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COMMISSION STAFF WORKING DOCUMENT

IMPACT ASSESSMENT REPORT

Accompanying the document

Proposal for a COUNCIL DIRECTIVE

Amending Council Directives 2003/49/EC, 2009/133/EC, 2011/96/EU, (EU) 2016/1164, (EU) 2017/1852, and EU 2025/50 as regards the simplification of the Union framework on direct taxation and supporting growth and competitiveness of the EU

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Glossary

Term or acronym	Meaning or definition
ATAD	Anti-Tax Avoidance Directive
BEPS	Base Erosion and Profit Shifting
CJEU	Court of Justice of the European Union
CFC	Controlled Foreign Company
CIT	Corporate Income Tax
DAC	Directive on Administrative Cooperation
Direct taxation	Tax concept where taxes are imposed directly on the taxpayer, e.g., a business, and cannot be shifted to others
DTA	Double Tax Agreement
DRM	Dispute Resolution Mechanisms Directive
EBITDA	Earnings before interest, tax, depreciation and amortisation
EFTA	The European Free Trade Association
ETR	Effective tax rate
EU	The European Union
EU tax rules	Rules deriving from the Directives adopted by the Council of the European Union in the area of direct taxation
Existing Directives	Directives adopted by the Council of the European Union in the area of direct taxation
FASTER	Directive on faster and safer relief of excess withholding taxes

FDI	Foreign direct investment(s)
GDP	Gross Domestic Product
HOT	Head Office Taxation
IIR	Income Inclusion Rule under Pillar 2
ILR	Interest Limitation Rule
IRD	Interest and Royalties Directive
JRC	The Joint Research Centre
MAP	Mutual Agreement Procedure
MNE(s)	Multinational Enterprise(s)
OECD	The Organisation for Economic Co-operation and Development
Pillar 2	OECD framework aiming at establishing a global minimum effective tax rate for multinational enterprises
Pillar 2 Directive	Directive on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union
PSD	Parent-Subsidiary Directive
QDMTT	Qualified Domestic Minimum Top-up Tax under Pillar 2
R&D	Research and Development
SbS	Side-by-Side system under Pillar 2 that introduces safe-harbours to reduce compliance burdens for MNEs in jurisdictions with qualifying domestic tax regimes as of 1 January 2026.
SME(s)	Small and Medium-sized Enterprise(s)

TEC	Treaty establishing the European Community
TEU	Treaty on the European Union
TFEU	Treaty on the Functioning of the European Union
Third-party loan	A loan provided by an external lender who is not directly involved in the ownership or operations of the borrower's business or personal finances
TMD	Tax Merger Directive
UN	The United Nations
UTPR	Under-Taxed Profit Rule under Pillar 2
WHT	Withholding tax(es)
Zero-tax jurisdiction	Third country that does not levy corporate income tax or applies a zero corporate income tax rate

1. INTRODUCTION: POLITICAL AND LEGAL CONTEXT

In the Political Guidelines for the European Commission[1], President Von der Leyen stressed the Commission's commitment to make business easier and faster in Europe. Simplification of EU policies and laws, and ensuring their better implementation is essential to attaining these objectives and to strengthening European competitiveness.

Accordingly, the President has tasked each Commissioner to focus on simplification, i.e., less red tape, more trust, better enforcement, and faster permitting. Concretely, the Commission has set a target of reducing administrative burden by at least 25% for all businesses, and by at least 35% for SMEs, by the end of the mandate, without undermining the policy objectives of the revisited initiatives.

On this basis, the Commission committed to make proposals to simplify, consolidate and codify legislation to eliminate any overlaps and contradictions, while maintaining high standards.[2] Already in 2025, the Commission proposed ten omnibus proposals, e.g., in the area of environment, investment, and digitalisation, that reduce recurrent administrative costs by EUR 11.9 billion.[3]

In accordance with the mission letter to the Commissioner for Climate, Net Zero and Clean Growth, Wopke Hoekstra,[4] and as outlined in the 2026 Commission Work Programme[5], the present proposal for an Omnibus on Taxation aims to simplify, streamline and clarify existing directives in the area of direct taxation: the Interest and Royalties Directive (IRD)[6], the Parent-Subsidiary Directive (PSD)[7], the Tax Merger Directive (TMD)[8], the Anti-Tax Avoidance Directive (ATAD)[9], and the Dispute Resolution Mechanisms Directive (DRM)[10] (collectively the 'Directives').

