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Subject: Proposal for a Council Directive amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries
– Presidency compromise

Delegations will find in the Annex the Presidency compromise on the abovementioned Commission proposal.

Proposal for a

COUNCIL DIRECTIVE

amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 115 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Having regard to the opinion of the European Parliament,

Having regard to the opinion of the European Economic and Social Committee,

Acting in accordance with a special legislative procedure,

Whereas:

- (1) It is imperative to restore trust in the fairness of tax systems and allow governments to effectively exercise their tax sovereignty. Therefore, the Organisation for Economic Co-operation and Development (OECD) has issued concrete action recommendations in the context of the initiative against Base Erosion and Profit Shifting (BEPS).
- (2) The final reports on the 15 OECD Action Items against BEPS were made public on 5 October 2015. This output was welcomed by the Council in its conclusions of 8 December 2015. The Council conclusions stressed the need to find common, yet flexible, solutions at the Union level consistent with OECD BEPS conclusions.
- (3) In response to the need for fairer taxation and in particular to follow up on the OECD BEPS conclusions, the Commission presented its Anti-Tax Avoidance Package on 28 January 2016. Council Directive (EU) 2016/1164¹ on rules against tax avoidance was adopted in the framework of that package.
- (4) Directive (EU) 2016/1164 provides for a framework to tackle hybrid mismatch arrangements.
- (5) It is necessary to establish rules that neutralise hybrid mismatches in as comprehensive manner as possible. Considering that Directive (EU) 2016/1164 only covers hybrid mismatch arrangements that arise in the interaction between the corporate tax systems of Member States, the ECOFIN Council issued a statement on 12 July 2016 requesting the Commission to put forward by October 2016 a proposal on hybrid mismatches involving third countries in order to provide for rules consistent with and no less effective than the rules recommended by the OECD BEPS report on Action 2, with a view to reaching an agreement by the end of 2016.

¹ OJ L 193 of 19.7.2016, p. 1.

- (6) Considering that, amongst others, it is stated in Recital (13) of Directive (EU) 2016/1164 that it is critical that further work is undertaken on other hybrid mismatches such as those involving permanent establishments, it is essential that hybrid permanent establishment mismatches are addressed in that Directive as well.
- (7) In order to provide for a framework that is consistent with and no less effective than the OECD BEPS report on hybrid mismatch arrangements, it is essential that Directive (EU) 2016/1164 would also include rules on hybrid transfers, imported mismatches and addresses the full range of double deduction outcomes, in order to prevent taxpayers from exploiting remaining loopholes.
- (8) Given that Directive (EU) 2016/1164 includes rules on hybrid mismatches between Member States, it is appropriate to include rules on hybrid mismatches with third countries in that Directive where at least one of the parties involved is a corporate taxpayer or, in the case of reverse hybrids, an entity in a Member State as well as imported mismatches. Consequently, the rules in Article 9 and 9b should apply to all taxpayers that are subject to corporate tax in a Member State including permanent establishments (or arrangements treated as permanent establishments) of entities resident in third countries. Article 9a should apply to all entities that are treated as transparent for tax purposes by a Member State.
- (9) Rules on hybrid mismatches should address mismatch situations which result from double deductions, the conflict in the characterisation of financial instruments, payments and entities, or in the allocation of payments. As hybrid mismatches could lead to a double deduction or to a deduction without inclusion, it is necessary to lay down rules whereby the Member State concerned either denies the deduction of a payment, expenses or losses or requires the taxpayer to include the payment in its taxable income, as appropriate. However, those rules apply only to deductible payments and should not affect the general features of a tax system, whether it is a classical or an imputation system.

