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To all clients

Circular No. 44/2025

Bolzano, 5 December 2025

Subject: Tax treatment of Christmas gifts and Christmas dinners

Over the coming weeks, expenses for Christmas gifts and Christmas dinners will once again be incurred. Compared with previous years, the new payment requirements applicable since the beginning of the year must be observed with the utmost care. The ceilings applicable to employees have again been increased on an exceptional basis for 2025 as well.

1. Christmas gifts to employees and to persons treated as employees

Basic rules for IRPEF and IRES

As in the previous year, for 2025 the threshold for tax-free benefits in kind is likewise increased from 258,23 Euro to 1.000 Euro under a special rule. For employees with dependent children (income up to 4.000 Euro up to the age of 24, and income up to 2.840,51 Euro above that age), the tax-free benefit in kind is increased to 2.000 Euro.

Important: if this exemption threshold is exceeded, the entire amount is taxable as a benefit in kind.

Incidentally, the relief also applies to workers treated as employees (the so-called

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„Cococo“, i.e. primarily members of boards of directors). The exemption threshold expressly applies to shopping vouchers as well. In this connection, it should be recalled that the benefit is granted upon handing over the voucher, i.e. irrespective of whether the employee may actually redeem it only at some point in the following year.

With regard to benefits granted to members of the board of directors, we would also remind you that such remuneration must be resolved upon by the competent corporate bodies.

Please note: unlike tax deductions, both parents may separately claim the full exemption thresholds. Example: in the case of a married couple with one dependent child, both parents are entitled to the threshold of 2.000 Euro. Reference is made to the customary self-declaration.

Employers will be required to check, for each employee, the amount of „fringe benefits“ granted during the year, in order not to exceed the threshold. An example illustrates the effects: if, during the year, an employee has received benefits in kind of 800 Euro (for example from the temporary private use of a vehicle) and now receives a gift voucher of 210 Euro, the total amount of 1.010 Euro is taxable. If the voucher amounts to „only“ 200 Euro, the benefits remain tax-free.

Value added tax

No changes arise with regard to value added tax: for goods that do not form part of the company's own business activity, the VAT charged on purchase cannot be deducted, irrespective of the amount of the cost (this therefore also applies to low-value foodstuffs such as bottles of wine, etc.), because in the view of the tax authorities the business purpose is lacking in such cases.

For goods that do form part of the company's own business activity, by contrast, the VAT may be deducted, and in this case VAT must in any event be charged when the goods are given away, whereby the 3 procedures set out below may be applied: invoice with VAT charged on to the recipient, self-invoice, or gift register. Alternatively, in the case of gifts of goods forming part of the company's own business activity, the input VAT deduction on purchase may be waived; in this case the free-of-charge transfer to employees is irrelevant for VAT purposes.

As freelance collaborators are treated in the same way as employees, the rules set out above also apply to gifts to persons engaged under continuous coordinated collaboration arrangements, and thus in particular to members of the board of directors.

IRAP

For IRAP purposes, such gifts are treated as personnel costs and are therefore not deductible. For companies determining IRAP on the basis of their financial statement data, however, the question arises whether the expenses must in fact be reported as personnel costs by their nature. If, for example, they are classified under B.14 as other operating expenses, they are deductible.

Below you will also find the remaining provisions on Christmas gifts, in respect of which, however, no material changes compared with the previous year are to be noted:

2. Christmas gifts made by companies to their customers:

Principle: Christmas gifts are entertainment expenses

Christmas gifts, with the exception of those made to employees, are as a rule treated as entertainment expenses and are therefore also subject to the corresponding restrictions. In order for the expenses to be deductible within the limits applicable to entertainment expenses, they must therefore meet the relevant requirements for this type of expense. It follows that:

- It is essential that the supplies of goods and services are made free of charge. - The expenses must be incurred for promotional purposes or sales promotion, or for public relations purposes.
- They must, moreover, reasonably be expected to generate - at least potential - economic benefits for the business, or be in line with the practices customary in the relevant business sector.
- Finally, from a formal point of view, it is required that the costs have actually been incurred and are documented.

Conversely: expenses that cannot be allocated to the business or that are in fact non-deductible, such as those incurred in the interest of shareholders or of family members, are not recognised as entertainment expenses.

No cash payment!!

<u>And this is where the innovations introduced by the Budget Law for 2025 come into play: as already communicated at the beginning of the year, since 2025 entertainment expenses and gifts may only be deducted for tax purposes if they have been paid by non-cash means. It follows that a business meal with customers or suppliers may no longer be paid in cash, otherwise the costs are not deductible, and this also applies to Christmas gifts. Expenditure on Christmas gifts will</u>

therefore have to be settled using traceable means of payment, such as bank transfers, credit cards or debit cards.

It should be added that, even where payment is traceable, the existing ceilings for the deductibility of entertainment expenses remain unchanged.

2.1. Treatment for value added tax purposes

Principle

There are no changes here: for value added tax purposes, a distinction must be made between third-party goods, which do not form part of the company's own production or own trading activity, and, conversely, goods that form part of the company's own manufacturing or own trading activity.

