LP ADVISORY

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2026 Budget Law – New developments in taxation, employment and social security – Part One

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The 2026 Budget Law (Law No. 199 of 30/12/2025; in Official Gazette No. 301 of 30/12/2025), in force since 01/01/2026, contains numerous provisions on employment, pensions, social safety nets and social security. The main changes are outlined below.

1 1. Tax changes and employment relationships

TO ALL CUSTOMERS

1.1 IRPEF rate restructuring

A reduction from 35% to 33% has been provided for in the rate relating to the second IRPEF bracket. Therefore, in determining personal income tax, gross tax is calculated by applying the following rates for income brackets:

Bracket	Rate
up to €28,000	23%
from €28,001 to €50,000	**33%**
over €50,000	43%

For the year 2026, for the purposes of determining the income of natural persons, for taxpayers with a total income exceeding €200,000, the gross deduction amount due under

Article 15, paragraph 3-bis, of the TUIR is reduced by €440 of the total deductions due, in relation to the following expenses:

- expenses whose deductibility is set at 19%, with the exception of healthcare expenses.
- insurance premiums for natural disaster risk.

1.2 Tax relief on contractual increases

In order to encourage wage adjustments to the cost of living and to strengthen the link between productivity and wages, wage increases paid to private sector employees in 2026, in implementation of contract renewals signed between 01/01/2024 and 31/12/2026.
The measure applies to private sector workers with an income from employment in 2025 not exceeding €33,000.

1.3 Tax exemption on performance bonuses

On a transitional basis for the years 2026 and 2027, there will be a further reduction from 5% to 1% in the substitute tax for personal income tax and related regional and municipal surcharges, applicable to performance bonuses and forms of profit sharing for private sector workers. In practice, for the next three years, the reduction applies to:

- Bonuses linked to improvements in productivity, profitability, quality, efficiency and innovation, provided they are measurable and verifiable.
- to sums paid as profit sharing.

The overall amount limit of €5,000 (previously set at €3,000 or €4,000 for companies that equally involve workers in work organization) has been raised for sums that can benefit from the relief, provided that employment income did not exceed €80,000 in the year preceding that in which the relevant remuneration was received.

1.4 Taxation of allowances and bonuses for night work, holiday work and shift work

For the 2026 tax period, unless the employee expressly waives this right in writing, sums paid to employees, up to an annual limit of €1,500, are subject to a substitute tax of 15% in lieu of IRPEF and regional and municipal surtaxes, in the form of:

- surcharges and allowances for night work (in accordance with the law and the CCNL);
- surcharges and allowances for work performed on public holidays and weekly rest days as identified by the CCNL.
- shift allowances and additional emoluments related to shift work, as provided for by the CCNL.

The above measures apply to workers with an income from employment not exceeding €40,000 in 2025.

Compensation that, even if referred to as surcharges or allowances, replaces all or part of ordinary remuneration is not subject to the substitute tax.
Performance bonuses and sums paid as profit sharing are not included in the annual limit of €1,500. Workers in the tourism, hospitality and spa sectors who are entitled to special supplementary benefits are also excluded.

1.5 Profits to workers

The rule providing for a 50% tax exemption up to an annual limit of €1,500 for dividends paid to employees and deriving from shares allocated by companies in lieu of performance bonuses is also extended to 2026.

1.6 Increase in exemption for electronic meal vouchers

From 01/01/2026, the daily exemption limit for electronic meal vouchers will be raised from €8 to €10. The daily limit of €4 for paper vouchers remains unchanged.

1.7 Hotel and tourism sector

In favor of workers in food and beverage establishments and employees in the tourism, hospitality and spa sectors, the special supplementary treatment is reconfirmed, equal to 15% of gross wages paid for overtime worked on public holidays or for night work performed in the period from 01/01/2026 to 30/09/2026.
The provision applies to employees of private sector public establishments engaged in:

- catering, for the serving of meals and beverages (restaurants, trattorias, snack bars, pizzerias, pubs and similar establishments).
- serving drinks, confectionery, including pastries and ice cream, and delicatessen products (bars, cafés, ice cream parlors, pastry shops and similar establishments);
- the above establishments where food and beverages are served in conjunction with entertainment and leisure activities, in dance halls, gaming halls, nightclubs, beach establishments and similar establishments.

The above special supplementary treatment is recognized by withholding agents at the request of the worker, who is required to declare in writing that they did not receive income from employment exceeding €40,000 in 2025.

1.8 Stock options

An additional tax rate of 10% is applied to variable remuneration exceeding three times the fixed portion of the remuneration of employees who hold managerial positions in the financial sector, as well as to those who have coordinated and continuous collaboration relationships in the same sector.

The surcharge does not apply if the entity paying the remuneration (e.g. a financial sector company) allocates to third sector entities - other than entities that directly or indirectly control the aforementioned remuneration payers, are controlled by them or are controlled by the same entity - a sum at least double the total amount of the surcharge due for the period.

1.9 Flat tax for new residents

The Budget Law significantly affects the flat tax relief scheme for new residents in Italy, raising the substitute tax due on foreign income calculated on a flat-rate basis from €200,000 to €300,000.
The change affects individual taxpayers who will transfer their residence to Italy from 01/01/2026. The preferential regime, provided for in Article 24-bis of the TUIR, applies on condition that the taxpayer has not been resident in Italy for tax purposes for at least nine tax periods during the ten years preceding the start of the period of validity of the option.

1.10 Access to the flat-rate scheme

The amendment already introduced by the 2025 Budget Law, which raised the income threshold (for employees or similar) above which access to the flat-rate scheme is precluded from €30,000 to €35,000, is also confirmed for 2026.

2 Employment news

2.1 Incentives for permanent employment

In order to increase stable youth employment, promote equal opportunities in the labour market for disadvantaged female workers, support employment development in the Special Economic Zone for Southern Italy (ZES unica) and contribute to reducing regional disparities, the Budget Law provides for the allocation of resources for the recognition of a partial exemption from the payment of total social security contributions by private employers, with the exception of premiums and contributions due to INAIL, for a maximum period of 24 months.
The contribution exemption is linked to the hiring of new non-executive staff on permanent employment contracts, or to the conversion of fixed-term employment contracts to permanent contracts, carried out between 01/01/2026 and 31/12/2026.
The application of the benefit will be subject to an interministerial decree issued by the Ministry of Labor in agreement with the Ministry of Economy and Finance.

2.2 New incentive for the recruitment of working mothers

From 01/01/2026, private employers who hire women who are mothers of at least three children under the age of 18 and who have not had regular paid employment for at least six months will be exempt from paying social security contributions, to the extent of 100%, up to a maximum of €8,000 per year, recalculated and applied on a monthly basis, excluding premiums and contributions due to INAIL, without prejudice to the rate used to calculate pension benefits.

As regards the duration of the exemption, if the recruitment is carried out on a fixed-term contract, including temporary work, the exemption is valid for twelve months from the date of recruitment.

If the contract is converted to a permanent contract, the exemption is granted for a maximum of eighteen months from the date of recruitment under the fixed-term contract.

If the recruitment is on a permanent contract, the exemption is valid for a period of twenty-four months from the date of recruitment.

The exemption does not apply to domestic employment relationships and apprenticeships and cannot be combined with other exemptions or reductions in financing rates provided for by current legislation, while it is compatible without any reduction with the maxi-deduction of labor costs in the case of new hires.

The Firm remains available for any further clarification or assistance.

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