- (10) Permanent establishment mismatches occur where the differences in the rules in the permanent establishment and residence jurisdiction for allocating income and expenditure between different parts of the same entity give rise to a mismatch in tax outcomes and include those cases where a mismatch outcome arises due to the fact that a permanent establishment is disregarded under the laws of the branch jurisdiction. Those mismatch outcomes may lead to a double deduction or a deduction without inclusion, and should therefore be eliminated. In the case of disregarded permanent establishments, the Member State in which the taxpayer is a resident should include the income that would otherwise be attributed to the permanent establishment.
- (11) Any adjustments that are required to be made under this Directive should in principle not affect the allocation of taxing rights between jurisdictions set under a double taxation treaty.
- (12) In order to ensure proportionality it is necessary to address only the cases where there is a substantial risk of avoiding taxation through the use of hybrid mismatches. It is therefore appropriate to cover mismatches that arise between the head office and permanent establishment or between two or more permanent establishments of the same entity, hybrid mismatch arrangements between the taxpayer and its associated enterprises, between associated enterprises, and hybrid mismatches resulting from a structured arrangement involving a taxpayer.
- (13) Mismatches that particularly pertain to the hybridity of entities should be addressed only where one of the associated enterprises has – at a minimum – effective control over the other associated enterprises. Consequently, in those cases, it should be required that an associated enterprise be held by, or hold, the taxpayer or another associated enterprise through a participation in terms of voting rights, capital ownership or entitlement to received profits of 50 percent or more. The ownership, or rights of persons who are acting together, should be aggregated for the purposes of applying this test.

- (14) In order to provide for a sufficiently comprehensive definition of 'associated enterprise' for the purposes of the rules on hybrid mismatches, that definition should also comprise an entity that is part of the same consolidated group for accounting purposes, an enterprise in which the taxpayer has a significant influence in the management and reversely, an enterprise that has a significant influence in the management of the taxpayer.
- (15) It is necessary to address four broad types of hybrid mismatch situations: first, hybrid mismatches that result from payments under a financial instrument; second, hybrid mismatches that are the consequence of differences in the allocation of payments made to a hybrid entity or permanent establishment (including as a result of payments to a disregarded permanent establishment); third, hybrid mismatches that result from payments made by a hybrid entity to its owner or deemed payments between the head office and permanent establishment or between two or more permanent establishments; lastly, double deduction outcomes resulting from payments made by a hybrid entity or permanent establishment.
- (16) In respect of payments under a financial instrument, a hybrid mismatch could arise where the deduction without inclusion outcome is attributable to the differences in the characterisation of the instrument or the payments made under it. If the character of the payment qualifies it for double tax relief under the laws of the payee jurisdiction (such as an exemption from tax, a reduction in the rate of tax or any credit or refund of tax) then the payment should be treated as giving rise to a hybrid mismatch to the extent of the resulting undertaxed amount. A payment under a financial instrument should not, however, be treated as giving rise to a hybrid mismatch where the tax relief granted in the payee jurisdiction is solely due to the tax status of the payee or the fact that the instrument is held subject to the terms of a special regime.

- (17) In respect of payments made to a hybrid entity or permanent establishment, a hybrid mismatch could arise where the deduction without inclusion outcome results from differences in the rules governing the allocation of that payment between the hybrid entity and its owner (in the case of a payment that is made to a hybrid entity) or between the head office and permanent establishment or between two or more permanent establishments (in the case of a deemed payment to a permanent establishment). The definition of hybrid mismatch should only apply where the mismatch outcome is a result of differences in the rules governing the allocation of payments under the laws of the two jurisdictions and a payment should not give rise to a hybrid mismatch that would have arisen in any event due to the tax exempt status of payee under the laws of any payee jurisdiction.
- (18) The definition of hybrid mismatch should also capture deduction without inclusion outcomes that are the result of payments made to a disregarded permanent establishment. A disregarded permanent establishment is any arrangement that is treated as giving rise to a permanent establishment under the laws of the head office jurisdiction but which is not treated as a permanent establishment under the laws of the other jurisdiction. The hybrid mismatch rule should not apply, however, where the mismatch would have arisen in any event due to the tax exempt status of payee under the laws of any payee jurisdiction.

