Newsletter

June 2016

USE OF EMPLOYER-SPONSORED WELFARE PROGRAMS BOOSTED THROUGH FAVOURABLE TAX AND SOCIAL SECURITY RULES

The Italian legislator recently resolved to encourage the diffusion of welfare programs by introducing a particularly advantageous regime.

According to the **2016 Budget Bill** (Law 208/2015), productivity and profitability-related bonuses benefit from a **full tax and social security exemption** if their monetary value is used by employees **to purchase welfare goods or services**[1]**.**

Welfare goods and services can range from recreational travels to children education and recreation, from kinder garden and babysitting services to medical examinations and health assistance, from subscription to newspapers or magazines, to books and entertainment events such as cinema, theatre, museums, sports.

The tax exemption applies to welfare goods and services up to an amount of € 2,000 per year and is in favour of those employees whose annual salary in the previous year did not exceed € 50,000 gross.

To benefit from the tax exemption, productivity and profitability-related bonuses (to be then converted into welfare goods and services) must be negotiated with the Trade Unions and established by **collective agreements**[2], which therefore become an important "drive" for the introduction of this kind of tax-free benefits. This marks a significant change with respect to the past, when tax advantages were expressly excluded for benefits negotiated with the Trade Unions.

Moreover, bonuses must be awarded **subject to the achievement of measurable increases in productivity, profitability, quality, efficiency and innovation**. Specific quantification criteria in this sense have been set by a recent ministerial decree which identifies specific methods to measure increases (e.g. production volumes, decrease in the absenteeism rate, and so on) but also specifies that different and alternative indicators can be established by collective bargaining agreements.

This form of in-kind remuneration indeed looks **more appealing than normal salary** since it eliminates any gap between the employer's costs and the value received by the employees.

Furthermore, the employees' possibility to choose those welfare goods and services that better meet their personal and/or family needs allows to maximize savings and improves life quality, as well as motivation and well-being in the company.

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[1] If productivity and profitability-related bonuses are instead received in cash, a 10% tax rate applies and social security charges are applicable.

[2] Collective bargaining agreements introducing productivity and profitability-related bonuses must be filed with the competent labour office within 30 days after their execution.

Employers can choose to pay the value of bonuses through specific **vouchers** which entitle employees to receive goods and services offered by third providers. The voucher mechanism should therefore enhance the use of tax-exempt welfare goods and services also in those companies (e.g. small/medium-sized entities) that cannot provide autonomously a wide range of programs to their employees.

Last but not least, the use of welfare programs by employees grants certain tax advantages also to employers, since their costs are fully deductible from the company's business income.

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The Labour and Employment department of Legance is available to provide any clarifications, also in respect of any specific situation which may be of interest for you.

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