

Tax | Personal Income Tax Reform 2024 and other income tax measures

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Personal Income tax reform and other income tax measures

With the approval of Legislative Decree No. 216 of 30 December 2023, which was published in the Official Gazette No. 303 of 30 December 2023 and came into force on 31 December 2023 (the “Decree”), a first part of reform on personal income tax (“IRPEF”) and other measures on income tax was implemented.

Art. 5 of the enabling act for tax reform (Law No. 111 of 9 August 2023) outlined a revision of the IRPEF, establishing the transition to a single-rate system (*flat tax*) as a long-term goal and identifying several intermediate steps, aimed at making the model fairer and more efficient.

The Decree, in compliance with the enabling act for tax reform, introduced a number of rules aimed at revising the personal income tax system and the gradual reduction of IRPEF, based on specific criteria that ensure compliance with the principle of progressivity and with a view to changing the system towards a single tax rate, by reorganising deductions from the tax base, income brackets, tax rates, deductions from gross tax and tax credits.

In this respect, the measures implemented with the decree go in the direction indicated by the enabling act, although, due to financial constraints, their effectiveness has currently been limited to the tax year 2024.

✓ Amendments of the IRPEF (Art. 1)

Only for the year 2024, replacing the provisions of Art. 11, par. 1 of Presidential Decree No. 917/1986 (“TUIR”), the progressive IRPEF rates and income brackets to be applied in determining the gross tax liability have been changed, unifying the first and second IRPEF brackets; in particular:

- 23% for incomes up to EUR 28,000;
- 35% for incomes above EUR 28,000 and up to EUR 50,000;
- 43% for incomes exceeding EUR 50,000.

The unification of the first two brackets on the 23% rate affects all IRPEF taxpayers with incomes above EUR 15,000, resulting in a tax reduction of up to EUR 260 per year.

Noting that until the 2023 tax period, the IRPEF brackets and rates in force were:

- 23% for incomes up to EUR 15,000;
- 25% for incomes over EUR 15,000 and up to EUR 28,000;
- 35% for incomes over EUR 28,000 and up to EUR 50,000;
- 43% for incomes exceeding EUR 50,000.

For the tax year 2024, the deduction for employment income provided for in Art. 13, par. 1, a), first sentence, TUIR has been increased from EUR 1,880 to EUR 1,955 (if the total income does not exceed EUR 15,000). As a result of this increase, the threshold of the so-called no tax area rises to EUR 8,500.

Moreover for 2024 only, an exception to the criteria for calculating the supplementary allowance as per Art. 1, par. 1, first sentence of Law Decree No. 3/2020 is provided for. In particular, the amount of the supplementary treatment is recognized in favor of taxpayers with total income not exceeding EUR 15,000, if the gross tax determined on employment income, excluding pension income and certain income assimilated to employment income, is greater than the amount of the deduction due pursuant to Art. 13, par. 1, TUIR, reduced by the amount of EUR 75, in relation to the work period in the year.

Lastly, it is provided that, in computing the advance payments due for IRPEF and related additional taxes purposes for the tax periods 2024 and 2025, the tax for the previous period shall be deemed to be that which would have been determined not taking into account the above provisions.

✓ **Amendments on tax deductions (Art. 2)**

The Decree has provided for a reduction of EUR 260 of 19% deductions from gross tax (excluding those relating to healthcare costs), inherent to liberal donations to political parties, to insurance premiums for the risk of calamitous events for taxpayers with a total income (net of the income of the real estate unit used as their main home and that of its outbuilding) exceeding EUR 50,000.

✓ **Amendments on IRPEF regional and municipal additional taxes to the new IRPEF regulations (Art. 3)**

In order to harmonize and ensure the consistency of the new IRPEF brackets with the regulation of the regional and municipal additional taxes, the Decree provided for timeframes and modalities for Regions, Municipalities and Autonomous Provinces to be able to change the applicable rates and brackets for the 2024 tax period.

In particular, by 15 April 2024 the Regions and Autonomous Provinces must establish the rates and brackets applicable for the 2024 tax period. If the Regions and Autonomous Provinces do not approve the law modifying the brackets and rates by the aforementioned deadline, for the year 2024 only, the IRPEF additional regional tax will be applied on the basis of the brackets and rates in force for the year 2023.

In the case of the Regions and Autonomous Provinces of Trento and Bolzano, it is specified that they must file the relevant data for determining the IRPEF additional regional by 15 May 2024.

