

## Revaluation of Shareholdings: tax benefits reduced with the new 21% substitute tax

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The Italian Budget Law 2026 has raised the substitute tax for the step-up of shareholdings' tax basis from 18% to 21%, significantly reducing the tax advantage compared to the ordinary 26% taxation on capital gains. We analyze the new convenience thresholds and operational implications.

### The regulatory change

Article 1, paragraph 144, of the Budget Law 2026 has definitively raised the substitute tax rate for the revaluation of shareholdings' tax cost from 18% to 21%. This increase significantly reduces the number of cases where the option is advantageous compared to the ordinary 26% taxation on the actual capital gain.

### The new break-even point

The break-even point between the 21% substitute tax on the entire value and the 26% tax on the actual capital gain now occurs when the **stepped-up value is at least 5.2 times the original tax cost**, whereas previously (with an 18% rate) a ratio of 3.25 times was sufficient.

In practical terms: to achieve a 1% tax saving compared to capital gains taxation, the cost multiplier must be at least 6; for a 4% saving, the multiplier rises to 21. The step-up therefore produces a tangible benefit only when capital gains are of very significant amounts.

### Numerical example

Consider a shareholding acquired for € 100,000. Let's compare two sale scenarios:

Description	CASE A	CASE B
	Sale at € 300,000 (3x the cost)	Sale at € 600,000 (6x the cost)
Original tax cost	€ 100,000	€ 100,000
Actual capital gain	€ 200,000	€ 500,000
Ordinary tax (26%)	€ 52,000	€ 130,000
Substitute tax (21%)	€ 63,000	€ 126,000
Difference	+ € 11,000 NOT CONVENIENT	- € 4,000 CONVENIENT

As shown, in **Case A** (3x multiplier) the revaluation results in an **additional cost of € 11,000**. In **Case B** (6x multiplier) a **saving of € 4,000** is achieved instead. The benefit only emerges when the value significantly exceeds the 5.2x threshold of the cost.

## Beware of circular transactions

Case law and tax practice have identified so-called "circular transactions" as a category at risk of being challenged for abuse of law. The typical scheme involves: (i) revaluation of the shareholding and sale to a controlled company through shareholder financing; (ii) distribution of profit reserves from the acquired company to repay the financing received.

Both the Supreme Court (rulings no. 13205/2022 and no. 26260/2025) and the Tax Authority have taken very strict positions: such transactions produce an undue tax advantage, unless they are supported by valid non-tax business reasons. With the current cost of the substitute tax, however, abuse appears increasingly unlikely.

## Less room for tax avoidance challenges

A positive side effect of the rate increase is the significant reduction in the scope for challenges based on abuse of law. As **Marco Piazza** observes in *Il Sole 24 Ore*, with the current cost of the substitute tax, step-up transactions can no longer be considered fertile ground for aggressive tax planning.

The narrow gap between the ordinary tax (26%) and the substitute tax (21%) – just 5 percentage points – effectively makes the **tax advantage irrelevant** in most transactions. In this context, the prevalence of non-tax business reasons is spontaneously recognized: those who opt for the step-up do so mainly for tax certainty or corporate reorganization needs, certainly not to achieve significant savings.

It is therefore hoped – as the most attentive scholars point out – that disputes based on the hypothesis of abuse in circular transactions will be significantly reduced. The Tax Authority should focus its resources on genuinely abusive cases, recognizing that the step-up of shareholdings has now largely lost its tax relief function, becoming merely a tool for eliminating the dual-track system between accounting and tax values.

## Limited indirect benefits

The indirect benefits of the step-up are also heavily compressed. Interest expense deductibility remains subject to the constraints of Article 96 of the Italian Tax Code (TUIR). The amortization of goodwill and trademarks now requires 18 years, with the elimination of the possibility of extra-accounting deductions for IAS adopters (Assonime Circular no. 24/2025).

## Operational conclusions

The convenience of the step-up should be evaluated on a case-by-case basis, considering the ratio between market value and historical tax cost. The prevalence of non-tax business reasons is now spontaneously recognized by the tax authorities, but it is essential to adequately document the economic and business motivations of the transaction.



**Legal and regulatory references:**

- Article 1, paragraph 144, Budget Law 2026
- Article 96 TUIR – Interest expense deductibility
- Supreme Court rulings no. 13205/2022 and 26260/2025
- Assonime Circular no. 24/2025
- Tax Authority Circular no. 6/E of 2022

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