excluded therefrom.

The increased value would be recognised for income tax and regional tax on productive activities (IRAP) purposes from the third subsequent financial year, subject to payment of a substitute tax of 8 percent for depreciable immovable properties and of 4 percent for non-depreciable immovable properties. The revaluation surplus could be released from tax-suspension by paying a 10 percent substitute tax. In the event of a sale, allocation or transfer of the assets to purposes unrelated to the business before the beginning of the sixth subsequent financial year, the cost of the asset prior to revaluation would be recognised.

Companies preparing their financial statements in accordance with international financial reporting standards (IFRS) would also be allowed to align the tax values of their immovable properties with the higher carrying amounts. In this case, a tax-suspended reserve would have to be recognised for an amount equal to the aligned values, net of the substitute tax paid. This reserve could also be released from tax-suspension by applying the 10 percent substitute tax rate.

Tax credit for cloud computing services

A tax credit of up to 30 percent of eligible costs incurred in 2027, 2028 and 2029, subject to a total annual budget of EUR 30 million, in respect of subscription fees for cloud computing services and solutions relating to intangible fixed assets listed in annex F to the new Italian income tax code (TUIR) is planned to be granted to resident companies and permanent establishments of non-resident entities. The measure is intended to offset the exclusion of these subscription fees from the hyper-depreciation scheme ("iper-ammortamento"). The tax credit would not add to taxable income or to the IRAP tax base; it can be used only to offset tax liabilities and may be combined with other incentives relating to the same costs, up to the amount of the cost incurred.

Other measures for businesses

For taxpayers carrying out agency or commercial representation activities, vehicle cost deductibility is intended to be increased to 90 percent for electric and hybrid vehicles and to 80 percent for all other vehicles, with the maximum tax-recognised vehicle cost limits raised to EUR 35,000 and EUR 25,822.84 respectively. Furthermore, the tax credit for investments in the single special economic zone ("ZES Unica") would be refinanced, with EUR 2.4 billion allocated for 2027 and EUR 1.25 billion for 2028.

FINANCE AND ENERGY SECTOR

Increased burden on banks, insurance companies and energy businesses

For the 2027 and 2028 tax years, the corporate income tax (IRES) surcharge applicable to the financial sector is set to rise from 3.5 percent to 6.5 percent, excluding electronic money institutions. A new additional surcharge of 3 percentage points would also be introduced for companies and entities carrying out insurance activities. In both cases, a tax deduction of EUR 200,000 would be available, up to the amount of the additional tax burden arising from the new provisions. For the tax on mathematical reserves in the life insurance sector, the applicable reference rate is set at 1.285 percent for 2026 and subsequent years.

For IRAP purposes, the deductibility percentages of other administrative expenses and depreciation charges for financial intermediaries and insurance companies are to be reduced from 90 percent to 30 percent, with a deduction of EUR 90,000 for each tax year. For corporate income tax purposes, advertising expenses and expenses for services of a similar nature incurred by financial intermediaries and entities operating in the energy sector would become deductible in equal instalments in the year in which they are incurred and in the two subsequent years. Furthermore, the deductibility percentage of certain interest expenses would be reduced from 97 percent to 96 percent. Moreover, the deduction percentages applicable to negative income

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components associated with deferred tax assets (DTAs), as provided for under the transitional provisions, would also be revised.

For companies operating in the energy sector and identified by the ATECO codes listed in the draft budget law, the IRAP rate would be increased by 5 percentage points for 2027 and by 3 percentage points for 2028 and 2029, whereby the companies are prohibited from passing this additional tax burden on to customers through higher prices.

The financial transaction tax is set to double, with the rate rising from 0.4 percent to 0.8 percent on transfers of ownership of shares and participating financial instruments issued by companies resident in Italy, and from 0.04 percent to 0.08 percent on high-frequency trading transactions.

It is also planned to reduce the exclusion from tax of dividends received by non-commercial entities, including banking foundations. Such dividends would add to taxable income to the extent of 55 percent instead of the current 50 percent. This amendment would already take effect when calculating the 2027 tax prepayment.

