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ITALIAN BUDGET LAW 2026 – NEW RULES ON THE TAXATION OF DIVIDENDS AND CAPITAL GAINS

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Dear Clients,

We wish to update you on the final structure of the provisions concerning **the taxation of dividends and capital gains realized by entrepreneurs, or resident companies and entities**, following the entry into force of Law No. 199 of 30 December 2025 ("2026 Budget Law").

This Circular **fully replaces** our previous Communication No. 28/2025 dated 14 November 2025, which commented on the original draft of the Budget Bill.

The final approved text of the law contains significant amendments compared to the initial version, introducing different requirements for access to the dividend exclusion regime and extending the measure to the capital gains exemption regime applicable to shareholdings.

The new "exclusion regime" for dividends and capital gains is subject to compliance with specific requirements.

Prior to the reform introduced by the 2026 Budget Law, **the exclusion regime for dividends** from taxable total income operated **"unconditionally"** and was granted:

- at a rate of **95%** for IRES taxpayers (Article 89 of the Italian Tax Consolidated Text - TUIR);
- at a rate of **41.86%** (or 50.28% or 60%, depending on the tax periods[1]) for individual entrepreneur and partnerships company (Article 59 of the TUIR).

Starting from dividend distributions approved from 1 January 2026, **the exclusion from total taxable income, as indicated above, will continue to apply only if at least one of the following requirements is met**:

- shareholding representing **not less than 5%[2]** of the share capital, or, alternatively,
- a tax basis of the participation **not lower than €500,000**.

[1] More specifically, dividends received by individual entrepreneurs or partnerships company, paid by resident companies in Italy, contribute to income as follows:
- 58.14% of their amount if the profits were generated starting from the financial year following that in progress on 31 December 2016;
- 49.72% of their amount if the profits were generated from the financial year following that in progress on 31 December 2007 and up to the financial year in progress on 31 December 2016;
- 40% of their amount if the profits were generated before the financial year following that in progress on 31 December 2007.

[2] In the version contained in the Bill presented to the Senate and already covered in our previous Communication, it was envisaged that the exclusion regime would not apply to the distribution of dividends deriving from a shareholding (in the company distributing the profits) of not less than 10%.

If neither of the above conditions is satisfied, dividends will fully included (100%) to the taxable income of the tax period in which they are received.

In light of the final amendments, a limited company "A" holding a participation of less than 5% (with a tax value of less than €500,000) in another limited company "B":

- under the previous regime, 95% of the dividends distributed by B to A were exempt with only 5% subject to the IRES, with **an effective tax burden of 1.2%** (24% on 5%).
- under the new regime, the same dividends are fully taxable (100%), with an effective **taxation of 24%** (current IRES rate).

Another significant change introduced by the 2026 Budget Law (not included in the original draft law but necessary for reasons of coordination with the rules on dividends) concerns the extension of the same size requirements to **capital gains** realised **under the "participation exemption regime" (known as "Pex").**

The 95% exemption regime for capital gains will also be conditional upon holding a participation of at least 5% of the share capital, or with a tax basis of not less than €500,000, without prejudice to the fulfilment of the other requirements set forth under Article 87, paragraph 1 of the TUIR.

The new provisions relating to the capital gains exemption regime will apply to participations acquired from 1 January 2026.

Our Firm remains available for any further clarification and assessments in this regard.

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