Italy’s IRES Premiale: The 2026 Distribution Trap for Italian Subsidiaries of Foreign Groups

Descrizione

Italian subsidiaries of foreign groups that elected Italy’s **IRES Premiale** for fiscal year 2025 — cutting their corporate income tax rate from 24% to 20% — now face a hard compliance deadline that affects every dividend decision their foreign parent makes through the end of 2026. Distribute the wrong reserve at the wrong time, and the four-percentage-point saving is clawed back in full, with the difference owed at the standard 24% rate.

The trap is easy to miss because the reduced rate looks, on paper, like a one-shot benefit already locked in by year-end accounts. It is not. The benefit becomes definitive only after a second-year holding period that runs all the way to **31 December 2026** for calendar-year taxpayers.

What the IRES Premiale actually is

The IRES Premiale was introduced by Italy’s 2025 Budget Law (Law No. 207/2024). For the tax period following the one in progress as of 31 December 2024 — typically **fiscal year 2025** — companies that meet a strict combination of profit-retention, reinvestment, and employment conditions pay corporate income tax at **20% instead of 24%**.

The conditions are cumulative. The company must allocate **at least 80% of its 2024 net profit** to a dedicated reserve. **At least 30%** of that reserve (and a minimum of 24% of 2023 profits) must be deployed into qualifying **Transition 4.0 and Transition 5.0** capital assets, with a floor of €20,000. The workforce, measured in Annual Work Units, cannot fall below the average of fiscal years 2022–2024, and the company must hire new permanent employees equal to **at least 1% of the headcount as of 31 December 2024** (a minimum of one new hire).

These are not light conditions, and they are paired with two long-tail forfeiture rules that companies routinely underestimate.

The distribution embargo

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The first forfeiture rule is the one that catches international groups off guard. The 80% reserve created out of 2024 profits is treated as **non-distributable** until the end of the second tax year following the year of the benefit. For a calendar-year company, that means the reserve cannot be paid out — directly or indirectly — **before 1 January 2027**.

Distributing the reserve, or any amount that reduces it, before that date triggers the loss of the IRES Premiale. The company must repay the tax saved, recalculated at the ordinary 24% rate, with interest. There is a narrow corrective option to reconstitute the reserve before year-end, but that is fact-specific and rarely available in practice once a dividend has been resolved upon.

Why this matters for foreign parents

For Italian subsidiaries of foreign multinationals, dividend timing is rarely a purely Italian decision. Foreign parents often expect their Italian operations to upstream cash to fund group treasury, repay intercompany loans, or finance acquisitions. The IRES Premiale puts a hard fence around any 2024-profit reserve through the end of 2026 — and Italian rules treat distributions broadly. **Branches and Italian permanent establishments** of non-resident companies fall under the same regime: amounts attributed to the head office that reduce the dedicated reserve are assimilated to a profit distribution and trigger forfeiture.

A second forfeiture trap applies to the qualifying assets themselves. If the new Transition 4.0 or 5.0 assets are sold, transferred outside Italy, or diverted to non-business use **within five tax periods**, the benefit is also lost. Cross-border restructurings, intra-group asset transfers, and migrations of equipment to other jurisdictions all need to be screened against this rule for the entire holding period.

A Note for U.S. Citizens

U.S. parents and U.S. shareholders should pay attention to the timing mismatch the embargo creates. Deferring distributions out of the Italian subsidiary to preserve the IRES Premiale can shift the year in which **Subpart F**, **GILTI**, or **PFIC** consequences arise on the U.S. side, and may compress the foreign tax credit available against U.S. tax in any single year. U.S. citizens who hold Italian companies through pass-through structures should also model the interaction between Italian dividend timing and U.S. cash-flow assumptions before assuming the 4-percentage-point Italian saving falls through to net group tax.

Practical points

For groups that elected the regime, the priorities through end-2026 are clear. Map every reserve in the Italian sub’s equity and identify which one carries the IRES Premiale tag. Keep ordinary dividends limited to other distributable reserves — pre-2024 retained earnings, share-premium reserves, or current-year profits that do not feed the protected pot. Document any intercompany cash movements that could be re-characterised as a distribution. And before any cross-border asset transfer, confirm that the qualifying assets stay within the regime’s perimeter.

Final Considerations

The IRES Premiale is one of the most generous corporate tax breaks Italy has offered in recent years, but the value is fully captured only by groups that hold the line through the end of 2026. For Italian subsidiaries of foreign owners, that requires coordinated planning between the local management, the group treasury, and the international tax function — well before the next dividend cycle. Specialist advice is strongly recommended before resolving any distribution, asset transfer, or workforce change involving an entity that took the 20% rate.

A Note on 2026: The Measure Has Not Been Renewed

One point deserves emphasis for planning purposes: the IRES Premiale applied to the 2025 financial year only. The 2026 Budget Law (Law 199/2025) did not extend it, so for the 2026 financial year Italian companies revert to the ordinary 24% rate, plus IRAP. Proposals to renew the measure circulated during the parliamentary debate in the autumn of 2025 but did not survive into the final text. Groups that claimed the reduced rate for 2025 nonetheless remain subject to the lock-up described above: the reserve cannot be distributed before 1 January 2027 without triggering the clawback. In other words, the benefit has ended but the constraint has not.

Tag

1. Foreign companies

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