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2026 BUDGET LAW - EXTRAORDINARY RELEASE OF RESERVES

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Introduction

We hereby inform you that Article 1, paragraphs 44 and 45 of Law No. 199 of 30 December 2025 ("2026 Budget Law") has provided **for the reopening of the terms for the step-up-in-value regime for reserves under the tax-suspension regime.**

The provision follows the structure of Article 14 of Legislative Decree No. 192/2024 (referred to in our Circular 18/2024 of 17/12/2024), which recognized the possibility of release revaluation surpluses, reserves and funds still existing in the financial statements as of 31 December 2023, by paying a substitute tax at a rate of 10% in lieu of income taxes and IRAP.

Scope of application and release method

The 2026 Budget Law grants the possibility of redeeming, in whole or in part, **revaluation surpluses, reserves and funds under tax suspension existing in the financial statements as of 31 December 2024** and still outstanding at the end of the financial year as of 31 December 2025, **upon payment of a substitute tax** in lieu of income taxes and IRAP **at a rate of 10**%.

The substitute tax is assessed in the tax return relating to the tax period ending on 31 December 2025 and must be **paid in four equal instalments**.

The first of the four instalments must be paid by the deadline for the payment of income tax for the 2025 tax period. The subsequent instalments must be paid by the respective deadlines for the payment of income tax for the following tax periods.

The release may be **full or partial**.

As regards the operational aspects, the 2026 Budget Law expressly refers to the Decree of the Minister of Economy and Finance of 27 June 2025, issued in implementation of Article 14 of Legislative Decree No. 192 of 13 December 2024, Legislative Decree No. 192/2024, relating to the release of revaluation surpluses, reserves and funds under tax suspension existing in the financial statements for the year ended 31 December 2023 and still outstanding at the end of the financial year ongoing as at 31 December 2024.

As long as reserves under tax suspension remain within the company's equity, they do not produce immediate tax effects. Conversely, they may generate a significant tax burden at the time of their distribution.

Below We illustrate an example of a case in which the step-up regime may be advantageous.

Practical example

Let us assume that in 2020, a Company revalued the assets recorded in the financial statements for the financial year ending 31 December 2019, pursuant to Article 110 of Decree Law 14 August 2020, a revaluation rule that provided for the payment of a substitute tax at a rate of 3%.

In compliance with such provisions, the Company paid 3% of €1,000,000 (i.e. €30,000), and recorded in its equity a reserve under tax suspension equal to EUR 970,000.
In this case, in the event of distribution, the Company will have to pay IRES (24%) on the taxable amount of €1,000,000 (€970,000 + 3%substitute tax = €1,000,000).
The company will also be granted a tax credit equal to the substitute tax paid at that time, equal to 3%, so that the amount of tax actually due for the distribution of the reserve would be €210,000 (= €240,000 (24%) – €30,000 (3%)). In principle, this amount will be payable in full when the tax return for the year in which the distribution takes place is filed (and therefore payable "immediately").
In this case, the Company could benefit from the step-up regime by applying the 10% substitute tax 10% on the amount of the suspended reserve: i.e. 10% of €970,000, corresponding to €97,000.
Given that the payment must be made in four instalments, the Company will make an "immediate" payment of one quarter of the total amount and the remaining three quarters in three further annual instalments.
Therefore, the amount to be paid immediately would be "only" €24,250, compared to €210,000 due in the event of non-redemption of the reserve.

Finally, it should also be noted that the total amount due is in any case much lower, amounting to €97,000 compared to €210,000.

As a result, the distribution of reserves under tax suspension following the step-up proves to be advantageous, allowing for total tax savings of €113,000 and a four-year dilution of the substitute tax.

In order to fully assess the scope of the provision, as well as its specific convenience, it is necessary to analyse the nature of the individual reserves under suspension and make forecasts regarding the amount and timing of any distribution.

Our Firm remains available for further information and to provide a specific assessment of the tax implications connected with the step-up regime.

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