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Circular
No. 31/2025

Bolzano, 11 July 2025

Subject: Law Decree No. 84/2025 introducing numerous changes, in particular with regard to expense reimbursements

Law Decree No. 84 of 17 June 2025 has introduced a series of new provisions which take immediate legal effect. Of immediate relevance are certainly the changes concerning expense reimbursements. In particular, it is clarified that accommodation, meal and entertainment expenses, as well as expenses for public passenger transport incurred abroad, may continue to be paid in cash.

1. Accommodation, meal and entertainment expenses without cash payment

We already informed you of this in our Circular No. 50/2024 of 28 December 2024: Since 1 January 2025 (more precisely: from the tax period commencing after 31 December 2024), meal expenses, accommodation expenses and expenses for public passenger transport (with the exception of scheduled services; the provisions therefore mainly concern taxis and car hire operators with driver), as well as entertainment expenses, are only recognised for tax purposes if they have been settled by bank or postal transfer or by other traceable means of payment (e.g. credit card or debit card). Conversely: hotel and restaurant invoices or receipts for taxi rides paid

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in cash are no longer recognised for tax purposes. Under the Budget Law, the requirement to refrain from cash payments applies

- first of all to direct expenses of the enterprise within the meaning set out above,
- but then also to analytical reimbursements of such expenses to self-employed professionals and
- to analytical reimbursements of such expenses to employees and freelance collaborators (thus in particular to members of boards of directors).

Accordingly, the provisions on income from self-employed professional activity in Art. 54 of the Income Tax Code (TUIR) have also been amended: it has been clarified that analytical reimbursements of such expenses no longer constitute income for the self-employed professional, but that, conversely, the expenses may no longer be deducted by that professional either, thus constituting purely neutral pass-through items. The expenses are deductible for the commissioning (and reimbursing) enterprise. However, if the obligation to use traceable payment methods is not complied with, deductibility is also denied to the reimbursing enterprise, and the reimbursements constitute income for the self-employed professional, with corresponding effects also on withholding taxes.

And finally, the rules on the taxation of employment income in Art. 51 para. 5 of the Income Tax Code (TUIR) have been amended. It has been established there that analytical reimbursements of expenses for meals, accommodation and public passenger transport (always with the exception of scheduled services) are exempt from payroll tax and social security contributions only if the expenses have been settled by the employee using traceable payment methods, i.e. essentially without cash.

<u>For details we refer you to our above-mentioned Circular No. 50/2024, and a brief reading of it is necessary in order to better place the changes set out below in context.</u>

With the Law Decree No. 84/2025 mentioned at the outset, in force since 18 June 2025, significant changes are now being made to the set of reforms applicable since the beginning of the year:

- Foreign countries not affected: First of all, the good news! The above-mentioned reform applies only to expenses incurred in Italy. Anyone who has incurred accommodation, meal and public passenger transport expenses abroad may therefore continue to account for them under the previous procedures, even if they were paid in cash. This also applies to expense reimbursements to members of boards of directors, employees or self-employed professionals.
- Definition of scheduled services: The concept of “public passenger transport expenses with the exception of scheduled services” is also clarified in more detail: this concerns above all the services of taxi operators and of car hire operators with driver, whereas public passenger

transport by train, aircraft, scheduled bus and tram is excluded. Likewise not covered by the new provisions, and thus not by the prohibition on cash payment, are car parking expenses and also car rental expenses; these expenses may therefore continue to be paid in cash both in Italy and abroad.

- Also expenses within the municipality: With reference to employees and freelance collaborators, it is stated – in contrast to the original interpretation – that expense reimbursements for accommodation, meals and public passenger transport within the municipality must also be paid by cashless means. Since such expenses are generally not deductible as business expenses, it had actually been assumed that cash payment would likewise be irrelevant for these expenses. The legislator has now rejected this view: if such expenses are incurred in cash by employees within the municipality and are then reimbursed by the employer, they are, firstly, not deductible and, secondly, these reimbursements constitute taxable income of the employees, with effects on payroll tax and social security contributions.
- Analytical expense reimbursements to entrepreneurs also affected: The most serious change, however, is the following new provision in the Law Decree. Under the Budget Law, traceability of expense reimbursements (apart from those to employees and directors) was required only for reimbursements to self-employed professionals (e.g. reimbursement of accommodation expenses to a lawyer for attending a court hearing in another location). Confusingly, the corresponding new provision had been inserted in Art. 95 of the Income Tax Code (TUIR) under personnel costs. It is now deleted there and moved to Art. 109 of the Income Tax Code (TUIR) as a general rule for expense reimbursements to third parties. As a result, it applies both to reimbursements to self-employed professionals and to those to enterprises. From this it follows, for example: analytical reimbursements for accommodation, meals and public passenger transport to a self-employed agent are only deductible if the agent has also paid these expenses using traceable means of payment. And, as the provision is worded, in our opinion it must also apply to contracts for work and services between enterprises where, for example, the costs of accommodation and meals for a subcontractor's employees are assumed on an analytical basis. In the case of enterprises, however, no neutrality is provided for. The enterprise will therefore continue to deduct the expenses even where payment is traceable and will then recharge them, thus recording both expenses and revenues.