The corporate tax directives (IRD, PSD and TMD) aim to eliminate double taxation on cross-border dividend, interest and royalty payments and to ensure tax neutrality for cross-border corporate reorganisations. The ATAD seeks to prevent aggressive tax planning within the EU, and, in turn, the DRM aims to ensure effective resolution of cross-border tax disputes that involve double taxation or arising from double taxation conventions. The broad objectives of these critical Directives remain valid, although the means and detailed rules through which these objectives are to be met require adjustments to adapt to a changing tax landscape, as well as economic and market developments. In preparation of this proposal, this impact assessment report considers the issues at stake and different policy options. This analysis is mainly based on the experience and challenges

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[1] Political Guidelines 2024 -2029.
[2] Political Guidelines 2024-2029.
[3] Simplification - European Commission
[4] President von der Leyen's mission letter to Wopke Hoekstra; Mission-letter-Wopke-Hoekstra.pdf
[5] Commission work programme 2026 - European CommissionCommission work programme 2026 - European CommissionCommission work programme 2026 - European CommissionCommission work programme 2026 - European Commission
[6] Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States.
[7] Council Directive 2011/96/EU of 30 November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States.
[8] Council Directive 2009/133/EC of 19 October 2009 on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different Member States and to the transfer of the registered office of an SE or SCE between Member States.
[9] Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.
[10] Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union.

from applying these Directives in practice, as well as their interaction with more recent EU and international tax developments, such as the newly adopted Pillar 2 Directive[11].

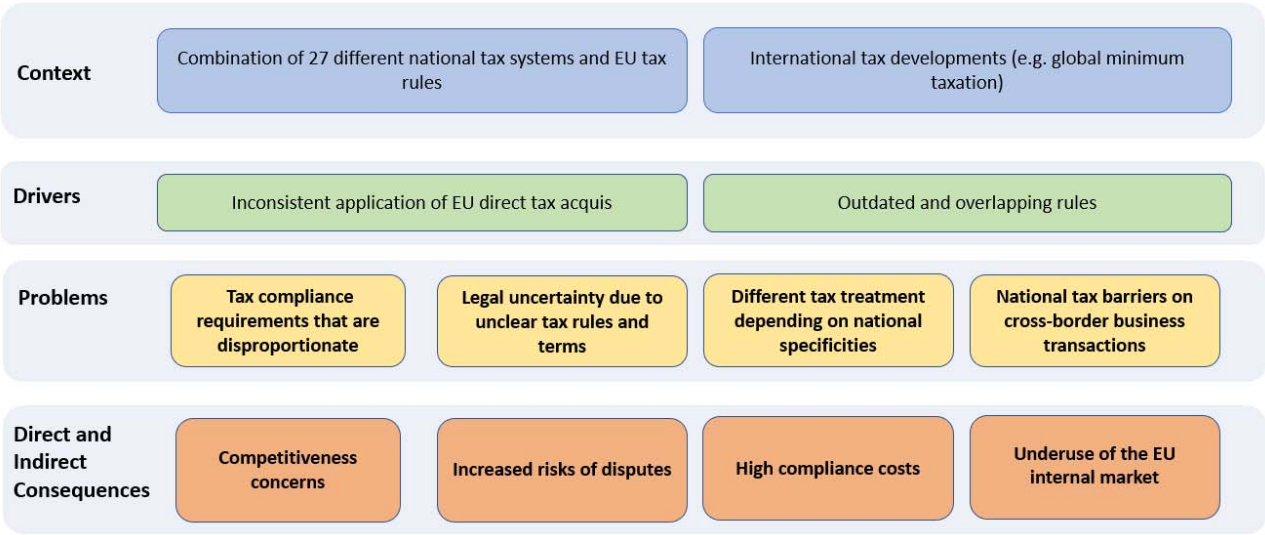
Simplification efforts in the area of taxation do not only include the Omnibus on Taxation, on which this impact assessment focuses; they also include a separate proposal amending and recasting all the Directives on Administrative Cooperation (DAC 1-9), which is prepared in parallel. The proposal for a DAC Recast aims to simplify the administrative framework in tax matters and to enhance clarity and effectiveness in administrative tax cooperation among EU Member States. An individual impact assessment report has been prepared for the DAC Recast.

The importance of the work in this area has been confirmed by the Council of the European Union in its conclusions on a tax decluttering and simplification agenda, which contributes to the EU's competitiveness.[12]

2. PROBLEM DEFINITION

This section defines and analyses the problems and their drivers and assesses the evolution of such problems in the absence of EU policy intervention. The 'Problem tree' in Figure 1 presents the context, the drivers, the problems and the negative consequences that the Omnibus on Taxation will aim to address.

Figure 1: Problem Tree



2.1. What are the problems?

Tax systems in the Member States consist of national rules. In specific fields of a primarily cross-border nature, these national rules are juxtaposed with tax measures that transpose EU directives. The EU acquis in direct taxation represents a significant achievement for the EU. The relevant Directives have successfully facilitated the EU internal market by establishing common rules at EU level. These common rules help taxpayers expand their commercial activity across borders in the

[11] Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union.
[12] Taxation: Council sets tax decluttering and simplification agenda - Consilium

internal market. Cross-border operations have been facilitated in many ways, notably by eliminating withholding taxes and relieving double taxation on cross-border intra-group transactions, deferring the tax liability on capital gains in the case of restructurings, and ensuring a more consistent anti-tax avoidance framework as opposed to disparities and mismatches amongst national tax systems in the Member States.

