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1 Year-End Tax Adjustment - Operational Aspects and Key Developments for 2025

TO ALL CUSTOMERS

Year-End Tax Adjustment - Operational Aspects and Key Developments for 2025

The IRPEF (personal income tax) year-end tax adjustment represents one of the most significant obligations incumbent upon the withholding agent, as it enables the final determination of the income tax due by the employee on employment income and assimilated income earned during the tax year, as well as the consolidation of tax data relevant for the purposes of the so-called *Certificazione Unica* and the 770 Form.

For tax year 2025, the adjustment process is of particular importance in light of the numerous legislative changes introduced during the year, which directly affect tax deductions, fringe benefits, tax incentives, and the reduction of the tax wedge.

1. Purpose and Deadlines of the Adjustment

Pursuant to Article 23 of Presidential Decree No. 600 of 1973, the employer, acting as a withholding agent, is required to apply IRPEF withholding tax on employment income and assimilated income paid, applying tax rates and deductions on a **provisional basis**, with reference to each individual pay period.

The year-end **tax adjustment** serves to:

- determine the tax actually due on total annual income;
- compare such amount with the tax already withheld during the year;
- recover or refund any resulting differences.

The adjustment must be carried out:

- by **28 February of the following year** (for 2025, by 28/02/2026);
- alternatively, it may be carried out in 01/ or 02/ 2026, with payment of the withholdings by 16/02 or 16/03.

By the same deadline of 28 /02, any errors made in the adjustment performed in December can be corrected.

2. Method of Determination of the Adjustment

In calculating the adjustment, the withholding agent must take into account:

- all cash and in-kind remuneration paid during the year;
- income paid by a previous employer, if expressly requested by the employee;
- applicable tax deductions;
- regional and municipal surtaxes;
- social security contributions.

If, during the year, the employee has requested the application of a higher tax rate than the ordinarily applicable one, the excess tax may not be refunded at the adjustment stage. In such cases, the higher rate must be indicated in the Unique Certification.

From a timing perspective, the **"extended cash basis" principle** applies: income paid by 12/01 of the following year is deemed to have been received in the prior year, provided it relates to that year. This date is not extendable even if it falls on a public holiday.

3. Outcome of the Adjustment: Amount Payable or Credit

3.1 Adjustment resultin in an amount payable

If the adjustment results in additional tax due:

- the withholding agent withholds the amount from payroll;

- if the salary is insufficient, the employee may:
    - pay the amount directly; or
    - authorize withholding from subsequent salaries, subject to **monthly interest at 0.50%**.

Amounts not withheld due to termination of employment or insufficient remuneration must be communicated to the employee, who must pay them by **15 /01 of the following year**.

3.2 Adjustment resulting in a credit

If the tax withheld exceeds the amount due, the employer must **refund the excess** directly through payroll.

4. Income Excluded from the Adjustment

The following are excluded from the adjustment:

- income subject to **separate taxation** (e.g. severance pay, early retirement incentives, and separately taxed arrears);
- foreign tax credits related to income earned with non-resident employers;
- compensation received for service on electoral polling stations, as it is tax-exempt.

5. Performence Bonuses and Corporate Welfare

Amounts eligible for preferential taxation with a 5% substitute tax, within a limit of €3,000, remain excluded from tax progression. These include **performance bonuses** and profit-sharing payments paid under company-level or territorial agreements to employees whose employment income for 2024 does not exceed Euro 80,000.
The limit increases to Euro 4,000 for companies that provide forms of employee participation in work organization.
Employees may also opt, where provided by company or territorial agreements, to receive the bonus in kind (corporate welfare), which is exempt from taxation within the limits applicable to each category.

6. Business Transfers and Continuity of Employment

In cases where employees are transferred between entities without interruption of the employment relationship (e.g. assignment of contracts, business transfers, mergers, demergers, business leases, donations or contributions of a business, successions, etc.), the incoming employer is responsible for carrying out the adjustment, including with respect to remuneration paid by the previous employer during the tax year.

