TOPHIC JANUARY

Budget Law 2026: impacts on personnel administration

Contents

Overview

Our professionals provide a comprehensive overview of the main measures introduced by the 2026 Budget Law. As for wages, the three IRPEF (personal income tax) tax brackets are confirmed, with a reduction in the tax rate on average incomes, alongside tax relief on contractual pay rises, performance bonuses and an increase in the threshold for meal vouchers. Tax breaks are also provided for night work and work on public holidays, on a temporary basis and aimed at workers with low to medium incomes. The measure also strengthens support for parenthood through dedicated bonuses, contribution exemptions, greater flexibility in part-time work and extended leave. It also addresses supplementary pensions, severance pay and incentives for stable employment, while on the pension front, the gradual phasing out of early retirement measures and the raising of the retirement age continue.

> **Employment, wages and parenthood are the main measures of the 2026 Budget Law.**

Expert's opinion

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The 2026 Budget Law simplifies labour taxation and introduces measures to enhance remuneration and work-life balance.

TAX AND SOCIAL SECURITY FOR SUBORDINATE EMPLOYMENT IN 2026

TAXATION ON EMPLOYMENT INCOME (IRPEF)

What are the new income brackets and related IRPEF rates, and what are the main differences compared to 2025 in terms of effects on workers and payroll management?

The legislator is taking targeted action on IRPEF regulations, confirming the reform process that started in previous years, aimed at reducing tax rates and income brackets.

Starting from FY 2026, IRPEF will continue to be divided into three income brackets, with the following rates:

- income up to €28,000, rate of 23%;
- income over €28,000 and up to €50,000, tax rate of 33%;
- income over €50,000, tax rate of 43%.

Essentially, there is a reduction in the second tax rate from 35% to 33%, affecting "average" incomes. For example, a worker with an annual taxable income of €50,000 (or more) will save €440 in tax per year.

However, the law provides for a corrective mechanism which neutralises the tax advantage for taxpayers with incomes above €200,000 by reducing deductions for expenses.

CHANGES AIMED AT SUPPORTING WAGE DYNAMICS

How has the legislator intervened in terms of: tax relief for contractual wage increases, application of a reduced rate on collective bonuses related to increases in productivity, efficiency and organisation, and raising the deductibility threshold for meal vouchers?

It has been established that, for workers who have earned up to €33,000 in employment income in 2025, the salary increases resulting from contract renewals signed between 1 January 2024 and 31 December 2026 will be subject, for 2026, to a 5% substitute tax in place of ordinary IRPEF (personal income tax) and related additional taxes.

Furthermore, for the tax years 2026 and 2027, in relation to performance bonuses and sums linked to profit sharing, the substitute tax is reduced from 5% to 1% and the maximum amount eligible for relief rises from €3,000 to €5,000 gross per annum.

Another interesting measure aimed at reducing the social security and tax wedge is the increase to €10 of the deductibility threshold for electronic meal vouchers issued to workers.

SPECIAL TREATMENT FOR WORK CHARACTERISED BY GREATER HARDSHIP

What measures have been planned and implemented to introduce tax benefits for night and holiday work, and what subjective and objective requirements must be met in order to access these benefits?

For 2026 only, the legislator has introduced a specific tax relief measure aimed at enhancing the value of work characterised by greater hardship, with particular reference to bonuses and allowances relating to night work, holiday work, work on rest days and shift work.

A 15% substitute tax is envisaged, applicable to a maximum annual taxable base of €1,500, and the measure will be reserved for employees who, in 2025, had an income from employment not exceeding €40,000.

The relief will apply exclusively to remuneration components paid for services actually rendered in accordance with the definitions of current legislation and national collective agreements. Therefore, compensation that, even if referred to as surcharges or allowances, replaces all or part of ordinary remuneration will not be eligible for the substitute tax.

Obviously, this will require accurate tracking of hours worked and of the remuneration items concerned, in order to allow for the correct application of the preferential tax regime when processing wages and, in relation to newly hired workers, the acquisition of a certificate relating to the amount of employment income earned in 2025.

SUPPORT FOR PARENTS (PART 1)

What were the guidelines for intervention and the related measures concerning income support measures for working mothers, and how do these interventions coordinate with concessions already introduced in previous years?

The law postpones the entry into force of the measure provided for in the 2025 budget law, which introduced a partial exemption from social security contributions for working mothers with two or more children, whether employed or self-employed, from 2026 to 2027. This exemption will provide for a reduction in IVS social security contributions payable by the worker and will be applicable until the youngest child reaches the age of ten (eighteen for those with three or more children).