Since the adoption of these Directives, the legal, economic and geopolitical landscape has significantly evolved. Among others, globalisation and digitalisation have further materialised and inevitably, resulted in rendering some of the older rules outdated. Additionally, increasing external competition is putting pressure on Europe's tax base and the attractiveness of the internal market is being jeopardised. In this context, the EU and more than thirty other countries worldwide have implemented global minimum taxation (Pillar 2), based on an internationally agreed common approach within the OECD/G20 Inclusive Framework. Pillar 2 creates a necessary safety net, but adds an additional layer of rules for businesses and tax administrators to apply.

The Omnibus on Taxation must be considered in this context where four main problems have been identified on the basis of extensive consultations with Member States, private stakeholders, and the results of the ATAD evaluation[13]:

2.1.1. Tax compliance requirements that are disproportionate

The multilayered tax landscape, combined with recent developments, have led to significant complexity. The amount of applicable tax rules has accumulated, making tax compliance more complicated than necessary. Research done by or for other EU institutions, such as the European Parliament, points out that the tax compliance costs have more than doubled since 2014, and that corporate tax has been identified amongst those areas with the highest compliance burden.[14] On average, EU businesses incur annual costs in meeting their tax compliance obligations equivalent to almost 2% of their total turnover, placing a particularly heavy burden on smaller businesses.[15] It has been estimated the current corporate tax compliance cost for companies with cross-border activities are annually EUR 3,308 for SMEs and EUR 8,266 for larger businesses.[16]

In the Call for Evidence, it was pointed out by approximately 68% of the 117 respondents, including all businesses and business associations, that tax compliance requirements in the EU have become disproportionate.[17] For example, while the IRD and the PSD harmonise the tax treatment of interest, royalty, and dividend payments within the EU, the procedures for obtaining the tax exemption are mainly determined by the Member States (Box 1). During the targeted consultations, many businesses voiced concerns about the complexity and, consequently, the significant

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[13] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.
[14] European Parliamentary Research Service, Tax compliance costs in the EU: Striking the right balance p. 1; Study requested by the FISC Subcommittee, European Parliament, Removal of taxation-based obstacles and distortions in the Single Market in order to encourage cross border investment, p. 9-11.
[15] VVA/KPMG (2022), Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.
[16] Impact Assessment Report Accompanying the proposal for a Council Directive establishing a Head Office Taxation (HOT) system (2023), eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A52023SC0308.
[17] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report

compliance burden they face when operating cross-border. It was noted that unwieldy procedures for obtaining the tax exemption in certain Member States may often discourage companies from applying the IRD and PSD, as the burdens outweigh the benefits. Similar views were expressed in the Call for Evidence where approximately 67% of the 117 respondents identified issues related to the withholding tax relief, including the procedures, under the IRD and PSD[18].

Box 1: Withholding taxes on interests, royalties, and dividends

> As a general rule, a company located in one state, which makes an interest, a royalty, or a dividend payment to an associated company, i.e., another company where it holds a significant degree of influence, control, or ownership, in another state, would pay a withholding tax on the transaction in the state where the payor is located (taxation at source). In some cases, the transaction would also be taxable as income in the state of the receiving company. The IRD and the PSD exempt these payments between associated companies in the EU from withholding taxes and eliminate double taxation. Although the IRD and PSD pursue similar objectives, the requirements for applying the Directives differ, as explained in Section 5.1, and the procedures for enforcing the withholding tax exemption are broadly left for the Member States to decide. While the FASTER Directive streamlined withholding tax procedures for certain cross-border portfolio investments, its scope is limited to publicly traded securities and does not extend to all payments covered by the IRD and the PSD.

Furthermore, the adoption of the Pillar 2 Directive, which introduces a global minimum corporate tax rate of 15% for MNEs to ensure a level playing field across jurisdictions, is an addition of a new system of international tax rules layered on top of the existing rules. A recent study estimates that the total aggregate one-off compliance costs related to Pillar 2 are about EUR 1.2 billion and recurring annual costs for the companies in scope of about EUR 517 million.[19]

While the importance of Pillar 2 is indisputable, it has inevitably increased the density of the tax architecture. Therefore, it is necessary to consider whether other pre-existing rules on tackling tax avoidance behaviours remain relevant, or whether their objectives are effectively achieved by Pillar 2. For instance, in the Call for Evidence, approximately 68% of the respondents found that Pillar 2 and the Controlled Foreign Company (CFC) rules in ATAD pursue, to a certain extent, similar objectives in ensuring that multinational groups pay a fair level of tax. Although the rules differ in mechanism and scope, this dual effort may cause some degree of overlap (Box 2Box 2). This issue was also emphasised in the ATAD evaluation, as businesses often regard the CFC rules as being obsolete for companies in scope of Pillar 2.[20]

