

## Fringe Benefit and Corporate Welfare

### Expert's opinion

#### The new instruments of corporate retention policies

by **Marco Agnoli**

Partner - Leoni Grant Thornton & Partners

Within the implementation of retention policies – which are increasingly more appropriate to retain talents – and with the necessary attention to cost containment, in recent years companies are increasingly using remuneration policies implemented also by granting goods and services as fringe benefits or corporate welfare.

These forms of remuneration in kind also allow employees to benefit directly from goods and services, thereby also reducing the high taxes and social security contributions that are usually levied on employee income. Such effects seem to be appreciable, also in terms of employees' actual spending capacity: according to a research by "The European House Ambrosetti", the recent increases in the tax exemption limit for goods in kind provided to employees, proposed by the most recent Budget Laws, would...

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### Overview

#### Global compensation forms

by **Andrea Giordan**

Manager - Leoni Grant Thornton & Partners

The term **'fringe benefit'** or **'corporate welfare'** refers to the set of payments in kind that an employer can make available within a subordinate employment relationship, which are added to the ordinary monetary remuneration agreed contractually within the same employment relationship. These disbursements, in the form of goods or services, may be granted to employees (free of charge or at a subsidised price), either by virtue of individual agreements with employees - e.g., granting a car for mixed use or vouchers - or in compliance with provisions of collective bargaining agreements or as a result of donations decided by the company in favour of all or of categories of employees, which falls within the scope of what is ordinarily defined as company welfare. Considered the above, this type of payment in kind can either be part of the construction of...

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### Focus on

#### Tax-deductible performance bonuses

by **Emilia Scalise**

Labour Consultant - Leoni Grant Thornton & Partners

In an increasingly competitive labour market, employers are showing a need for different instruments for retaining their personnel, especially key workers, and for attracting new resources, at the lowest possible cost. To meet these needs, the law has introduced and strengthened over time various forms of people retention, which today focus particularly on fringe benefits and corporate welfare, also in connection with the legislation on tax-deductible performance bonuses. Among the main people retention instruments used by companies operating in the Italian market, there are so-called tax-deductible performance bonuses. Tax-deductible performance bonuses are bonuses of a variable amount, which are...

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## Overview

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The term ‘**fringe benefit**’ or ‘**corporate welfare**’ refers to the set of payments in kind that an employer can make available within a subordinate employment relationship, which are added to the ordinary monetary remuneration agreed contractually within the same employment relationship.

These disbursements, in the form of goods or services, may be granted to employees (free of charge or at a subsidised price), either by virtue of individual agreements with employees - e.g., granting a car for mixed use or vouchers - or in compliance with provisions of collective bargaining agreements or as a result of donations decided by the company in favour of all or of categories of employees, which falls within the scope of what is ordinarily defined as company welfare.

Considered the above, this type of payment in kind can either be part of the construction of a global compensation ‘package’, when granted at an individual level, or be aimed at certain worker retention forms and at the creation of a satisfactory working environment, when addressed to all workers or to certain and identified categories of employees.

In recent years, we have assisted to an increasing use of remuneration in kind, with the aim of compressing, as far as possible, the incidence of the significant social security contribution and tax wedge that has always characterised the Italian labour market and guaranteeing workers a higher ‘effective’ remuneration, albeit with a view to compressing costs.

**Such forms of remuneration**, in fact, although falling within the general criterion of all-inclusiveness, which income from subordinate employment is subject to - and by virtue of which all sums and values in general, for whatever reason received during the tax period, including donations, are included in such income, in connection with the employment relationship - **benefit from a favourable social security contribution and tax regime**, which provides for their total or partial exclusion from the calculation of employees’ income, if the relevant requirements provided by the Consolidated Income Tax Act are met, which also has its effects on the taxable income for social security contribution purposes, by virtue of the harmonisation of the tax and social security contribution taxable bases.



In addition, expenses incurred for corporate welfare in relation to works or services that can be used by the generality of employees or categories of employees, voluntarily incurred for specific education, instruction, recreation, social and health care or worship purposes, are deductible for IRES purposes for their total amount, when regulated by a company agreement or regulation with a contractual validity.

Issues relating to fringe benefits and corporate welfare are also connected with the possibility to turn performance bonuses of variable amounts related to increases in productivity, profitability, quality, efficiency and corporate innovation, and measurable and verifiable based on the criteria identified by collective bargaining agreements (at corporate or territorial level) into goods in kind, with the possibility of further decreasing the related corporate costs.