2.1.1 Third-party goods:

Goods that do not form part of the company's own business activity

For third-party goods the following applies pursuant to Art. 19-bis1 letter h) of Presidential Decree 633/1972: the VAT is deductible if the unit cost does not exceed the amount of Euro 50,00. If this threshold is exceeded, the input VAT is no longer deductible!

Provided that the above limit is not exceeded, the value added tax may also be deducted on foodstuffs and beverages (sparkling wines, panettone, etc.) which qualify as entertainment expenses in the manner described. It should also be recalled that, when purchasing gift baskets and similar assortments, the relevant figure is not the unit cost of the individual item but that of the entire package.

The free-of-charge supply of third-party goods to customers and business partners as entertainment expenses is irrelevant for VAT purposes, i.e. no invoice, tax receipt or till receipt need be issued for such supplies. This applies irrespective of whether the unit cost is below or above 50,00 Euro. Nevertheless, the issue of a delivery note or a similar document evidencing to whom the goods were given is recommended, so that the character of the expense as an entertainment expense and the business purpose of the expenditure can generally be demonstrated

2.1.2. Goods forming part of the company's own business activity

Goods forming part of the company's own business

For goods forming part of the company's own business activity, by contrast, the threshold of 50,00 Euro is entirely irrelevant for VAT purposes on purchase. Here the following applies: the entrepreneur deducts the VAT on purchase and must then subject the free-of-charge transfer to VAT, unless he voluntarily waives the input VAT

activity deduction on purchase; in this latter case the free-of-charge supply is not to be taken into account for VAT purposes. The 2 cases are set out below:

1. The input VAT is deducted on purchase: in this case the free-of-charge supply must be subjected to VAT. In practice, this may be done by

a) issuing an invoice charging the VAT on to the recipient of the gift. The VAT Act does not require the tax to be charged on to the recipient, and this is hardly ever done in practice. Indeed, it does not make a good impression to send a customer an invoice for the VAT on a Christmas gift.MwSt. an

b) As a rule, therefore, charging the VAT on to the recipient will be waived; in this case a self-invoice must be issued, also in the form of a summary invoice, orMwSt. an

c) a „gift register" is kept, in which the free-of-charge supplies are recorded day by day.

Where the self-invoice option is chosen, delivery notes must also be issued, unless immediate invoicing (invoicing on the same day) is carried out.

Please note: self-invoices for gifts must also, as a rule, be issued as electronic invoices and uploaded to the SDI portal. Pursuant to Circular No. 14/E of 17 June 2019, the issuer's details must also be entered in the fields for the invoice recipient. And importantly: these self-invoices are to be recorded only in the sales invoice register! Taxable persons who have already implemented the changes to electronic invoicing that became mandatory as from 1 January 2021 must use code TD27 for these self-invoices.

Irrespective of whether the VAT is charged on, or a self-invoice or gift register is used, pursuant to Art. 13 of the VAT Act it is not the market value of the goods that is subject to VAT in the case of gifts; rather, the VAT is to be calculated on the basis of the acquisition cost of the goods given away.

2. Waiver of the input VAT deduction: alternatively, in the case of goods of its own manufacture or of its own trading goods, the business may also waive the input VAT deduction on purchase, and in this case the free-of-charge supply of the goods is irrelevant for VAT purposes (i.e. no invoice, self-invoice or gift register), just as with third-party goods.

2.2. Treatment for income tax purposes

Income taxes Pursuant to Art. 108 para. of the Income Tax Code (TUIR), gifts are, as indicated at the outset, generally treated as entertainment expenses and are deductible subject to compliance with the corresponding provisions. It follows that:

- Christmas gifts with a unit value not exceeding 50,00 Euro are fully deductible and are also not counted towards the calculation of the entertainment expense thresholds.
- If this unit value of 50.00 Euro is exceeded, deductibility is available only within the thresholds for entertainment expenses. In this connection, it should be recalled that, pursuant to Art. 9 of Legislative Decree 147/2015, the following ceilings apply to the deductibility of entertainment expenses, in each case by reference to sales revenues (items A.1 and A.5 of the profit and loss account):
- 1,5 per cent for revenues of up to 10 million Euro,
- 0,6 per cent for revenues of up to 50 million Euro and
- 0,4 per cent for revenues of more than 50 million Euro.

In determining the unit value of 50,00 Euro, incidental costs must be taken into account; this concerns in particular the non-deductible VAT, but also any transport and packaging costs. Moreover, in the case of gift baskets, for example, the costs of the individual items (bottle of wine, packet of coffee, etc.) may not be taken as the basis; instead, the gift must be considered as a whole; this principle incidentally also applies for VAT purposes.

IRAP

For IRAP purposes, entertainment expenses have since 2008 been deductible without limitation, at least for corporations, given that reference is now made only to the figures in the profit and loss account, i.e. without taking account of the tax reconciliation adjustments. The same rule applies to partnerships and sole proprietorships, provided that the option for this method of determination has been exercised for IRAP purposes. Otherwise, the expenses are entirely non-deductible.