Box 2: Taxation of low-taxed foreign entities

> CFC rules are designed to prevent companies from using foreign subsidiaries in low-tax

[18] Ibid.
[19] OECD Pillar 2 Compliance Costs. A Quantitative Assessment for EU-Headquartered Groups (2025), Sean Bray, Daniel Bunn, Johannes J. Gaul, Christoph Spengel, DP 25-053.
[20] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 37.

jurisdictions to avoid paying taxes in their home country. Under CFC rules, if the undistributed profits of a foreign subsidiary are low-taxed (usually less than half of the applicable national statutory rate), the EU parent company of the subsidiary will be additionally taxed on this income at an appropriate level (usually the national statutory rate of its Member State). Undistributed profits which are taxed under CFC rules often relate to passive income. Pillar 2 rules ensure that multinational enterprises (MNEs) in scope pay a minimum level of tax in each jurisdiction where they operate at an effective rate of 15% on a broader tax base comprising passive and active income. This tax can apply at the level of the shareholder under the income inclusion rule or at the level of the CFC under the qualified domestic top-up tax. The parallel application of CFC rules and the Pillar 2 framework may result not only in economic double taxation but also duplicative and complex compliance obligations for MNE groups, which are required to perform overlapping calculations and reporting under both sets of rules.

In the Call for Evidence, it has also been pointed out by approximately 45% of the respondents that the CFC rules, and other rules in ATAD, such as the Interest Limitation Rule and the Hybrid Mismatch Rules, are insufficiently targeted leading to heavy compliance burdens, particularly for SMEs[21]. This burden related to CFC rules and the Interest Limitation Rule can be considered disproportionate for SMEs as these businesses face high administrative costs associated with applying the rules, although they are less likely to engage in aggressive tax planning practices.[22] For the Hybrid Mismatch Rules, and particularly the rules on imported mismatches, it was highlighted by approximately 43% of the respondents in the Call for Evidence that the rules are overly complex.[23] This was identified in the ATAD evaluation as a cause of heavy administrative and compliance burdens for both businesses and tax authorities.[24] Overall, it has been found that MNEs' compliance with ATAD rules may annually amount to up to EUR 100,000 per company depending on the size and corporate complexity.[25]

2.1.2. Legal uncertainty due to unclear tax rules and terms

Ambiguity in the legal wording can cause lingering doubt on the meaning of certain EU tax rules, leading to legal uncertainty which way pointed out as a problem by approximately 73% of the respondents in the Call for Evidence. Legal uncertainty and an increased risk of disputes distort investment decisions and makes it difficult for EU companies to navigate their tax obligations across the EU.

For example, as the holding requirements in the PSD and IRD are not interpreted in the same way in all Member States (Box 33), companies may be left uncertain about whether they will be able to avail of the tax exemption in one country or another. Consequently, companies are required to

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[21] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report
[22] Base erosion and profit shifting (BEPS) | OECD and Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 39.
[23] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stake holder consultation synopsis report
[24] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 48.
[25] Ibid., p. 29.

acquire country-specific knowledge when they intend to establish entities or carry out business activities across borders.

Box 3: Holding requirements under IRD and PSD

The IRD is applicable to interest and royalty payments between associated companies in the EU. For companies to be associated, the IRD requires that a company has a holding of minimum 25% in capital or voting rights of another company. As the IRD does not specify whether the minimum holding has to be direct or indirect, the requirement has been interpretated differently in the Member States. In addition, the PSD contains a similar requirement as the PSD is applicable to dividend payments between associated companies, i.e., parent companies and subsidiaries, in the EU. However, for companies to be associated in this regard, a company must have a direct or indirect minimum holding of 10 % in capital or voting rights of another company.

Legal uncertainty has also been identified in relation to the DRM. The lack of clear terms and requirements, e.g., with regard to the admission criteria and deadlines, was criticised by approximately 38% of the respondents in the Call for Evidence who found that dispute resolution in the EU remain too slow and complex, leading to high compliance costs and underuse of the internal market.[26]

2.1.3. Different tax treatment depending on national specificities

Not all existing Directives have been implemented consistently due to various options or differing interpretations of the same rules and terms. This has led to different tax treatment of businesses depending on the national approach to specific EU tax provisions and has been identified as a problem by approximately 73% of the respondents in the Call for Evidence.[27]

The 'minimum standard' approach to ATAD, leaving a wide range of national discretion to Member States in their implementation of the Directive, was criticised by approximately 67% of the respondents in the Call for Evidence. Similar findings are presented in the ATAD evaluation.[28] For example, CFC rules, which are applicable to EU businesses with certain low-taxed subsidiaries, are implemented differently across the EU based on two different 'models' which are presented ATAD. This is also the case for the Interest Limitation Rule in the ATAD which, according to the ATAD evaluation, has been considered as offering extensive flexibility that has resulted in fragmented implementation across the EU[29] (Box 44) causing high compliance costs and underuse of the internal market.