Pending the start of the contribution exemption in 2027, a monthly bonus of €60 is being introduced for the current year for working mothers with two children, until the second child reaches the age of ten, and for working mothers with more than two children, until the youngest child reaches the age of eighteen, but only in months when they do not have a permanent employment contract.

The benefit will only be available to those with an annual income of up to €40,000; the amount will not be taxable for tax and contribution purposes, will not be taken into account for ISEE purposes and will be paid in a single instalment with the December 2026 monthly payment.

SUPPORT FOR PARENTS (PART 2)

Are there any further measures planned to support parents and help them balance their work and family lives, and what impact will these have on businesses?

Private employers who hire women with at least three minor children who have been unemployed for at least six months, starting from 1 January 2026, will be eligible for a total exemption from social security contributions.

The incentive will be recognised up to a maximum of €8,000 per year, with a duration of 12 months for fixed-term contracts, 18 months in the case of conversion to permanent contracts, and 24 months for direct permanent contracts.

The relief, which does not apply to domestic work and apprenticeships, cannot be combined with other contribution exemptions.

Also from 1 January 2026, priority will be given to the conversion of full-time contracts to part-time contracts, or the restructuring of existing part-time contracts, for workers with at least three children under the age of ten living with them (with no age limit for children with disabilities). The reduction in working hours must be at least 40%. Private employers who implement these conversions or restructuring will be eligible for a temporary contribution exemption. However, the operational details of this measure will have to be defined at a later date by ministerial decree.

Changes have also been made this year with regard to parental leave: the possibility of taking leave has been extended to children up to the age of 14 (previously the age limit was 12). With regard to sick leave for children, there will be an increase in the number of working days granted to each parent for children aged between 3 and 14: from the current 5 days to 10.

Finally, a measure of interest to companies has been introduced with regard to fixed-term employment contracts entered into to replace a worker on maternity leave, which may be extended for a period of support after the replaced worker returns to work. However, the mentoring period may not extend beyond the child's first birthday.

TAX CHANGES RELATING TO SUPPLEMENTARY PENSIONS

What tax measures does the 2026 Budget Law aim to introduce to encourage workers to join supplementary pension schemes, and what are the operational implications for companies and payroll departments?

During the approval of the Budget Law by the Parliament, amendments were made to the provisions of Legislative Decree 252/2005 concerning the regulation of supplementary pension schemes.

In particular, from a tax perspective, the threshold for the deductibility of contributions has been changed: therefore, starting from 2026, the annual income tax deduction limit for contributions paid by employees and employers or clients to supplementary pension schemes has been raised from €5,164.57 to €5,300.

NEW PROCEDURES FOR JOINING SUPPLEMENTARY PENSION FUNDS

How and when will the new provisions on joining supplementary pension schemes be implemented, and what changes or continuities are there compared to the previous legislation?

With effect from 1 July 2026, it is envisaged that employees in the private sector who are entering employment for the first time, excluding domestic workers, will automatically join a supplementary pension scheme, which will operate as a collective pension scheme provided for in collective agreements or contracts, including regional or company agreements.

This will result in the transfer of the entire severance pay and contributions payable by the employer and the employee to the extent defined by the agreements.

The contribution payable by the employee will not be mandatory if the gross annual salary paid by the employer is less than the value of the social allowance (assegno sociale).

Within sixty days of the date of first employment, the employee may, however, choose to opt out of automatic transfer, transferring the entire amount of severance pay accrued to another form of supplementary pension scheme freely chosen by the employee or retaining the severance pay under the regime referred to in Article 2120 of the Italian Civil Code.

In the case of automatic transfer, the employer shall begin to make the relevant payments from the month following the expiry of the 60 days, including the amount due from the date of first employment, and transfer shall take effect from that date.

In addition, new procedures are envisaged for the employer to inform the employee, at the time of recruitment, about the collective agreements applicable to supplementary pensions and the effects of the 60-day "silent consent" period. For employees who are not newly hired, it will also be necessary to verify their previous choices regarding membership of supplementary pension schemes.

As mentioned, the changes in question will apply from 1 July 2026. By the same date, the Pension Fund Supervisory Commission (COVIP) will be required to update their instructions - and companies must be prepared for this deadline.

NEW OBLIGATIONS REGARDING THE TRANSFER OF ACCRUED SEVERANCE PAY TO THE INPS TREASURY FUND

What changes have been introduced regarding the payment of severance pay to the INPS Treasury Fund and what impact will they have on companies?

