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To all
clients

Bolzano, 9 June 2025

Circular No. 27/2025

Subject: Release (affrancamento) of reserves in suspension of tax – 1st instalment due by 30.06.2025

The provision is contained in the reform law on IREF and IRES (Legislative Decree 192/2024, Art. 14), and we already gave you brief information about it at the turn of the year: an extraordinary release (affrancamento) is provided for reserves in suspension of tax existing as at 31 December 2023 (and still in place as at 31.12.2024). The substitute tax payable for this purpose amounts to 10% and may be paid in up to four annual instalments.

The measure is of interest above all for revaluation reserves that were created in earlier years against payment of a more or less substantial substitute tax. As a reminder: in the course of the Covid crisis, tangible fixed assets and equity investments could be revalued in the financial statements as at 31.12.2020 (and then also in 2021) against payment of a substitute tax of 3%. Against payment of a further substitute tax of 10%, the reserves thus created would also have been distributable; however, hardly anyone made use of this redemption at the time, because the distribution of the reserves was not the primary objective; the focus was on the possibility of revaluing fixed assets, depreciating them for tax purposes and also being able to dispose of them without a capital gain.

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In the meantime, however, the circumstances have partly changed, and if one now wished to distribute such non-released reserves, they would in principle be taxable at 24% in the case of corporations and, in the case of partnerships and sole proprietorships, progressively in the hands of the shareholders or of the business owner respectively.
And this is where the special legislation mentioned at the outset comes to the rescue: reserves in suspension of tax reported in the last two sets of financial statements may once again be released (affrancamento) against payment of the substitute tax of 10% and may then, where applicable, also be distributed. As a result of a distribution following the release, no further taxes arise at the level of corporations, although the shareholders (insofar as they are individuals) must pay 26% income tax on the dividends. The savings are greater for sole proprietorships and partnerships: here, all tax obligations are settled by the substitute tax of 10%, and any distributions are tax-free.

Considerations:
As a matter of principle, the release (affrancamento) always makes sense where a distribution of these reserves in suspension of tax is actually planned for the foreseeable future or may possibly become necessary.
The release (affrancamento) certainly makes no sense where sufficient already-taxed reserves are available and these are unlikely to be distributed in the foreseeable future. In that case the old principle applies that there is always still time to pay taxes, and unless the system changes completely, another such release scheme will come along in a few years' time.

In cases where the advisability of a release (affrancamento) is clearly apparent, we already drew your attention to this option during this year's financial statement meetings. It may well be, however, that we have not taken all circumstances into account, and we therefore ask you to check whether such a release could be advisable in your case.

The above-mentioned substitute tax of 10% of the reserve must mandatorily be paid in four equal instalments, the first instalment now being due by 30 June 2025 (or, with a surcharge of 0.4%, by 30 July 2025), while the next 3 instalments are to be paid in each case upon the due date of the annual income taxes in the years 2026, 2027 and 2028. A one-off payment is not provided for, at least according to the wording of the provisions as they stand.

The release (affrancamento) must then be reported in the tax return. It applies retroactively from 1 January 2025 and thus indirectly also remedies excess profit distributions made in recent months.
By Resolution No. 35 of 4 June 2025, the Italian Revenue Agency also established the tax code required for payment of the substitute tax: 1867.

A further note: businesses (in particular in the tourism sector) that benefited from the free-of-charge revaluation in 2020 or 2021 are excluded from the release (affrancamento) of the revaluation reserves created thereby.

And one more note: revaluation reserves are frequently, and sensibly, used to cover existing loss carryforwards or losses arising in the year. In this respect it should be noted that it is subsequently prohibited to distribute profits unless the revaluation reserve used in this way has first been reinstated, save where an express waiver of this restriction is resolved by a shareholders' meeting held in the presence of a notary and a definitive use of the revaluation reserve is thereby resolved. Should you therefore have used revaluation reserves in this sense, it is advisable to record this designated use retroactively in notarial form.

We remain of course at your disposal for further information and documentation.

Yours sincerely
Josef Vieider