Box 4: Interest Limitation Rule in ATAD

The Interest Limitation Rule caps the amount of interest that corporate taxpayers are entitled

[26] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report
[27] Ibid.
[28] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 46-47
[29] Ibid., p. 46-47

to deduct in a tax year. The purpose of this rule is to limit deductible interest expenses which can be strategically used by taxpayers to place excessive debt in high-tax jurisdictions in order to reduce their tax liability. However, this rule has not put an end to the fragmentation in the internal market as its transposition varies strongly from one Member State to another. This is a result of the ATAD offering a number of transposition options related to: i) the deductibility limit, ii) a de minimis safe harbour, iii) a standalone entity exemption, iv) a grandfathering clause, v) an infrastructure exemption, vi) a group escape, vii) carry forward and carry back options, and viii) an exclusion of financial undertakings. According to the ATAD evaluation, the various options have led to excessive fragmentation. For instance, 6 Member States adopted safe harbours lower than the minimum standard of EUR 3 million established in the ATAD, and 7 did not exclude the application of the rule to loans used to fund long-term public infrastructure projects.[30]

In addition, for a variety of reasons that may have been justified at the time, some legal texts were not sufficiently aligned with other legal acts when the Directives were drafted or negotiated. Such lack of consistency is, for example, the case for the definitions of eligible companies in the PSD, IRD, and TMD. These differences in eligibility requirements create problems, as they entail inconsistent access for businesses to the benefits of the IRD, PSD and TMD. This results in increased risks of disputes, competitiveness concerns and, ultimately, underuse of the potential of internal market.

2.1.4. Tax barriers on cross-border business activities

While the existing Directives have improved the functioning of the internal market by removing certain distortions caused by diverging national tax treatments, approximately 70% of the respondents in the Call for Evidence still identified tax barriers in the internal market as a factor for preventing businesses to engage more extensively in cross-border activities.[31]

In this regard, studies done by or for the European Parliament have criticised Member States for finding it much easier to agree on curbing international tax planning, including implementing rules agreed at OECD level, such as ATAD and Pillar 2, than on reducing tax and administrative barriers in the internal market, resulting in what one study, for instance, calls a 'complexity explosion'.[32] According to the Tax Complexity Index, tax rules and procedures are generally more complex in the EU than in other big economies, such as the United States and China.[33]

Tax obstacles, including complexity, cause underuse of the potential of internal market and competitiveness concerns. For instance, the IRD and PSD only exempt certain intra-group payments from withholding tax, subject to specific conditions and procedural restrictions (Box 5). This means that national withholding taxes still apply to many cross-border business transactions in

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[30] Ibid., p. 12-14.
[31] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report
[32] European Parliamentary Research Service, Tax compliance costs in the EU: Striking the right balance p. 1; Study requested by the FISC Subcommittee, European Parliament, Removal of taxation-based obstacles and distortions in the Single Market in order to encourage cross border investment, p. 9-11.
[33] Tax Complexity Index; In 2024, 13 Member States are found to have higher tax complexity than the US and 20 Member States are found to have higher tax complexity than China.

the EU and are coupled with different procedures while interacting with applicable tax treaties. As a result, businesses operating across borders generally face more cumbersome rules than purely domestic companies. This limits business prospects for expansion within the internal market and, consequently, economic growth.

Box 5: Scope of IRD and PSD

> The IRD does not cover interest and royalty payments made between companies of different Member States that directly hold less than 25% in the capital or voting rights. The PSD, on the other hand, does not cover profit distributions paid to companies that hold less than 10% of the capital or voting rights. In addition, payments of interests, royalties, and dividends, which are made to a company that takes a form which is not explicitly covered by each Annex respectively, are not entitled to benefit from the tax exemptions provided by the IRD and PSD (the European Court of Justice (CJEU) has ruled that the Annex to the PSD provides for an exhaustive list of companies[34]). Accordingly, many cross-border payments remain subject to withholding taxation, insofar they are not already exempt by bilateral tax treaties between EU Member States.

Another remaining barrier, which was pointed out by businesses in the targeted consultations, was disparities in the scope of the TMD and Company Law Merger Directive as amended by the Mobility Directive. As the type of restructurings that are recognised under EU company law are broader than the ones recognised in the TMD, there is a mismatch in the EU acquis which limits the possibilities of carrying out restructurings in the internal market without triggering immediate capital gains or other tax liabilities. This issue was also identified by approximately 38% of the respondents in the Call for Evidence[35] causing competitiveness concerns and underuse of the internal market.

However, tax barriers do not only exist due to limited scopes of existing Directives. Other research indicates that a comprehensive harmonisation of Member States' tax systems by way of positive integration would be necessary to sustainably eliminate tax obstacles to cross border business activities.[36] In addition, in the Call for Evidence, approximately 61% of the respondents called for simplification beyond the existing Directives,[37] a clear signal that the current landscape of fragmented national tax rules imposes unnecessary complexity on businesses operating across borders and restricts cross-border investments.