- (19) In respect of payments made by a hybrid entity to its owner or deemed payments made between the head office and permanent establishment or between two or more permanent establishments, a hybrid mismatch could arise where the deduction without inclusion outcome results from the payment or deemed payment not being recognised in the payee jurisdiction. In this case, where the mismatch outcome is a consequence of the non-allocation of the payment or deemed payment, the payee jurisdiction is the jurisdiction where the payment (or deemed payment) is treated as being received under the laws of the payer jurisdiction. As with other hybrid entities and branch mismatches that give rise to deduction without inclusion outcomes, no hybrid mismatch should arise where the payee is exempt from tax under the laws of the payee jurisdiction. In respect of this category of hybrid mismatches, however, a mismatch outcome would only arise to the extent that the payer jurisdiction allows the deduction in respect of the payment or deemed payment to be set-off against an amount that is not dual-inclusion income. If the payer jurisdiction allows the deduction to be carried-forward to a subsequent period, then the requirement to make any adjustment under the Directive could be deferred until such time as the deduction is actually set-off against non dual-inclusion income in the payer jurisdiction.
- (20) The hybrid mismatch definition should also capture double deduction outcomes regardless of whether they arise as a result of payments, expenses that are not treated as payments under domestic law or as a result of amortisation or depreciation losses. As with deemed payments and payments made by a hybrid entity that are disregarded by the payee, a hybrid mismatch should only arise, however, to the extent that the payer jurisdiction allows the deduction to be set-off against an amount that is not dual-inclusion income. This means that if the payer jurisdiction allows the deduction to be carried-forward to a subsequent period, then the requirement to make an adjustment under the Directive could be deferred until such time as the deduction is actually set-off against non dual-inclusion income in the payer jurisdiction.

- (21) Differences in tax outcomes that are solely attributable to differences in the value ascribed to a payment, including through the application of transfer pricing, should not fall within the scope of a hybrid mismatch. Furthermore, as jurisdictions use different tax periods and have different rules for recognising when items of income or expenditure have been derived or incurred, these timing differences should not generally be treated as giving rise to mismatches in tax outcomes. However, a deductible payment under a financial instrument that cannot reasonably be expected to be included in income within a reasonable period of time should be treated as giving rise to a hybrid mismatch if that deduction without inclusion outcome is attributable to differences in the characterisation of the financial instrument or payments made under it. It should be understood that a mismatch outcome could arise if a payment made under a financial instrument is not included in income within a reasonable period of time. Such a payment should be treated as included in income within a reasonable period of time, if included by the payee within 12 months of the end of the payer's tax period or as determined under an arm's length standard. Member States could require that a payment be included within a fixed time period of time in order to avoid giving rise to a mismatch outcome and secure tax control.
- (22) Hybrid transfers could give rise to a difference in tax treatment if, as a result of an arrangement to transfer a financial instrument, the underlying return on that instrument was treated as derived by more than one of the parties to the arrangement. In these cases the payment under the hybrid transfer could give rise to a deduction for the payer while being treated as a return on the underlying instrument by the payee. This difference in tax treatment could lead to a deduction without inclusion outcome or to the generation of a surplus tax credit for the tax withheld at source on the underlying instrument. Such mismatches should therefore be eliminated. In case of a deduction without inclusion the same rules should apply as for neutralising mismatches from payments under a hybrid financial instrument. In the case of hybrid transfers that have been structured to produce surplus tax credits, the Member State concerned should prevent the payer from using the surplus credit to obtain a tax advantage including through the application of a general anti-avoidance rule consistent with Article 6 of the Directive.

- (23) It is necessary to provide for a rule that allows Member States to tackle discrepancies in the transposition and implementation of this Directive resulting in a hybrid mismatch despite the fact that Member States act in compliance with this Directive. Where such a situation arises and the primary rule provided for in this directive does not apply, a secondary rule should apply.
- (24) Imported mismatches shift the effect of a hybrid mismatch between parties in third countries into the jurisdiction of a Member State through the use of a non-hybrid instrument thereby undermining the effectiveness of the rules that neutralise hybrid mismatches. A deductible payment in a Member State can be used to fund expenditure involving a hybrid mismatch. To counter such imported mismatches, it is necessary to include rules that disallow the deduction of a payment if the corresponding income from that payment is set-off, directly or indirectly, against a deduction that arises under a hybrid mismatch arrangement giving rise to a double deduction or a deduction without inclusion between third countries.
- (25) A dual resident mismatch could lead to a double deduction if a payment made by a dual resident taxpayer is deducted under the laws of both jurisdictions where the taxpayer is resident. As dual resident mismatches could give rise to double deduction outcomes, they should fall within the scope of this Directive. A Member State should deny the duplicate deduction arising in respect of a dual resident company to the extent that this payment is set-off against an amount that is not treated as income under the laws of the other jurisdiction.

