Italyâ??s New Dividend Regime for Entrepreneurs and Cross-Border Investors (Law 199/2025)

Descrizione

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The Italian Budget Law for 2026 (Law 199/2025) has profoundly reshaped the taxation of dividends received by entrepreneurs and companies.
The reform does not abolish the traditional participation-exemption system, but it radically changes its logic: from a general rule to a selective privilege, available only for â??economically significantâ?• shareholdings.

This shift has particularly strong consequences in cross-border structures, where dividend flows between Italy and foreign holding companies are now subject to stricter eligibility tests.

1. The philosophy behind the reform

For decades, Italian tax law was built around a simple principle:
profits should not be taxed twice as they move up a corporate chain.

That principle was implemented through:

Article 59 of the TUIR for entrepreneurs and partnerships;

Article 89 of the TUIR for corporations (IRES taxpayers).

Dividends were largely exempt, regardless of the size of the participation.

Law 199/2025 keeps the same objective but changes the mechanism.
The exemption now depends on whether the shareholderâ??s stake represents a real economic investment rather than a mere portfolio holding.

From 1 January 2026, the Italian system introduces a â??material participationâ?• test.

2. Entrepreneurs and partnerships (IRPEF business income)

Entrepreneurs and partnerships do not receive dividends as private investors: dividends become part of their business income.

Under the old regime, dividends were partially exempt almost automatically.
Under the new Article 59 TUIR, the rule is reversed:

Dividends are fully taxable,
unless the participation meets one of the following thresholds:

at least 5% of the companyâ??s capital, or

a tax value of at least â?¬500,000.

Only if one of these thresholds is met does the dividend enjoy partial exemption. In that case, only 58.14% of the dividend is taxed, while 41.86% is excluded from the tax base.

Small participations that fall below both thresholds are now taxed in full.

This is not a technical detail: it represents a shift from a â??participation principleâ?• to a capital-intensity principle.

3. Corporations (IRES taxpayers)

The same philosophy is applied to corporate shareholders under Article 89 TUIR.

Previously, dividends received by Italian companies were almost always 95% exempt.

From 2026, that exemption survives only if the participation satisfies the same 5% or â?¬500,000 threshold.

If it does, the dividend remains 95% exempt.
If it does not, the dividend becomes fully taxable.

Again, the logic is clear: Italy wants to grant tax neutrality only to structural investments, not to passive or fragmented holdings.

4. Timing: when do the new rules apply?

The decisive factor is not when the profits were generated, but when they are distributed.

The new regime applies to all dividends whose distribution is approved on or after 1 January 2026.

This means that even profits accumulated years ago will fall under the new rules if they are distributed after that date.

5. Why this matters even more in cross-border structures

This reform is particularly impactful for international investors and multinational groups.

a) Dividends received in Italy from foreign subsidiaries

An Italian entrepreneur or holding company receiving dividends from a foreign company must now verify whether its participation meets the 5% or â?¬500,000 test.

Many international structures involve:

minority stakes,

layered holdings,

investment vehicles with small direct percentages.

Those dividends may now become fully taxable in Italy, even though they were previously sheltered by the participation exemption.

b) Dividends paid by Italy to EU and EEA shareholders

Italian law provides a reduced 1.20% withholding tax for dividends paid to companies resident in the EU or EEA.

Law 199/2025 makes this benefit conditional upon the same participation thresholds used for the dividend exemption.

If the EU shareholder does not hold at least:

5% of the Italian company, or

a participation with a tax value of â?¬500,000,

the 1.20% withholding may no longer apply.

This creates a direct link between domestic exemption rules and cross-border withholding relief.

c) Indirect holdings and multinational chains

The law also introduces a sophisticated concept:
the participation test must be applied on a group basis.

This means:

indirect holdings inside a group must be taken into account,

but percentages must be â??demultipliedâ?• through the ownership chain.

In international holding structures, this often pushes the effective stake below 5%, even when the ultimate parent believes it controls much more.

This is one of the most technically sensitive aspects of the reform.

6. What this reform is really about

This is not a tax increase in disguise.
It is a filter.

Italy is telling investors:

If you commit real capital and hold a meaningful stake,
the system will continue to protect you from economic double taxation.

If your investment is small, fragmented or purely financial,
dividends will be taxed like ordinary business income.

For cross-border investors, this creates a new imperative:
structure matters.

Holding percentages, investment size and corporate chains are no longer neutral. They now directly determine whether dividends are tax-efficient or fully taxable.

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