7. Key Tax Developments Relevant to the 2025 Adjustment

Item to be monitored	Impact on year-end tax adjustment
FRINGE BENEFIT	
For the period 2025–2027, the fringe benefit exemption threshold provided for under Article 51, paragraph 3, of the Italian Income Tax Code (TUIR)—that is, the threshold up to which the value	Upon exceeding the exemption threshold - taking into account the value of goods supplied, services rendered, and amounts paid or reimbursed (the latter for the payment of electricity, gas and water

of goods supplied and services rendered (non-cash benefits; see Revenue Agency Ruling No. 55/E of 2020) to employees, as well as amounts paid or reimbursed by employers to the same employees for the payment of domestic utility bills for integrated water services, electricity and natural gas, the rent of the principal residence, and interest on a mortgage relating to the principal residence, is excluded from the formation of employment income - has been increased (Article 1, paragraphs 390 and 391, of Law No. 207 of 30/12/2024) to: - Euro 1,000 for employees generally; - Euro 2,000 for employees with dependent children, including recognized children born out of wedlock and adopted or foster children, who qualify as dependants for tax purposes pursuant to Article 12, paragraph 2, of the TUIR).	utilities relating to residential properties, etc.) - the entire value of the benefit (and not merely the portion exceeding the threshold) is included in the determination of employment income.
INTEREST RATE ON EMPLOYEE LOANS	
The fringe benefit arising from loans granted to employees is equal to 50% of the difference between: - interest calculated at the ECB reference rate (TUR) in force on the date the loan is granted (in the case of fixed-rate loans); and - interest calculated at the rate actually applied. The change in the reference criterion makes it necessary to carefully review loans granted in previous years	Since, as noted above, the fringe benefit consists of 50% of the difference between: - the amount of interest calculated on the basis of the ECB reference rate (TUR) in force at the instalment due date / at the date the loan is granted; and - the amount of interest calculated at the rate actually applied (i.e. the rate applied by the bank or by the company granting the loan), it should therefore be noted that an employee who, in 2023 (when the ECB reference rate was 2.5%), obtained a company loan, with a multi-year term, at a fixed rate of 2.75%, will not be subject to any amounts taxable as fringe benefit, since the applicable reference rate is no longer the rate in force at year-end (2025), but rather the rate in force at the time the loan was granted (2023).
TAX REGIME FOR WORKERS RELOCATING TO ITALY	
As from 2024, the regime for the so-called *lavoratori impatriati* (workers relocating to Itay), formerly governed by Article 16 of Legislative Decree No. 147/2015 (providing for a 70% tax exemption, or 90% where the relocation occurred	A transitional regime is provided for under Article 5, paragraph 9, of Legislative Decree No. 209/2023, in favour of individuals who transferred their registered residence to Italy by 31/12/ 2023 (to whom the previous provisions set out in

in certain regions of Southern Italy), is regulated by Article 5 of Legislative Decree No. 209/2023, which provides for a 50% tax exemption. The tax benefit applies to workers who transfer their tax residence to Italy (pursuant to Article 2 of the TUIR), provided that all of the following conditions are met: - the workers undertake to remain tax resident in Italy for a period of at least four years; - the workers have not been tax resident in Italy during the three tax periods preceding their transfer (or for a longer period where the worker carries out employment activities in Italy in continuity with activities previously performed abroad); - the employment activity is carried out, for the majority of the tax period, within the territory of the Italian State; - the workers meet the requirements of high qualification or specialisation.	Legislative Decree No. 147/2015 continue to apply), as well as with respect to professional athletes whose employment contracts were entered into by 31 /12/ 2023. The inbound workers regime provides that *"the employer applies the benefit from the pay period following the request and, at the adjustment stage, from the date of hiring, by applying withholding tax to the taxable base reduced to the percentage of taxable income provided for under the preferential regime for which the worker has submitted a written request, and on which the related deductions are calculated"* (Italian Revenue Agency Circular No. 17/E of 23 /05/ 2017).
SUPPLEMENTARY REMUNERATION TAX CREDIT	
The Supplementary Wage Tax Credit (TIR) is a tax credit aimed at reducing the tax wedge on labour costs for employees and assimilated income recipients (excluding pensions); it is granted, in the amount of Euro 1,200 per year, prorated to the period of employment performed during the year, where total income does not exceed EUR 15,000, while in cases where total income exceeds EUR 15,000 but does not exceed Euro 28,000, the TIR is granted in an amount equal to the difference between the gross tax and certain applicable tax deductions, and in any event not exceeding Euro 1,200 per year; the credit must be granted by withholding agents on an automatic basis, unless the employee has expressly requested that it not be paid, in which case the withholding agent is not required to grant the benefit.	Withholding agents must determine entitlement to the Supplementary Wage Tax Credit (TIR) on the basis of the data available to them; consequently, the verification of tax capacity or incapacity must be carried out by the employer on the basis of known tax deductions, through a year-end adjustment or upon termination of the employment relationship, as only at the adjustment stage is it possible to definitively determine entitlement to the TIR on the basis of the data available to the withholding agents; where the credit is found to be undue, recovery is carried out in eight equal instalments, starting from the first salary payment reflecting the effects of the adjustment, provided that the amount exceeds Euro 60; at the adjustment stage, the withholding agent may grant the full amount of the TIR, or pay the outstanding balance where the credit was not granted during the year or was granted in an amount lower than that due.