- (26) The objective of this Directive is to improve the resilience of the internal market as a whole against hybrid mismatch arrangements. This cannot be sufficiently achieved by the Member States acting individually, given that national corporate tax systems are disparate and that independent action by Member States would only replicate the existing fragmentation of the internal market in direct taxation. It would thus allow inefficiencies and distortions to persist in the interaction of distinct national measures. This would thus result in a lack of coordination. That objective can rather, due to the cross-border nature of hybrid mismatch arrangements and the need to adopt solutions that function for the internal market as a whole, be better achieved at Union level. The Union could therefore adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve that objective. By setting the required level of protection for the internal market, this Directive only aims to achieve the essential degree of coordination within the Union that is necessary to achieve its objectives.
- (27) In implementing this Directive, Member States should use the applicable explanations and examples in the OECD report on Neutralising the Effects of Hybrid Mismatch Arrangements, Action 2 – 2015 Final Report as a source of illustration or interpretation to the extent that they are consistent with the provisions of this Directive and with Union law.
- (28) The hybrid mismatch rules in Article 9(1) and 9(2) will only apply to the extent the situation involving a taxpayer gives rise to a mismatch outcome. No mismatch outcome should arise when an arrangement is subject to adjustment under Article 9(5) or 9a and, accordingly, arrangements that are subject to adjustment under those parts of the Directive should not be subject to any further adjustment under the hybrid mismatch rules.
- (29) Where the provisions of another directive, such as those in Council Directive 2011/96/EU, lead to the neutralisation of the mismatch in tax outcomes there should be no scope for the application of the hybrid mismatch rules provided for by this Directive.

(30) The Commission should evaluate the implementation of this Directive four years after its entry into force and report to the Council thereon. Member States should communicate to the Commission all information necessary for this evaluation.

(31) Directive (EU) 2016/1164 should therefore be amended accordingly,

HAS ADOPTED THIS DIRECTIVE:

Article 1

Directive (EU) 2016/1164 is amended as follows:

(1) Article 1 is amended as follows:

A new paragraph is added after the first paragraph:

"2. Article 9a shall also apply to all entities that are treated as transparent for tax purposes by a Member State";

(2) Article 2 is amended as follows:

(a) in point (4), the last subparagraph is replaced by the following:

"For the purposes of Article 9 and Article 9a:

- (i) Where the mismatch outcome arises under Article 2(9)(b), (c), (d), (e) or (g) or where an adjustment is required under Article 9(3) or Article 9a the definition of associated enterprise is modified so that the 25 percent requirement is replaced by a 50 percent requirement;
- (ii) a person who acts together with another person in respect of the voting rights or capital ownership of an entity shall be treated as holding a participation in all of the voting rights or capital ownership of that entity that are held by the other person;

- (iii) an associated enterprise also means an entity that is part of the same consolidated group for financial accounting purposes as the taxpayer, an enterprise in which the taxpayer has a significant influence in the management or an enterprise that has a significant influence in the management of the taxpayer."

(b) point (9) is replaced by the following:

"(9) 'hybrid mismatch' means a situation involving a taxpayer or with respect to Article 9 paragraph 3 and Article 9a an entity where:

- (a) a payment under a financial instrument gives rise to a deduction without inclusion outcome and:
- (i) such payment is not included within a reasonable period of time; and
- (ii) the mismatch outcome is attributable to differences in the characterisation of the instrument or the payment made under it.

For the purposes of the first subparagraph, a payment under a financial instrument shall be treated as included in income within a reasonable period of time where:

- the payment is included by the jurisdiction of the payee in a tax period that commences within 12 months of the end of the payer's tax period; or
 - it is reasonable to expect that the payment will be included by the jurisdiction of the payee in a future period and the terms of payment are those that would be expected to be agreed between independent enterprises;
- (b) a payment to a hybrid entity gives rise to a deduction without inclusion and that mismatch outcome is the result of differences in the allocation of payments made to the hybrid entity under the laws of the jurisdiction where the hybrid entity is established or registered and the jurisdiction of any person with a participation in that hybrid entity;

- (c) a payment to an entity with one or more permanent establishments gives rise to a deduction without inclusion and that mismatch outcome is the result of differences in the allocation of payments between the head office and permanent establishment or between two or more permanent establishments of the same entity under the laws of the jurisdictions where the entity operates;
- (d) a payment gives rise to a deduction without inclusion as a result of a payment to a disregarded permanent establishment;
- (e) a payment by a hybrid entity gives rise to a deduction without inclusion and that mismatch is the result of the fact that the payment is disregarded under the laws of the payee jurisdiction;
- (f) a deemed payment between the head office and permanent establishment or between two or more permanent establishments gives rise to a deduction without inclusion and that mismatch is the result of the fact that the payment is disregarded under the laws of the payee jurisdiction; and
- (g) a double deduction outcome occurs.