An easily identifiable tax barrier is the divergent approach to the tax treatment of research and development (R&D) activities. Businesses investing in R&D across the internal market face a fragmented landscape of national regimes, e.g., divergent eligibility criteria, definitions of qualifying expenditure, incentive rates, deductibility rules and periods; all of which complicates cross-border investment decisions, raises compliance costs, and makes it harder to plan and develop R&D activities across the internal market. Stakeholders have noted that this fragmentation creates a

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[34] Judgment of the Court (First Chamber) of 1 October 2009, Gaz de France - Berliner Investissement SA v Bundeszentralamt für Steuern, Case C-247/08, ECLI:EU:C:2009:600.
[35] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report
[36] Study requested by the FISC Subcommittee, European Parliament, Removal of taxation-based obstacles and distortions in the Single Market in order to encourage cross border investment, p. 17.
[37] Ibid.

major barrier for scaling[38]. Accordingly, this also undermines the EU's attractiveness as a location for innovation-driven investment vis-à-vis major international competitors, such as the United States.

The growing regulatory fragmentation and administrative complexity across Member States is a structural factor contributing to the EU's widening innovation gap. As highlighted in the Draghi Report[39], Europe's current R&I framework is not sufficiently coordinated to support breakthrough innovation, resulting in firms concentrating on mature technologies with limited disruptive potential.

This is reflected in the persistent underinvestment in research and innovation. EU companies spent approximately EUR 270 billion less than their US counterparts in 2021[40]. The lack of a genuinely integrated approach weakens scale effects, slows diffusion of innovation, and limits the ability to translate research into globally competitive technologies.

In addition, divergent national definitions of qualifying R&D expenditure across Member States create a specific and identifiable compliance cost burden for cross-border operators[41] and the absence of greater coordination in the tax treatment of R&D across the EU risks undermines the common market[42]. This makes the tax treatment of R&D expenditure a particular issue that a common EU approach would be well-placed to address.

R&D is critical for innovation; yet the EU falls behind its key global trading partners. Based on 2024 figures in purchasing power parity–adjusted terms, R&D expenditure in the United States and China amounted to approximately USD 1 trillion, compared to roughly USD 600 billion in the EU (thus about 60% of the United States' level, marking a 10 percentage point decrease from 70% in 2014).[43]

More specifically, the EU's R&D intensity gap relative to its main global competitors is primarily driven by lower levels of private-sector investment. In 2020, China surpassed the EU for the first time in R&D intensity (2.4%), while the EU's R&D intensity stood at 2.3% in 2021 and declined further to 2.2% in 2022, remaining well below that of the United States (3.5%), Japan (3.3%), and South Korea (4.9%).

Although the EU has increased its R&D investment over the past two decades, a significant gap persists compared with its principal international competitors, and its relative share of global R&D activity continues to decline. Furthermore, evidence suggests that the overall reduction in

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[38] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions (Commission Staff Working Document), The EU Startup and Scaleup Strategy, COM(2025)270 final, pages 53 and 54.

39 M. Draghi, *The future of European competitiveness (Part A, A competitiveness strategy for Europe)*, September 2024.
40 Ibid, p. 6.
41 European Law Institute, *For a European Approach to R&D Tax Incentive(s)*, 2021.
42 D. D'Andria, D. Pontikakis, A. Skonieczna, *Towards a European R&D Incentive? An assessment of R&D Provisions under a Common Corporate Tax Base*, Working Paper No 69 – 2017, p. 4.
[43] OECD R&D statistics released on 31 March 2026, cf. https://www.oecd.org/en/data/insights/statistical-releases/2026/03/oecd-overall-rd-growth-stable-government-rd-budgets-decline-and-reorient-towards-defence.html.

government support for private R&D within the EU has been partly driven by a decline in tax-based support measures.[44]

While taxation is not the sole determinant of R&D investment decisions, it plays an important enabling role. It is therefore closely linked to the objectives of reducing tax-related barriers within the internal market, promoting simplification, and strengthening competitiveness.

2.2. What are the problem drivers?

The problems identified in the previous section have two main drivers: The first driver is the inconsistent application of the EU direct tax acquis. The second is the existence of outdated and overlapping rules.