Attention to the reduction of the social security contribution and tax wedge, moreover, is not exclusive to companies. In fact, there is growing attention to such issues also by the Italian legislator, since in the Budget Laws of recent years the amounts within which such remunerations in kind are excluded from the taxable income have been increased - albeit always temporarily -, and the exemption from taxable income has been extended to reimbursements of home water and electricity utility bills and to the reimbursement of home rent or mortgage interest expenses.

The outlined picture suggests a careful evaluation of the possibility of using fringe benefits **with the aim of defining a global compensation 'package'** to be offered to employees, finding the right balance of policies that allows optimising the cost-benefit ratio, depending on the number of resources employed by the company and on specific company needs, and mixing proper company welfare – meant for the generality or categories of workers, with fringe benefits that can also be granted individually.

The above undoubtedly requires a careful evaluation of the characteristics of the company people, but also – and above all – an exhaustive knowledge of the current regulation, which is diversified and complex.

In this sense, it is fundamental to approach these issues with the support of consultants, who become privileged stakeholders in the definition of a policy mix that can effectively allow employers to make the most of the opportunities offered by the regulation on employment income.



## Expert's opinion

### The new instruments of corporate retention policies

by **Marco Agnoli**

Partner - Leoni Grant Thornton & Partners

Within the implementation of retention policies – which are increasingly more appropriate to retain talents – and with the necessary attention to cost containment, in recent years companies are increasingly using remuneration policies implemented also by granting goods and services as fringe benefits or corporate welfare.

These forms of remuneration in kind also allow employees to benefit directly from goods and services, thereby also reducing the high taxes and social security contributions that are usually levied on employee income.

Such effects seem to be appreciable, also in terms of employees' actual spending capacity: according to a research by "The European House Ambrosetti", **the recent increases in the tax exemption limit for goods in kind** provided to employees, proposed by the most recent Budget Laws, would have led to an **estimated increase in household consumption by 0,8%**.

However, despite the above considerations and the incentive value of these measures, companies are required to carefully assess the measures to be applied, in order to avoid undermining (or even annulling) the effects of the policies adopted.



In fact, the provision of goods or services in kind presumes an **in-depth knowledge of the company population**, both in terms of family expectations and needs – given **the 'welfare' nature** that characterises large part of the benefits granted that do not contribute to the calculation of taxable employment income – and of subjective criteria, for the purposes of an effective application of the non-taxability limits of fringe benefits.

In this sense, it is fundamental – for the purposes of an effective use of such instruments – to provide a clear definition of what is considered 'fringe benefit' and what is 'corporate welfare'.



These are, in fact, Anglo-Saxon terms which do not find full correspondence in the Italian system, with varying effects from a tax and social security contribution perspective.

If we had to make a distinction, we could consider as **'corporate welfare'** that set of **company goods and services** that can be **provided in relation to all or categories of employees** and that - for this reason, in line with the position of the Italian Revenue Office - have a welfare rather than properly remunerative character.

On the other hand, **'fringe benefit'** frequently refers to the **provision of goods and services** with a more marked remunerative nature and which, in compliance with regulatory provisions, can also be **recognised ad personam**, thus representing a more agile remuneration instrument that can also be used to build a remuneration package for specific employees:

Therefore, while the recognition of **fringe benefits** is ordinarily based on individual **agreements entered into by the employer and the employee** (regardless of whether they are reached at the time of hiring or later, during the employment relationship), **corporate welfare** is, as a rule, instituted and regulated by **collective agreements** or **internal regulations**.

To provide a general overview, the following may be included - by way of example - among corporate **welfare measures**:

- Contributions to supplementary healthcare funds;
- Collective transport service provisions;

- Refund of local public transport tickets;
- Use of works and services for education, training, recreation, social and health care, or worship purposes;
- Amounts, services, and provisions granted for the use of education and training services by family members, as well as for access to recreation centres and summer and winter camps, and for scholarships;
- Amounts and provisions granted for accessing assistance services to elderly family members non-self-sufficient family members;
- Contributions and premiums paid for provisions, including insurance, relating to the risk of non-self-sufficiency in the performance of daily activities or relating to the risk of serious diseases.

On the other hand, the following are included among **fringe benefits**:

- Goods and services provided in kind;
- Granting of mixed-use cars;
- Granting of loans;
- For the three-year period 2025-2027, amounts issued or reimbursed by the employer for the payment of household utilities relating to the integrated water service, electricity and natural gas, as well as of expenses for renting or for mortgage loan interest of the main dwelling.