Similar timeframes and modalities are set for municipalities and the IRPEF additional municipal.

✓ **Increase in the cost allowable as a deduction for new hires for income tax purposes (Art. 4)**

A new tax relief for income tax purposes has been introduced for the tax year following the one in progress on 31 December 2023, waiting for the complete implementation of the review of tax reliefs granted to companies, as provided for by Law No. 111/2023.

This relief is available to corporate income holders and professionals.

Persons eligible for the relief must have carried out their business for the entire 2023 and must be in normal operating conditions. Companies in ordinary liquidation, judicial liquidation (bankruptcy) or that applied for other institutions for the resolution of the corporate crisis of a liquidation nature are excluded.

According to this rule, the cost of newly hired personnel with an open-ended employment contract is increased, for the purpose of computing the taxable income, by an amount equal to 20% of the cost attributable to the increase in employment. The latter is equal to the lower amount between the actual cost relating to the new hires and the total increase in personnel costs resulting from the profit and loss account (pursuant to Art.

2425, par. 1, letter B), number 9), of the Italian Civil Code) compared to that for the financial year in progress as at 31 December 2023.

Entities that do not adopt the profit and loss account format pursuant to Art. 2425 of the Civil Code, (i.e. IAS *adopting companies*, insurance companies or financial intermediaries pursuant to the Legislative Decree No. 136/2015), must in any case consider the components of personnel costs that would have been included under item B), 9) if this scheme had been adopted.

Costs attributable to employees are determined in accordance with the rules applicable to the computation of the taxpayer's taxable income, so that, for example, for taxpayers applying simplifying accounting and professionals, these costs will be recognized in accordance with the cash principle.

In addition, employment increases are only eligible for the relief if the number of employees hired under an open-ended contract in the tax period following the one in progress on 31 December 2023 exceeds the number of employees with an open-ended contract employed on average in the previous tax period.

For anti-avoidance purposes, it is provided that the verification of the condition of the increase of the employees must be carried out net of any employment decreases occurring in subsidiaries or associated companies within the meaning of Art. 2359 of the Civil Code.

The Decree also established that no cost is attributable to the increase in employment if, at the end of the tax period following the one in progress on 31 December 2023, the number of employees, including those on fixed-term contracts, is less than or equal to the number of the same workers employed on average in the tax period in progress on 31 December 2023.

In order to promote the hiring of particular categories of persons, the Decree established that the cost referable to the increase in employment attributable to each new recruit, also for the purpose of determining the overall increase in the cost of personnel resulting from the profit and loss account, is multiplied by increased coefficients where the new recruit falls into one of the categories of workers deserving greater protection identified in Annex 1 to the Decree, such as: *a)* "disadvantaged" workers, *b)* persons with disabilities, *c)* young people eligible for youth employment incentives (NEET bonus), *d)* women of any age with at least two underage children, victims of violence or unemployed for at least 6 months and resident in the regions eligible for funding (Art. 2, number 4), letter *f)* of Regulation (EU) no. 651/2014), *e)* former recipients of the citizenship income who do not meet the requirements for access to the Inclusion Allowance; *f)* minors of working age in family hardship situations.

A subsequent decree, to be issued within thirty days from the date of entry into force of the Decree, will establish the increased coefficients for categories of disadvantaged workers, to ensure that the overall mark-up does not exceed 10 per cent of the labour costs incurred for these categories.

Lastly, it is provided that, in computing the advance payments due for income tax purposes for the tax period following the one in progress on 31 December 2023, the provisions concerning this relief relating to the increased deductible cost in the case of new hirings shall not be considered.

For determining the advance payments for the tax period following the one in progress on 31 December 2024, the tax for the preceding period shall be deemed to be that which

would have been determined had the provisions set forth by Art. 4 of the Decree not been applied.

✓ **Repeal of Aid for Economic Growth – “ACE” (Art. 5)**

As from the tax year subsequent to the one in progress as of 31 December 2023, the rule provided for the relief known as "Aid to Economic Growth - ACE", pursuant to Art. 1 of Law Decree No. 201 of 6 December 2011, i.e. the possibility for companies and IRES taxpayers to deduct the notional pre-set return for the increase in the net equity, is repealed.

Until the relevant effects have been exhausted, the provisions relating to the amount of the notional return exceeding the total net income for the tax period ending 31 December 2023 will continue to apply.

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