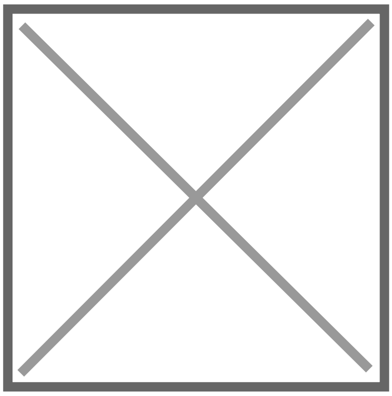

Italy’s Elective 15% CFC Tax: 2026 Guidance Simplifies Compliance for Multinational Groups

Descrizione

On 31 March 2026 the Italian Revenue Agency issued long-awaited guidance on the **elective 15% tax** introduced into Italy’s Controlled Foreign Company (CFC) regime by the 2023 international tax reform. The new measure offers Italian-controlled foreign subsidiaries a simplified route to satisfy the CFC effective-taxation test, replacing a notoriously complex calculation with a flat 15% charge on accounting profits. The April 2026 clarifications confirm retroactive effect from 1 January 2024 and resolve several open questions on eligibility, duration, and the treatment of dividends.

Why the CFC test was a problem

Italian CFC rules attribute the income of a low-taxed foreign subsidiary directly to its Italian parent, even if no dividend is paid. The “low tax” threshold is set at **15% effective taxation**, calculated as the ratio between the foreign company’s tax burden (current taxes, deferred taxes, and any portion of the qualified domestic minimum top-up tax under Pillar Two) and its accounting pre-tax profits. In practice, this calculation requires reconciling local GAAP financials, jurisdiction-specific tax adjustments, and Pillar Two figures every year — a heavy compliance exercise for groups with multiple foreign subsidiaries.

How the elective 15% regime works

Instead of running the full effective-tax-rate test, the Italian parent may elect to pay a **substitute tax of 15%** on the **net accounting profit** of the controlled foreign company, grossed up for current and deferred taxes, asset write-offs, and provisions. The election deems the standard CFC test satisfied, removing the need to attribute the foreign company’s income to the Italian parent.

The regime has three key design features confirmed by the new guidance. The election lasts **three financial years**, is irrevocable for the entire period, and renews automatically unless expressly revoked. It applies on an **all-or-nothing basis**: once chosen, it covers every CFC of the group whose passive income exceeds one-third of total revenue. The foreign company's financial statements must be **certified by locally authorised professional auditors**, and those audited figures must feed into the Italian parent's standalone or consolidating accounts.

If control is lost during the three-year period, or if the audit-certification requirement is no longer met, the option ceases — and where the audit failure affects one entity, the cessation extends to all CFCs of the group simultaneously.

Practical takeaways for foreign-owned and Italian groups

The retroactive application from **1 January 2024** is significant: groups can revisit financial years already filed and, where the 15% substitute tax produces a more favourable outcome, recover an unduly burdensome CFC inclusion through amended returns.

The choice between the elective 15% and the standard ETR test is rarely automatic. The flat regime tends to be advantageous where the foreign jurisdiction has **timing differences** that distort the standard ETR — large deferred tax movements, accelerated depreciation, asset write-offs — but where the underlying business is genuinely active. By contrast, where the foreign tax burden already comfortably exceeds 15% in cash terms, the standard test remains preferable because no Italian substitute tax is due at all.

Profit distributions from CFCs covered by the election receive coordinated treatment: the substitute tax paid at parent level is taken into account when dividends flow up, preventing the economic double taxation that would otherwise arise.

Final Considerations

The elective 15% regime is one of the most concrete simplifications introduced by Italy's recent international tax reform, and the April 2026 guidance closes most of the operational gaps that had discouraged groups from opting in. For multinational groups with Italian holding structures — and for foreign-headed groups whose Italian parent or sister entity controls subsidiaries in lower-tax jurisdictions — the 2024 retroactive window is a real opportunity to reduce both compliance cost and tax exposure.

The interaction with Pillar Two, with double tax treaties, and with the CFC and anti-deferral rules of other jurisdictions is highly fact-specific. Anyone considering the election, or revisiting prior CFC inclusions, should run the numbers under both methods and obtain professional advice before filing.

Tag

1. Foreign companies

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