3. Christmas gifts made by self-employed professionals

Rules for self-employed professionals

The rules in the field of VAT are essentially identical to those applicable to businesses, except that here the goods, as a matter of principle, do not form part of the professional's own activity. Accordingly, the VAT is deductible provided that the unit cost does not exceed the amount of 50,00 Euro.

Caution: pursuant to Art. 2 para. 2 no. 4 of the VAT Act, whenever the input VAT is deducted on purchase, the free-of-charge transfer is subject to VAT. As a consequence, self-employed professionals must always issue sales invoices, or draw up self-invoices, or else keep the gift register, in the case of gifts, unless they voluntarily waive the input VAT deduction.

We therefore recommend the following: for self-employed professionals it is advisable always to waive the input VAT deduction, even when purchasing goods with a unit cost within 50,00 Euro, so as to avoid having to subject the subsequent gift transaction to VAT.

For income tax purposes, Christmas gifts also fall under entertainment expenses in the case of self-employed professionals; the following differences from businesses must, however, be observed: the ceiling for deductible entertainment expenses is 1% of receipts; in addition, the cash basis principle also applies to Christmas gifts, i.e. the expenses are deductible only to the extent that they have actually been paid. Where self-employed professionals give Christmas gifts to their employees, these are, according to the prevailing legal view, fully deductible as personnel expenses for income tax purposes; the VAT, by contrast, is entirely non-deductible, as is the case for businesses.

Payment

For self-employed professionals too, pursuant to Law Decree No. 84/2025 (amendment of Art. 54 and 54-septies of the Income Tax Code (TUIR)), the strict rule has applied since 18 June 2025 that entertainment expenses are deductible only if they have been borne using traceable means of payment. Conclusion: entertainment expenses paid in cash are not deductible for tax purposes.

4. Christmas dinners:

Principle

A Christmas dinner does not constitute a free-of-charge supply of goods but a free-of-charge supply of services. The tax treatment differs depending on whether the Christmas dinner is held only for staff or also for third parties.

Christmas dinner for staff only

Pursuant to Circular No. 34/E2009, Christmas dinners organised exclusively for employees do not constitute entertainment expenses. It follows that:

- Income taxes: the expenses are initially deductible to the extent of 75%, whereby, pursuant to Art. 100 of the Income Tax Code (TUIR), an additional ceiling of 0,5% of total personnel costs applies.
- VAT: the VAT is entirely non-deductible, because in the view of the tax

authorities the business purpose is lacking here.

- IRAP: the expenses are deductible provided that IRAP is determined on the basis of the financial statement figures.

Christmas dinner not only for staff

Where not only staff but also third parties, above all potential customers, attend the Christmas dinner, the corresponding expenses are instead classified as entertainment expenses, with the result that

- the VAT is likewise non-deductible, but
- the expenses are deductible for income tax purposes initially to the extent of 75% and then within the thresholds for entertainment expenses. It is accordingly worthwhile to document that, in addition to staff, business partners of the company and others were also invited to the Christmas dinner!

Payment

Caution: for businesses and self-employed professionals alike, payment in cash is not recognised. Christmas dinners paid in cash are not deductible for tax purposes!

5. Vouchers:

It has recently become increasingly common to give vouchers as Christmas gifts, for example for the purchase of sporting goods or for a weekend at a wellness hotel. In this respect the following applies:

VAT implications

By Ruling No. 21/E of 22 February 2011, the Italian Revenue Agency held that such vouchers cannot be regarded as securities representing goods or services. Consequently, the issue of the voucher does not bring forward the time at which the transaction is deemed to be carried out. Accordingly, both the sale of the vouchers and their transfer to staff or customers/suppliers fall outside the scope of VAT pursuant to Art. 2 para. 3 letter a) of Presidential Decree 633/1972. For vouchers issued as from 1 January 2019 (Legislative Decree 141/2018), however, the classification described applies only to so-called multi-purpose vouchers, in respect of which it is not foreseeable at the time of issue which VAT rate will apply, because the voucher may, for example, be used to purchase goods subject to a VAT rate of 4%, 10% or 22% in a department store. If, on the other hand, the future VAT treatment is already established at the time of issue (e.g. a voucher for a festive meal - VAT 10%), the transaction is deemed to be carried out at the time of payment, and an invoice or tax receipt must be issued immediately. In the case of „multi-purpose“ vouchers, by contrast, the transaction is carried out for VAT purposes only once the vouchers are actually redeemed.

Payment The purchase of such vouchers is likewise subject to the rule that payment in cash has been excluded since 2025, provided that they fall under entertainment expenses in the above sense.

<u>Concluding notes - once again, the key considerations in brief:</u>

- no cash payments for gifts, vouchers or meals in connection with Christmas;
- check the benefit-in-kind ceilings of 1.000/2.000 Euro for employees before making the payment in kind;
- document attendance lists, gift registers and proof of payment;
- for third-party goods, check the cost price and the 50 Euro threshold;
- for own products, consider whether waiving the input VAT deduction is advisable in order to avoid a VAT charge.

We remain at your disposal for any further information.

Yours sincerely
Josef Vieider