EXPENSE REIMBURSEMENTS	
Reimbursements of expenses incurred within the territory of the Italian State for meals, accommodation, travel and transport provided by non-scheduled public transport services, incurred in connection with business trips or assignments of employees, pursuant to the final paragraph of Article 51, paragraph 5, of the TUIR, do not contribute to the formation of employment income, provided that payment of such expenses is made by bank or postal transfer or through other traceable payment methods. This requirement does not apply to expenses incurred outside the territory of the Italian State.	Where certain expenses have been paid in cash, the employer - at the time of reimbursement or, at the latest, at the stage of the tax (and social security) adjustment - must include such amounts for the purposes of determining employment income. This is the case, for example, of the reimbursement of the cost of a taxi ride paid in cash.
COMPANY CARS GRANTED FOR MIXED USE	
As from 01/01/2025, the fringe benefit arising from the granting of a company car for mixed use is calculated on the basis of the vehicle's power source. The provision applies to newly registered motor vehicles, motorcycles and mopeds (i.e. registered as from 01/01/2025) granted for mixed use under contracts entered into as from 01/01 2025. The legislator has also introduced a transitional regime, under which the method for determining the fringe benefit in force as at 31/12/2024 (i.e. the fringe benefit calculated on the basis of the vehicle's CO_2 emission values) continues to apply to vehicles: - granted for mixed use under contracts entered into between 01/07/2020 and 31/12/2024; - ordered by the employer by 31/12/2024 and granted for mixed use between 01/01/2025 and 30/06/ 2025, irrespective of the date on which the relevant contract was entered into.	Accordingly, in corporate practice, it will be possible to have company cars for which the fringe benefit is determined in accordance with the rules in force as from 01/01/ 2025, as well as vehicles to which the rules in force as at 31/12/2024 continue to apply, or even the earlier regime applicable to vehicles granted for mixed use by 30/06/ 2020 (for all vehicle categories, a benefit equal to 30% of the per-kilometre cost established by the ACI for an annual mileage of 15,000 kilometres). In other cases (for example, a vehicle registered in 2023 and granted for mixed use as from 01/07/ 2025), the fringe benefit must be determined on the basis of the normal value. Any errors in the determination of the value of benefits in kind may (and, where applicable, must) be corrected at the adjustment stage.
TAX WEDGE REDUCTION	
As from 2025, employees with total income not exceeding EUR 20,000 are entitled—through the withholding agent—to a payment (exempt from social security contributions and income tax) aimed at reducing the tax wedge.	At the adjustment stage, the withholding agent shall verify entitlement to the bonuses described above. Where the amount paid proves to be partially or wholly undue, the withholding agent must proceed with recovery; where the amount exceeds Euro 60, recovery is carried out in ten