The **inconsistent implementation and application of the EU direct tax acquis** relate to the current fragmentation of the internal market. The EU tax framework has grown over decades and while old directives remain in place, new anti-abuse layers were added. Member States have also implemented EU rules differently and added additional rules or obligations. Inconsistency and fragmentation were pointed to as the root of the identified problems by 77% of the respondents in the Call for Evidence. The inconsistency cannot be solved by infringement procedures, guidance or other tools, since the existing Directives themselves provide for several options, and include undefined terms or constructively ambiguous wording. Hence, there are several inconsistencies that can only be sufficiently addressed by legislative action. Firstly, certain provisions provide options to Member States, to choose the most appropriate implementation at national level. ATAD, for example, allows Member States to choose between several options for the application of the Interest Limitation Rule and CFC taxation. Consequently, the limited degree of harmonisation has proven insufficient, and the EU framework remains fragmented, with a costly compliance burden, legal uncertainty, different tax treatment and tax barriers for taxpayers as a result. These findings reflect the conclusion in the ATAD evaluation which indicates that the excessive flexibility of the rules causes problems, despite the overall positive assessment that the ATAD remains fit for purpose.[45]

Moreover, inconsistent applications have even occasionally lead to problems concerning provisions that do not include options for implementation. This has occurred in some instances where the legal texts are not fully aligned. For example, there are differences in the holding requirements for entitlement to the IRD and PSD. In others, a lack of precision or the flexible nature of certain rules has led to divergent interpretations of the Directives, fuelled by unintended inconsistencies. By way of example, where variations in the interpretation of certain provisions of the DRM exist – such as the admission criteria and imposed deadlines – have been demonstrated to contribute to legal uncertainty.[46]

The existing direct taxation Directives have been adopted over the past 35 years (Annex 7) and most of these Directives have undergone only very limited amendments since. Consequently, **outdated and overlapping rules** cause problems in the internal market. Attempts to revisit their content have previously been made, for example, with the IRD recast in 2011, but this attempt did

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[44] Science, Research and Innovation performance of the EU 2024 report, Chapter 2, cf. https://op.europa.eu/en/publication-detail/-/publication/c683268c-3cdc-11ef-ab8f-01aa75ed71a1/language-en

[45] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 46-48.

[46] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report

not advance in Council. As a result, certain provisions in the existing direct taxation Directives do not sufficiently reflect economic reality. In the Call for Evidence, issues related to the IRD and the PSD were pointed out by approximately 67% of the respondents who inter alia identified outdated requirements, which are not flexible enough to include new company forms, as a cause. Concerning the ATAD Interest Limitation Rule, approximately 52% of the respondents in the Call for Evidence noted problems, e.g., because the rule was designed at a time where the macroeconomic environment was characterised by a prolonged period of historically low interest rates, before the significant changes observed in more recent years.[47]

It is important to also consider that subsequent global and EU tax developments have resulted in the further extension of a complex international tax architecture over time. This has inevitably created some overlaps between different sets of rules, which pursue similar objectives or have a comparable scope, as it is further explained below. Such duplications, or layering, make tax compliance more burdensome than necessary for businesses. In the Call for Evidence, approximately 68% of respondents identified overlaps, especially between ATAD and Pillar 2, as a problem driver.[48]

2.3. How likely is the problem to persist?

In the absence of EU policy action, businesses operating across the EU internal market will continue to face high compliance costs, increased risks of disputes, and it will be more difficult for EU businesses to make use of the opportunities of the internal market and compete globally.

During targeted consultations, many key stakeholders voiced concerns about the significant and growing compliance burden they face when operating in the internal market and called for enhanced clarity and certainty around different concepts as well as for simplifying procedures going forward. While there is significant progress on simplifying rules and procedures in some other areas, complexity and fragmentation remain very substantial in direct taxation.

If no action is taken at EU level, the identified problems are expected to persist and worsen as long as tax rules are added, but not revised, replaced or repealed. Research done by or for other EU institutions, such as the European Parliament, also conclude that some of the fundamental tax obstacles and distortions, such as complexity, in the internal market can only be addressed by a substantial harmonisation of corporate taxation in the EU.[49] Similar views were expressed by approximately 77% of respondents in the Call for Evidence who called for enhanced tax harmonisation at EU level.[50]

While Member States can embark on initiatives to simplify their national tax rules, unilateral actions cannot achieve the general interest objectives of ensuring that obstacles do not restrict businesses activities in the internal market, facilitate more efficient operations and compliance, particularly in a cross-border context, or impose heavy administrative burdens on the tax administrations. In addition, it should be recalled that some problems are related to complexity and fragmentation in the area of direct taxation. Action at the individual Member State level would only aggravate the complexity in adhering to and applying EU tax rules. Such individual actions would

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[47] Ibid.
[48] Ibid.
[49] European Parliamentary Research Service, Tax compliance costs in the EU: Striking the right balance p. 1; Study requested by the FISC Subcommittee, European Parliament, Removal of taxation-based obstacles and distortions in the Single Market in order to encourage cross border investment p. 9-11.
[50] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report

cause impediments to cross-border operations, increase the compliance burden on taxpayers, and undermine the level playing field. As the tax landscape keeps on evolving, the problems are only expected to grow, and the current state of play will be aggravated over the years to come.

3. WHY SHOULD THE EU ACT?

The Union can only act in areas where the Treaties confer competence to it. In areas not falling under its exclusive competence, it must be established that the objectives of a Union action cannot be sufficiently achieved by independent action of individual countries without equal action by other Member States (principle of subsidiarity). Consequently, this section will scrutinise the legal basis and the principle of subsidiarity regarding the Omnibus on Taxation.