It should also be pointed out that, while corporate welfare does not contribute entirely to the calculation of employment income, fringe benefits must be considered for such calculation, at their 'normal' or 'conventional' value and, when a cumulative statutory exemption limit is exceeded, they are fully taxable.

In this regard, it is highlighted that in recent years this limit, ordinarily set at €258.23 per year (a value, in our opinion, excessively low and annulling the effectiveness of fringe benefits) has been subject to continuous, albeit temporary, increases, up to the current limit – for the three-year period 2025-2027 – of €1,000 per year for all employees or €2,000 per year for employees with dependent children.

It is quite evident how the overall picture described is extremely complex and how, consequently, companies and HR managers may be discouraged from adopting such complementary remuneration.

Therefore, the opportunity to rely on professional figures, such as labour consultants, should be considered, since thanks to their specific skills they can effectively assist companies in the construction of company welfare policies and in granting fringe benefits, to take full advantage of the opportunities offered by the current system.



## Focus on

### Tax-deductible performance bonuses

by **Emilia Scalise**, Labour Consultant - Leoni Grant Thornton & Partners

#### Foreword

In an increasingly competitive labour market, employers are showing a need for different instruments for retaining their personnel, especially key workers, and for attracting new resources, at the lowest possible cost.

To meet these needs, the law has introduced and strengthened over time various forms of people retention, which today focus particularly on fringe benefits and corporate welfare, also in connection with the legislation on tax-deductible performance bonuses.

#### Tax-deductible performance bonuses

Among the main people retention instruments used by companies operating in the Italian market, there are so-called tax-deductible performance bonuses. Tax-deductible performance bonuses are bonuses of a **variable** amount, which are paid depending on the achievement of **increases in productivity, profitability, quality, efficiency and innovation**, measurable and verifiable based on the criteria defined by the Ministry; The above, therefore, are essential requirements for such bonuses to be considered tax-deductible.

#### Beneficiaries

With the aim of guaranteeing subsidised incentive plans also in favour of personnel identified as the 'driving force of the company', the tax-deduction of performance bonuses, as identified above, is aimed at those employees who, in the year preceding that in which the bonus is paid, had an annual employment income not exceeding €80,000.

The tax-deduction of performance bonuses consists in the application of a fixed taxation, which is significantly lower than the ordinary taxation currently applied on remunerative emoluments, such as bonuses that do not fall within the category of 'tax-deductible' ones. Specifically, tax-deductible performance bonuses are subject to a 5% substitute tax (the original tax was 10%, later reduced with the following Budget Laws). The advantage, therefore, is a reduction of the tax burden on the employee receiving the bonus, with a subsequent higher gain.

At present, the deduction is applicable only on taxation. In fact, social security contributions remain fully due, except for employees who are actively involved in the corporate activities,



where the employer can benefit from a tax deduction by 20% on a bonus amount equal to €800.00 per year, while the employees do not pay any contribution on the same amount.

Today, the maximum bonus amount that can be deducted from taxation is EUR 3,000 per year and the application of the 5% tax deduction is subject to the signing of collective agreements between the companies and the trade unions that are comparatively more representative at national level (so-called “RSAs” and “RSUs”).

#### ***A further opportunity: the alternatives to tax-deductible performance bonuses***

Given the limited benefits guaranteed by performance bonuses, the Italian law allows the replacement of tax-deductible performance bonuses with fringe benefits, as well as with corporate welfare measures, in order to allow greater flexibility in their use and ensure the widest choice for both employers and employees.

This flexibility consists in the possibility given by the law to convert all or part of the deducted bonus (within the maximum limit of the tax-deduction amount) into corporate welfare or into

specific fringe benefits. The decision is entirely left to employees.

In particular, as for corporate welfare, the conversion of performance bonuses can concern all relevant works and services as under art. 51, para. 2, letter f), fbis) and fter) of TUIR (works and services for social purposes, educational works and services, works and services related to the care of elderly and/or dependent family members), as well as goods and donations in kind made pursuant to para. 3 of the abovementioned provision.

With reference, instead, to fringe benefits, the conversion can concern, for example, the following goods/services:

- granting of a corporate care;
- granting of buildings to employees on lease, use or gratuitous loan;
- granting of loans.

For the sake of completeness, it is specified that the law also allows the conversion of performance bonuses with:

- contributions due to supplementary pension funds;
- contributions due to forms of supplementary healthcare for welfare purposes;
- shares.