The amount due is determined as a percentage of employment income, as follows: - 7.1%, where employment income does not exceed Euro 8,500; - 5.3%, where employment income exceeds Euro 8,500 but does not exceed Euro 15,000; - 4.8%, where employment income exceeds Euro 15,000. For the sole purpose of determining the applicable percentage, employment income is annualised over the entire year. Where employment is performed for only part of the year, a theoretical annual income (i.e. the employment income that would have been earned had the employee worked for the entire year) must be determined; the corresponding percentage is applied to such theoretical annual income and subsequently applied to the actual employment income earned during the year. Also as from 2025, the same employees with total income exceeding Euro 20,000 but not exceeding Euro 40,000 are entitled to a bonus referred to as an "additional deduction", likewise aimed at reducing the tax wedge. The additional deduction is granted, within the limit of the gross tax, in an amount equal to: - Euro 1,000, where total income exceeds Euro 20,000 but does not exceed Euro 32,000; - the product of Euro 1,000 and the ratio between Euro 40,000 reduced by total income and Euro 8,000, where total income exceeds Euro 32,000 but does not exceed Euro 40,000. The additional deduction must be proportionally adjusted to the period of employment.	equal instalments, starting from the first salary payment to which the effects of the adjustment apply. In the case of a final adjustment upon termination of employment, the withholding agent is required to recover any undue tax benefits in a single instalment, regardless of the amount, as no further remuneration will be paid that would allow for staggered recovery. In the event of insufficient remuneration, the employee shall be required to make payment by 15/01 of the following year, following notification by the employer.
DEPENDANT FAMILY MEMBERS	
With effect from 2025, tax deductions for dependent children are granted only with respect to: - children aged 21 or over but under 30, who are not disabled; - children aged 21 or over with a certified disability pursuant to Article 3 of Law No. 104 of 5 February 1992.	In addition to verifying compliance with the tax deductions granted during the year, withholding agents must pay close attention to those provisions that refer to dependent family members as defined under Article 12 of the TUIR. Reference may be made, for example, to certain provisions set out in Article 51, paragraph 2, of the TUIR, which allow for the tax exemption of corporate welfare services

In addition, tax deductions may be claimed for the children of a deceased spouse, provided that such children cohabit with the surviving spouse. With regard to dependants, the Euro 750 deduction is granted exclusively in respect of ascendants (parents and grandparents) and no longer applies to the "other" persons listed in Article 433 of the Italian Civil Code. Finally, as from 2025, taxpayers who are not citizens of Italy, of a Member State of the European Union, or of a State party to the Agreement on the European Economic Area may claim tax deductions for dependent family members only in respect of family members resident in Italy.	and benefits provided in favour of the family members referred to in the above-mentioned Article 12. Welfare measures granted in favour of persons other than those indicated above are included in the determination of employment income.

Year-End Social Security Adjustment

Pursuant to the principle of harmonisation of taxable bases (Article 6 of Legislative Decree No. 314/1997), social security contributions on employment income are calculated on the same taxable base determined for tax purposes.

Pending the issuance of the customary year-end INPS circular, it may be anticipated that the adjustment operations may be carried out through the contribution return relating to 12/ 2025 or, alternatively, through the return relating to January 2026, without the application of ancillary charges. The relevant adjustments may also be included in the 02/2026 return; however, the obligation to pay or recover the contributions due on variable components of remuneration by 01/2026 remains unaffected. Such components relate to events or items that result in a variation of the contributory remuneration, such as, by way of example, overtime pay, travel allowances, periods of illness, paid leave for blood donors, permits, leave of absence, and other similar items).

Article 2, paragraph 18, of Law No. 335 of 1995 introduced an annual cap on the contributory and pensionable base for individuals enrolled in mandatory pension schemes after 31 December 1995 who had no prior contribution history as of that date, or for those who opt for the calculation of their pension under the contribution-based system. This cap, which is subject to annual revaluation, amounts to Euro 120,607.00 for the year 2025. Where, during the year, the withholding agent has made errors in determining the contributory base, resulting in the payment of IVS contributions also on amounts exceeding the cap, such excess contributions may be recovered through the adjustment process.

In light of the foregoing, and considering the significant regulatory changes introduced in 2025, careful management of the year-end adjustment is essential to reduce the risk of tax recoveries and disputes for the withholding agent.

The Firm remains available for any further clarification or assistance, as well as for specialized support in ensuring full compliance with the regulations.

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