Italy’s New VAT Rule on Staff Secondments: The 2026 Roll-Over Risk for Foreign Groups

Descrizione

For decades, Italy treated the secondment of personnel between group companies as outside the scope of VAT whenever the recipient simply reimbursed the seconding entity for the employee’s gross cost. That rule has now been repealed. From **1 January 2025**, every cross-charge for seconded staff is a **VAT-relevant supply of services**, regardless of whether a markup is applied. Throughout 2026, foreign groups with pre-existing secondment agreements are reaching the moment when those legacy contracts expire or get renewed — and that is precisely when the new regime kicks in for them.

What changed and why

The change was driven by the Court of Justice of the European Union. In **San Domenico Vetraria (Case C-94/19, 11 March 2020)**, the Court ruled that an Italian subsidiary’s reimbursement of the parent’s cost for a seconded director constituted **consideration for a service**, and that Italy’s exemption was incompatible with EU VAT law. Italy resisted alignment for almost five years.

The legislative fix arrived with **Article 16-ter of Decree-Law 131/2024** (the so-called *Salva-infrazioni* decree), converted into law by Law 166/2024. It repeals the old domestic carve-out (Article 8, paragraph 35 of Law 67/1988) and brings Italy fully in line with the EU framework. The Italian Revenue Agency then issued **Circular 5/E of 16 May 2025**, which is now the operational reference for both groups and their auditors.

The transitional regime — and why 2026 is the pinch point

The new rule does not retroactively rewrite contracts. It applies to **secondment agreements entered into, or renewed, on or after 1 January 2025**. Agreements signed up to 31 December 2024 continue to be governed by the old VAT-out treatment until they expire.

In practice, this creates a **rolling cliff edge**. A foreign group that signed an intercompany secondment agreement in mid-2024 may have lived through 2025 untouched, but every renewal date in 2026 — common for annual or biennial contracts — flips that arrangement into the new regime. Many treasury and tax teams will only discover the change when they receive the first VAT-charged invoice from their Italian counterparty.

What VAT now applies to

Under the new regime, the **entire cross-charge** for a seconded employee — gross salary, social security contributions, severance accruals, fringe benefits — is subject to standard 22% Italian VAT. The presence or absence of a markup is irrelevant. Even purely cost-neutral arrangements, historically very common between European parent companies and their Italian subsidiaries, are now caught.

The supply qualifies as a B2B service governed by Article 7-ter of the Italian VAT Code. Where the recipient is a foreign business, the supplier issues an invoice without Italian VAT and the recipient applies VAT in its own country under reverse charge. Where the recipient is an Italian VAT-registered company receiving staff from abroad, the Italian recipient self-applies VAT under the reverse-charge mechanism.

Where the real cost lands

For groups whose Italian recipient entity has **full VAT recovery**, the cash impact is timing-only — VAT is debited and credited in the same period. The pain point is for sectors with **limited input VAT recovery**: banks, insurance companies, asset managers, healthcare operators, education providers, and pure holding entities. For them, the secondment VAT becomes a real, non-recoverable cost — an immediate margin compression that did not exist a year ago.

There is also a documentation cost. Circular 5/E confirms that proper **intercompany secondment agreements**, with clearly defined remuneration, duration, and scope, are essential to avoid requalification by tax inspectors as either a different type of service (which may have different place-of-supply rules) or, in worst cases, as evidence of a hidden permanent establishment.

Final Considerations

Foreign groups operating in Italy should treat 2026 as a year of contract renewal triage. Every legacy intercompany secondment arrangement should be reviewed: when does it expire, what is the renewal mechanism, who absorbs the VAT, and does the Italian recipient have full VAT recovery. Where the Italian counterparty has restricted recovery, the entire economic logic of using a secondment instead of a local hire — or a service contract — should be revisited. As always, this is a context where general comfort is no substitute for tailored advice.

Tag

1. Foreign companies
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