This measure will have a significant impact on many companies in terms of severance pay provisions. As is well known, the Treasury Fund is financed by a contribution equal to the portion of accrued severance pay not allocated to supplementary pension schemes.

The aforementioned contribution is paid monthly by employers to the Fund and, currently, employers who had fewer than 50 employees in 2006 or in their first year of activity, if later, are not required to pay the contribution in question.

The newly introduced changes provide that, with effect from pay periods starting on 1 January 2026, employers who reach the threshold of 50 employees in the years following the start of their activity will also be required to pay the contribution, taking as a reference the annual average number of employees in the calendar year preceding the year of the pay period in question.

For the period 2026-2027 only, the obligation will apply provided that, in the previous calendar year, the annual average number of employees was not less than 60.

With effect from pay periods starting on 1 January 2032, employers who employ 40 or more employees or who, even in the years following the start of their business, reach the threshold of 40 employees, taking as a reference the annual average number of employees in the calendar year preceding the year of the pay period in question.

SUBSIDISED HIRING AND CONTRIBUTION EXEMPTIONS

As every year, the Budget Law regulates employment incentives. What types of subsidised hiring and contribution exemptions are provided for, as well as the categories of workers targeted and the economic impact on companies?

In addition to the exemption for the recruitment of working mothers already discussed, a further measure has been introduced to promote stable employment through a contribution relief for employers. In particular, there is a partial exemption from the payment of social security contributions by employers for a maximum period of twenty-four months. This benefit applies to hires made during 2026 with permanent employment contracts, or to the conversion of fixed-term contracts to permanent contracts. The measure will not apply to managerial positions.

However, it should be noted that the operating procedures and criteria for implementing the measure will be defined in a subsequent ministerial decree.

NEWS ON PENSIONS

What are the main changes introduced in the pension system, how will they be implemented, and which retirement options will no longer be available from 2026?

In addition to the ordinary review of the age requirements for old-age pensions and contribution requirements for early retirement, the most significant changes are the non-renewal of the so-called "Quota 103" and "Opzione Donna" dedicated to women. This is a scenario in which the legislator is gradually postponing the retirement eligibility requirements, and one that must be taken into account by companies with a foreseeable increase in retirement age. The provision concerning retention to work proposed by the 2026 Budget Law fits into this framework.

Individuals who will have met the minimum requirements for early retirement by 31 December 2026 may opt to waive the crediting of contributions paid by them for mandatory general insurance, as well as substitute and exclusive insurance forms, and receive the corresponding amounts directly from their employer.

Consequently, the amount corresponding to the portion of contributions payable by the employee that the employer would have had to pay to the social security institution will be paid in full to the employee and will not contribute to the formation of income for tax purposes.

Focus on

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Glossary

IRPEF (PERSONAL INCOME TAX)

A progressive tax applied to individuals' income, among which employment income. It is calculated by income brackets, each with a specific tax rate.

INCOME BRACKETS

Income brackets to which different IRPEF tax rates apply. From 2026, there will be three brackets, which will determine the level of taxation on a progressive basis.

SUBSTITUTE TAX

Favourable tax regime that replaces ordinary personal income tax (IRPEF) and additional taxes applying a reduced flat rate to specific components or remuneration (e.g. contractual increases, bonuses, night work).

PERFORMANCE BONUSES

Amounts paid to workers in relation to increases in productivity, profitability, quality, efficiency, or innovation, which may benefit from a favourable tax rate within certain limits.

TAX AND SOCIAL SECURITY WEDGE

Difference between the total cost borne by the employer and the net wage received by the employee, determined by taxes and social security contributions.

CONTRIBUTION EXEMPTION

A benefit consisting of a reduction or elimination of social security contributions payable by the employer or employee for a period of time and subject to specific requirements.

SUPPLEMENTARY PENSION

A supplementary pension scheme in addition to the mandatory pension, financed through contributions from the employee, the employer and the transfer of severance pay.

TACIT CONSENT

Mechanism whereby, lacking an explicit choice expressed by the worker within a set deadline, a specific legal effect is automatically produced, such as the enrolment in a supplementary pension scheme.

SEVERANCE PAY (TFR)

Portion of remuneration set aside annually by the employer for the employee, paid upon termination of employment or allocated to supplementary pension schemes or to the INPS (i.e. the Italian Social Security Institute) Treasury Fund.

INPS TREASURY FUND

Fund managed by INPS into which the severance pay accrued by employees of companies exceeding certain size thresholds is paid when it is not allocated to supplementary pension schemes.

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