## Conclusions

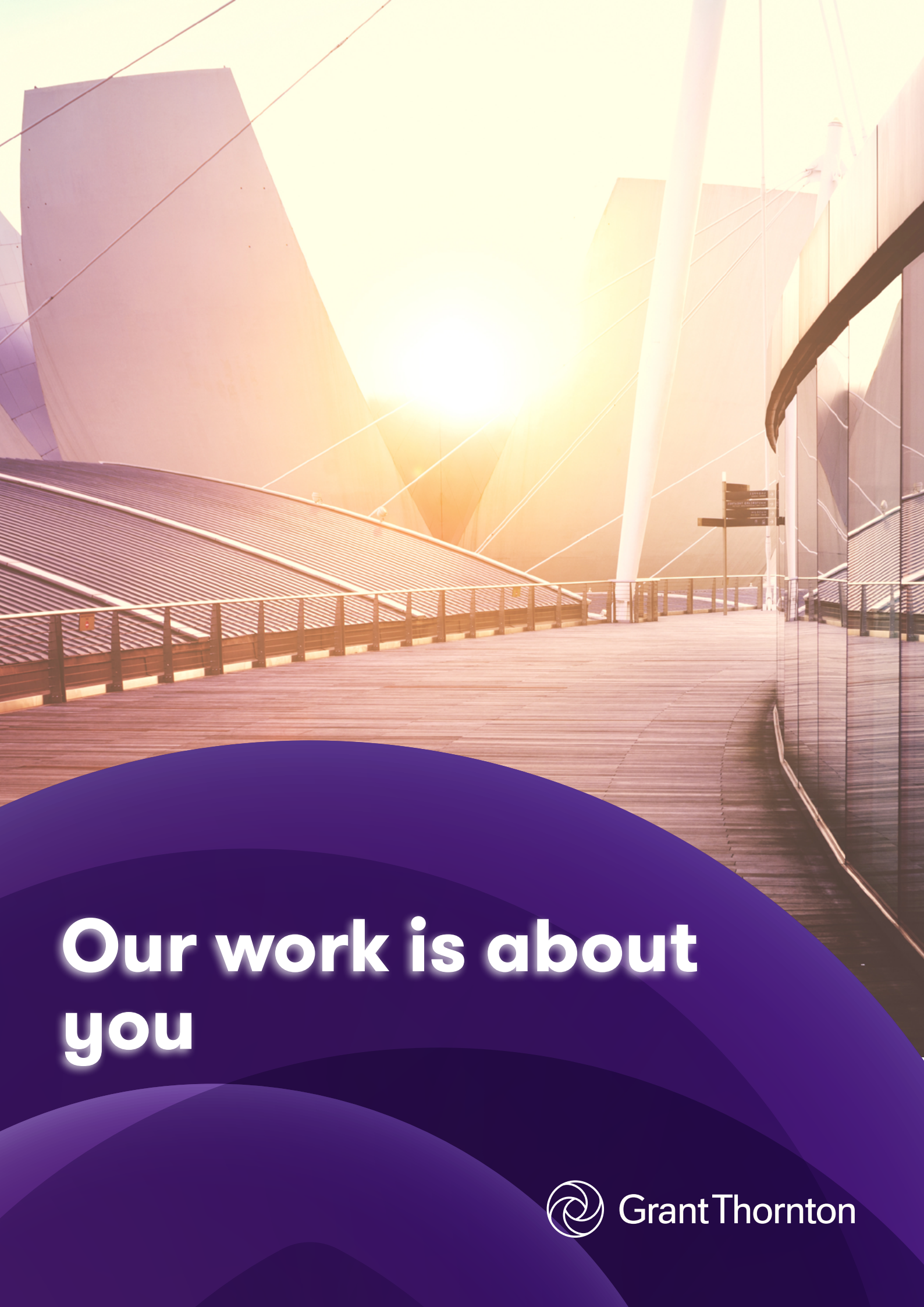
There is no doubt that employee retention schemes in addition to mere remuneration, such as the adoption of so-called ‘tax-deductible’ performance bonus plans (and others), allow companies to be more competitive and attractive on the labour market. Not just that, the presence of incentive plans that also provide for the possibility of conversion into other forms of goods and services (such as fringe benefits or corporate welfare) allows employees to choose the type of disbursement that best suits their needs (also increasing their corporate engagement).

This also guarantees an improvement or elimination of the tax and contribution impact for the employees (e.g. by converting their bonuses into company welfare), as well as a significant reduction in costs for the company.

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