Recommendation: In practice it will hardly be possible for an entrepreneur to monitor the payment transactions of the enterprises and self-employed professionals it engages in order to verify that payment procedures are traceable. We therefore recommend requesting the following declaration in all such cases: "With reference to the accommodation, meal and travel expenses invoiced, it is declared that these are paid using traceable payment methods, and the principal shall in any event be held harmless should any false declaration be made in this respect.” It is advisable to provide for corresponding obligations to use cashless payment procedures in contracts for work and services, and additionally to oblige the contractor to retain the relevant documentation for inspection purposes.

- The entrepreneur’s own expenses: It is also clarified in a restrictive manner that the new limitations also apply to expenses of the entrepreneur or self-employed professional themselves: if they incur accommodation, meal or transport expenses for themselves, these must be paid by cashless means, otherwise they are not deductible.

Entertainment expenses: If the entrepreneur visits a bar or restaurant with clients, the corresponding expenses have, since 1 January 2025, only been deductible as selling or entertainment expenses if they have been paid by cashless means. This also applies to gifts falling under entertainment expenses.

This restrictive rule for entertainment expenses is now extended by Law Decree 84/2025 to self-employed professionals as well. This also applies to the purchase of works of art and antiques and of other items that are transferred free of charge. The ceiling of 1% of income continues to apply here.

The new provisions introduced by Law Decree No. 84/2025 apply to the tax period current as at 18 June 2025, i.e., where the financial year coincides with the calendar year, retroactively from 1 January 2025.

<u>Note: One can only hope that a settlement scheme for formal errors will soon be reintroduced and that infringements in connection with cashless payments will be covered by it.</u>

2. Tax-neutral reorganisations and contributions

A new clarification is provided with reference to tax-neutral reorganisations for self-employed professional activities. The contribution of a unitary structure organised for the exercise of a regulated professional activity (including the client base) to a professional partnership, simple partnership or professional company takes place on a tax-neutral basis (Art. 177-bis of the Income Tax Code (TUIR)). The shareholding received in exchange retains the tax value of the contributed structure. In this respect, it is now clarified that the subsequent transfer of the shareholding does not constitute abuse of law. This is done in line with the same saving clause provided for enterprises (Art. 173 (15/quater) and 176 of the Income Tax Code (TUIR)). The clarification applies retroactively as from tax period 2024.

3. Interest income constitutes investment income

Interest income earned by self-employed professionals and professional partnerships does not count towards the corresponding self-employment income. It is to be classified as investment income. In concrete terms, this means that, as a result of the 26% substitute tax, this income is no longer to be taken into account under ordinary taxation. This clarification likewise applies retroactively as from tax period 2024 and may therefore already be applied in the forthcoming tax return for 2024.

4. Reverse charge in the transport sector:

As a reminder: Budget Law 2025 (Art. 1 para. 57 of Law No. 207/2024) already provided for a new reverse charge procedure (Art. 17 (6) (a-quinquies) of the VAT Act) for labour-intensive services in the areas of freight handling, transport and logistics. The relevant requirements were to be defined by specific implementing provisions, and specific authorisation by the EU Commission is also required. Both are still outstanding to date.

Law Decree No. 84/2025 facilitates access by deleting the original labour-intensity requirements. Pending authorisation by the EU Commission, it is provided that the reverse charge procedure may be applied on a voluntary basis. A specific notification to the Italian Revenue Agency is to be made for this purpose. As soon as the relevant form and the accompanying instructions are available, we will inform you accordingly.

We remain at your disposal for any further information.

Yours sincerely
Josef Vieider