For the purposes of this point (9):

- (i) a hybrid mismatch shall only arise under paragraph (e), (f) or (g) above to the extent that the payer jurisdiction allows the deduction to be set-off against an amount that is not dual-inclusion income;
- (ii) a mismatch outcome shall not be treated as a hybrid mismatch unless it arises between associated enterprises, between a taxpayer and an associated enterprise, between the head office and permanent establishment, between two or more permanent establishments of the same entity or under a structured arrangement.

For the purposes of this point and Articles 9, 9a and 9b:

‘Mismatch outcome’ means a double deduction or a deduction without inclusion.

‘Double deduction’ means a deduction of the same payment, expenses or losses in the jurisdiction in which the payment has its source, the expenses are incurred or the losses are suffered (payer jurisdiction) and in another jurisdiction (investor jurisdiction). In the case of a payment by a hybrid entity or permanent establishment the payer jurisdiction is the jurisdiction where the hybrid entity or permanent establishment is established or situated.

‘Deduction without inclusion’ means the deduction of a payment (or deemed payment between the head office and permanent establishment or between two or more permanent establishments) in any jurisdiction in which that payment (or deemed payment) is treated as made (payer jurisdiction) without a corresponding inclusion for tax purposes of that payment (or deemed payment) in the payee jurisdiction. The payee jurisdiction is any jurisdiction where that payment (or deemed payment) is received, or is treated as being received under the laws of any other jurisdiction.

‘Deduction’ means the amount that is treated as deductible from the taxable income under the laws of the payer or investor jurisdiction. The term 'deductible' shall be construed accordingly.

‘Inclusion’ means the amount that is taken into account in the taxable income under the laws of the payee jurisdiction. A payment under a financial instrument shall not be treated as included to the extent that the payment qualifies for any tax relief solely due to the way that payment is characterised under the laws of the payee jurisdiction. The term 'included' shall be construed accordingly.

Tax 'relief' means a tax exemption, reduction in the tax rate or any tax credit or refund (other than a credit for taxes withheld at source).

'Dual inclusion income' means any item of income that is included under the laws of both jurisdictions where the mismatch outcome has arisen.

'Person' means an individual or entity.

'Hybrid entity' means any entity or arrangement that is regarded as a taxable entity under the laws of one jurisdiction and whose income or expenditure is treated as income or expenditure of one or more other persons under the laws of another jurisdiction.

'Financial instrument' means any instrument to the extent that it gives rise to a financing or equity return that is taxed under the rules for taxing debt, equity or derivatives under the laws of either the payee or payer jurisdictions and includes a hybrid transfer.

'Hybrid transfer' means any arrangement to transfer a financial instrument where the underlying return on the transferred financial instrument is treated for tax purposes as derived simultaneously by more than one of the parties to that arrangement.

'Disregarded permanent establishment' means any arrangement that is treated as giving rise to a permanent establishment under the laws of the head office jurisdiction and is not treated as giving rise to a permanent establishment under the laws of the other jurisdiction.

(c) the following points (10) and (11) are added:

"(10) 'consolidated group for financial accounting purposes' means a group consisting of all entities which are fully included in consolidated financial statements drawn up in accordance with the International Financial Reporting Standards or the national financial reporting system of a Member State;

(11) 'structured arrangement' means an arrangement involving a hybrid mismatch where the mismatch outcome is priced into the terms of the arrangement or an arrangement that has been designed to produce a hybrid mismatch outcome, unless the taxpayer or an associated enterprise could not reasonably have been expected to be aware of the hybrid mismatch and did not share in the value of the tax benefit resulting from the hybrid mismatch.";

(3) Article 4 is amended as follows:

(a) in point (a) of paragraph 5, point (ii) is replaced by the following:

"(ii) all assets and liabilities are valued using the same method as in the consolidated financial statements drawn up in accordance with the International Financial Reporting Standards or the national financial reporting system of a Member State;"

(b) paragraph 8 is replaced by the following:

"8. For the purposes of paragraphs 1 to 7 the taxpayer may be given the right to use consolidated financial statements prepared under other accounting standards than the International Financial Reporting Standards or the national financial reporting system of a Member State.";

(4) Article 9 is replaced by the following:

*"Article 9
Hybrid mismatches*

1. To the extent that a hybrid mismatch results in a double deduction:
 - (a) the deduction shall be denied in the Member State that is the investor jurisdiction; and
 - (b) where the deduction is not denied in the investor jurisdiction, the deduction shall be denied in the Member State that is the payer jurisdiction.