TAX ASSESSMENT AND TAX COLLECTION

Superbonus tax credits and tax offsets

The draft budget law provides for the further allocation over ten equal annual instalments of the tax credit portions available for offsetting in 2027, arising from the transfer of tax credits or the invoice discount mechanism relating to expenses incurred in 2023 for works covered by article 119 of the Italian law-decree 34/2020. Tax credits for which the ten-year instalment option has already been exercised would be excluded.

The threshold for overdue tax liabilities registered for collection that prevents taxpayers from using tax credits to offset liabilities through the F24 payment form would be reduced from EUR 50,000 to EUR 30,000. The withholding tax applicable to transactions between businesses would be increased to 1 percent for 2028 and to 2 percent from 2029 onwards. In the event of compulsory (ex officio) cancellation of a VAT number, it would no longer be possible to acquire and to transfer tax credits, including tax credits arising from incentive schemes. Any transactions carried out in breach of this prohibition would be deemed legally non-existent.

Withholding tax on payments to businesses not adhering to the two-year preventive tax agreement (concordato preventivo biennale – CPB)

Withholding tax applicable upon payment of electronic invoices is planned to be doubled. It would be calculated on the amount payable, excluding VAT, and increased from 0.5 percent to 1 percent in 2028, and from 1 percent to 2 percent from 2029 onwards.

This levy was introduced by the 2026 Italian budget law but has not yet become operational. It will apply to payments made from 1 January 2028 onwards and will concern only payments due to businesses that, at the time of receiving payment, have neither adhered to the two-year preventive tax agreement (CPB) nor entered into the cooperative compliance regime. The implementing procedures will be established by a measure to be issued by the Italian tax authority.

OTHER MEASURES

Small parcels from non-EU countries: abolition of the national charge

The national charge of EUR 2 on consignments of goods originating from non-EU countries with a value not exceeding EUR 150 is set to be abolished. The charge was introduced by article 1 (126–128) of the Italian law 199/2025 but never became effective, as its implementation had been postponed several times, most recently to 1 January 2027.

The abolition is intended to ensure consistency with the EU handling fee introduced by EU regulation 2026/2108 and effective from 1 November 2026. This latter charge is also set at EUR 2 per item, but it applies to all distance sales of imported goods, regardless of the value of the consignment, and adds to the VAT tax base, whereas the national charge would have applied to consignments of up to EUR 150 only, and would not have added to the VAT tax base.

Plastic tax and sugar tax

The entry into force of the consumption tax on single-use plastic products and of the consumption tax on sugar-sweetened beverages is to be postponed by a further six months, from 1 January to 1 July 2027.

Motor vehicle tax, excise duties and small parcels

A permanent exemption from motor vehicle tax is to be introduced for individuals in respect of one duly insured

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vehicle. This exemption applies to petrol or diesel cars - including hybrid vehicles - with an engine power of up to 80 kW, and motorcycles and mopeds. Where an individual owns several eligible vehicles, the exemption would apply to the vehicle with the lowest engine power. Large families would also be entitled to an annual contribution of up to EUR 385.71 for one passenger vehicle with six to nine seats and an engine power not exceeding 133 kW.

The increases in excise duties on manufactured tobacco products would be brought forward to 1 July 2027. The entry into force of the tax on single-use plastic products (plastic tax) and the tax on non-alcoholic sweetened beverages (sugar tax) would likewise be postponed to the same date. Finally, the national charge on small parcels originating from non-EU countries would be abolished, in line with the introduction of the new EU handling fee.

Art bonus tax credit

It is planned to expand the scope of the tax credit for cash donations in support of cultural heritage. Starting from the tax year in progress as at 31 December 2027, the tax credit would also apply to cash donations made to third sector entities, foundations and recognised associations that have been operating on a non-profit basis for at least five years and whose statutory purposes include the preservation, restoration and management of buildings, villas, parks or gardens of particular artistic, archaeological or historical significance, which have been formally designated as protected heritage sites.

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Yours sincerely,

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