"Super Deduction" for New Hires - Extension and Official Clarifications

1. INTRODUCTION

Article 4 of Legislative Decree No. 216 of December 30, 2023 (so-called "IRPEF-IRES Reform Decree") introduced, for the sole tax period following the one in progress as of December 31, 2023 (tax year 2024 for "solar" taxpayers), an increase in the cost of labor for new permanent hires for the purpose of determining taxable income.

This measure, therefore, represents a "super deduction" for new hires, granted under certain conditions.

Tax Reform Delegation Law

The incentive:

- Implements Article 6, paragraph 1, letter b) of Law No. 111 of August 9, 2023 (tax reform delegation law);
- Is provided pending the full implementation of the so-called "mini IRES" and the review of incentives for economic operators.

Implementing Provisions

The implementing provisions were established by Ministerial Decree of June 25, 2024.

Extension for 2025, 2026, and 2027 - Innovations in the 2025 Budget Law

Article 1, paragraphs 399-400 of Law No. 207 of December 30, 2024 (2025 Budget Law) extended the incentive for the tax period following the one in progress as of December 31, 2024, and for the two subsequent years (tax years 2025, 2026, and 2027, for "solar" taxpayers).

The provisions of Article 4 of Legislative Decree No. 216/2023 apply, within the limits and conditions set therein, to employment increases recorded at the end of each of the aforementioned tax periods compared to the previous tax period.

The incentive must be calculated on a "rolling" basis, allowing the determination of employment increases in each incentivized tax period compared to the corresponding previous tax period.

This temporal adjustment must also be applied to the existence of other requirements set by law (e.g., for verifying the "seniority" of the business or professional activity).

Official Clarifications

With Circular No. 1 of January 20, 2025, the Revenue Agency provided clarifications regarding the incentive.

2. ELIGIBLE BENEFICIARIES

The "super deduction" is available to:

- Business income holders (entities under Article 73 of the TUIR, sole proprietorships, including family businesses and marital businesses, partnerships, and entities treated as partnerships under Article 5 of the TUIR);
- Self-employed professionals conducting business under Article 54 of the TUIR, including those operating in an associated form.

Business Operation for 365 Days

To qualify for the incentive, these entities must have conducted their business in the tax period in progress as of December 31, 2023 (tax year 2023 for "solar" taxpayers) for at least 365 days (or 366 days if the "non-solar" tax period includes February 29, 2024).

In other words, "solar" taxpayers must have effectively operated their business for 365 days prior to January 1, 2024; therefore, companies established from January 2, 2023, onwards are excluded.

Effectively, there must be a minimum period during which the business or professional activity was conducted before the incentivized period (including the extended periods).

For this purpose, the business start date indicated in forms AA7/10 or AA9/12 is generally relevant (see explanatory report to the Ministerial Decree of June 25, 2024, and Revenue Agency Circular 1/2025).

Non-Commercial Entities

For non-commercial entities under Article 73, paragraph 1, letter c) of the TUIR, the incentive applies exclusively to new hires employed in commercial activities, provided they are recorded separately in the accounts.

If personnel are employed in both institutional and commercial activities, the increase is granted in proportion to the ratio between revenue and income from commercial activities and the total revenue and income.

Excluded Entities

The following entities cannot access the tax incentive:

- Agricultural entrepreneurs determining income under Article 32 of the TUIR, as they do not have business income;
- Companies in ordinary liquidation, as well as those in judicial liquidation or that have accessed other liquidation procedures related to business crises;
- Taxpayers under the flat-rate regime.

3. INCENTIVE DETERMINATION

The labor cost for new permanent hires is increased by 20% of the cost associated with employment growth for taxable income determination.

This constitutes an extra deduction of 20% (or higher in certain cases) of the cost attributable to employment increases.

Employment Contract Relevance

For eligible permanent hires, reference must be made to the contractual form outlined in Article 1 of Legislative Decree No. 81/2015 (including apprenticeship contracts).

3.1 CONDITIONS

To qualify for the incentive:

- The number of permanent employees at the end of the incentivized period (e.g., 2024) must exceed the average number of permanent employees in the previous period (e.g., 2023), net of employment reductions occurring in controlled or affiliated companies, or those under the same entity’s control, even indirectly;

- The total number of employees (including fixed-term employees) at the end of the incentivized period must be higher than the corresponding number in the previous period, disregarding intra-group reductions.

4. UTILIZATION OF THE INCENTIVE

The incentive consists of a tax reduction to be applied when determining business income (not for IRAP purposes).

Therefore, a downward adjustment must be applied in the REDDITI tax return.

For the 2024 tax period (for "solar" taxpayers), this adjustment must be made in the 2025 REDDITI tax return.

5. ADVANCE PAYMENTS

By explicit legal provision, the calculation of income tax advance payments due for 2025, 2026, and 2027 does not consider the provisions under review (forecast method).

Additionally, for the calculation of advance payments for 2025 (Article 4, paragraph 7 of Legislative Decree No. 216/2023) and for 2026, 2027, and 2028 (Article 1, paragraph 400 of Law No. 207/2024), the tax from the previous period is determined as if these provisions had not been applied (historical method).

Source: Eutekne