Nevertheless, any such deduction shall be eligible to be set-off against dual inclusion income whether arising in a current or subsequent period.

2. To the extent that a hybrid mismatch results in a deduction without inclusion:
 - (a) the deduction shall be denied in the Member State that is the payer jurisdiction;
and
 - (b) where the deduction is not denied in the payer jurisdiction, the amount of the payment that would otherwise give rise to a mismatch outcome shall be included in income in the Member State that is the payee jurisdiction.
3. A Member State shall deny a deduction for any payment by a taxpayer to the extent that such payment directly or indirectly funds deductible expenditure giving rise to a hybrid mismatch through a transaction or series of transactions between associated enterprises or entered into as part of a structured arrangement except to the extent that one of the jurisdictions involved in the transactions or series of transactions has made an equivalent adjustment in respect of such hybrid mismatch.
4. A Member State may exclude from the scope of:
 - (a) Article 9(2)(b) hybrid mismatches as defined in Article 2(9)(b), (c), (d) or (f);
 - (b) Article 9(2)(a) and (b) hybrid mismatches resulting from a payment of interest to the holder of hybrid regulatory capital securities;
 - (c) Article 9(2)(a) and (b) hybrid mismatches resulting from a payment made by a financial trader under a hybrid transfer.

5. To the extent that a hybrid mismatch involves disregarded permanent establishment income which is not subject to tax in the Member State in which the taxpayer is resident for tax purposes, that Member State shall require the taxpayer to include the income that would otherwise be attributed to the disregarded permanent establishment. This provision applies unless the Member State is required to exempt the income under a double taxation treaty entered into by the Member State with a third country.
6. To the extent that a hybrid transfer is designed to produce a relief for tax withheld at source on a payment derived from a transferred financial instrument to more than one of the parties involved, the Member State of the taxpayer shall limit the benefit of such relief in proportion to the net taxable income regarding such payment.

(5) in Chapter II, the following Articles 9a and 9b are added:

"Article 9a

Reverse hybrid mismatches

1. Where one or more associated non-resident entities holding in aggregate a direct or indirect interest in 50% or more of the voting rights, capital interests or rights to a share of profit in a hybrid entity that is incorporated or established in a Member State, are located in a jurisdiction or jurisdictions that regard the hybrid entity as a taxable person, the hybrid entity shall be regarded as a resident of that Member State and taxed on its income to the extent that this income is not otherwise taxed under the laws of the Member State or any other jurisdiction.
2. Paragraph 1 shall not apply to a collective investment vehicle. For the purposes of this Article, collective investment vehicle means an investment fund or vehicle that is widely-held, holds a diversified portfolio of securities and is subject to investor-protection regulation in the country in which it is established.

Article 9b
Tax residency mismatches

To the extent that a deduction for payment, expenses or losses of a taxpayer who is resident for tax purposes in two or more jurisdictions is deductible from the taxable base in both jurisdictions, the Member State of the taxpayer shall deny the deduction to the extent that the other jurisdiction allows the duplicate deduction to be set-off against income that is not dual-inclusion income. If both jurisdictions are Member States, the Member State where the taxpayer is not deemed to be a resident according to the tax treaty between the two Member States concerned shall deny the deduction."

Article 2

1. Member States shall adopt and publish, by 31 December 2018 at the latest, the laws, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith communicate to the Commission the text of those provisions and they shall apply those provisions from 1 January 2019.

When Member States adopt those provisions, they shall contain a reference to this Directive or be accompanied by such a reference on the occasion of their official publication. Member States shall determine how such reference is to be made.

2. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field covered by this Directive.

Article 3

This Directive shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

Article 4

This Directive is addressed to the Member States.

Done at,

For the Council

The President