3.1. Legal basis

The proposal for an Omnibus on Taxation is intended to amend existing EU direct taxation Directives which have been adopted over the last 35 years (Annex 7) on the basis on Article 115 TFEU (ex Article 94 TEC). This provision allows for the approximation of laws of the Member States, which directly affect the establishment or functioning of the internal market. On this basis, the overall objective of the existing Directives is to ensure that business activities, which are carried out between taxpayers of different Member States, are not subject to more, or less, favourable tax conditions than those applied to business activities carried out between companies of the same Member State.

Article 115 TFEU will also be the legal basis for the Omnibus on Taxation proposal that entail adoption through the special legislative procedure, requiring unanimous vote in Council and consultation of the European Parliament and Economic and Social Committee. The Omnibus on Taxation will, by amending existing EU Directives, have an impact on cross-border business activities with a view to enhance the functioning of the internal market by making the common rules on direct taxation clearer, simpler and up to date.

3.2. Subsidiarity: Necessity of EU action

EU competence in the area of direct taxation is shared with the Member States on the basis of Article 115 TFEU. In accordance with the subsidiarity principle laid down in Article 5(3) TFEU, action at EU level should be taken only when the envisaged objectives cannot be achieved sufficiently by Member States acting alone and in addition, by reason of the scale or effects of the proposed action, can be better achieved by the EU.

On this basis, all Member States have their own domestic tax systems which are determined by different economic approaches, financial needs and policy choices. However, in some cases, it has become apparent that EU action is necessary to ensure the functioning of the internal market and the effectiveness of the fundamental freedoms. This is, for example, the case with the IRD and PSD which were adopted to ensure equal tax treatment of dividends, royalties and interests when these payments are carried out between taxpayers in different Member States. In the same vein, the TMD, ensures that tax rules applicable to business operations, like mergers, divisions, transfers of assets, and exchange of shares, concerning taxpayers of different Member States are neutral and non-decisive for business decisions in the internal market. ATAD introduced a set of common anti-tax avoidance rules to address base erosion and profit shifting, often caused or aggravated by mismatches or fragmentation between the tax systems of the Member States. The DRM establishes rules for resolving disputes that arise from the interpretation and application of double tax treaties among EU Member States.

Although the application of these Directives remains crucial for the good functioning of the internal market, the EU faces new challenges. Enhanced globalisation, economic developments, and an increasingly complex international tax architecture have made it necessary to revisit the functioning of established rules. This issue is not specific to the EU, but burdensome regulation and administration are a clog on EU growth and EU competitiveness vis-à-vis third countries. While it would be for the Member States to simplify domestic tax rules, only an EU action can amend the existing EU direct tax acquis in accordance with the Treaties, to simplify and clarify the common rules, address identified challenges, and thus enhance the competitiveness of EU businesses. As a result, the objectives of the Omnibus on Taxation cannot be achieved sufficiently by the Member States acting alone.

Finally, in accordance with the principle of proportionality, the Omnibus on Taxation will focus on the simplification of existing EU rules that are linked to identified problems (Section 2.1) which could only be addressed by legislative action. Other problems that have been identified in the stakeholder consultations or in the ATAD evaluation, e.g., related to Exit Taxation Rules or the General-Anti Abuse Rule (GAAR) in ATAD,[51] which could be addressed by soft law initiatives, such as administrative guidance, will not be considered further in this respect. EU action will thus be limited to what is necessary to ensure the functioning of the internal market.

3.3. Subsidiarity: Added value of EU action

Action at the EU level would bring significant benefits to both businesses and tax administrations. The Omnibus on Taxation will be designed to tackle problems with the existing direct taxation Directives which were identified in extensive consultations with Member States and private stakeholders, and it will build on the results of ATAD evaluation[52]. The intention is to remove overlapping or potentially now superfluous rules, streamline procedures, further prevent and address instances of double taxation and distortions, clarify concepts, eliminate outdated provisions, and address the inconsistent or divergent application of certain tax rules across the Member States.

On the basis of the Omnibus on Taxation proposal, EU tax rules and procedures should become clearer and simpler making it easier and, thereby, less costly for businesses to operate or expand cross-border. This would allow for a better utilisation of the potential of the internal market and should also make it more attractive to establish businesses and invest in businesses in the internal market. For tax administrations, simpler rules and streamlined procedures should ease their work related to tax controls and audits and, ultimately, lead to fewer disputes and a reduction in administrative costs.

The Omnibus on Taxation proposal should also be seen in conjunction with the DAC Recast, which entails simplification of certain reporting obligations and procedures. Altogether, the initiatives would entail coordinated and comprehensive actions ensuring that both material tax rules and the exchange of information framework are up-to-date and fit for purpose.

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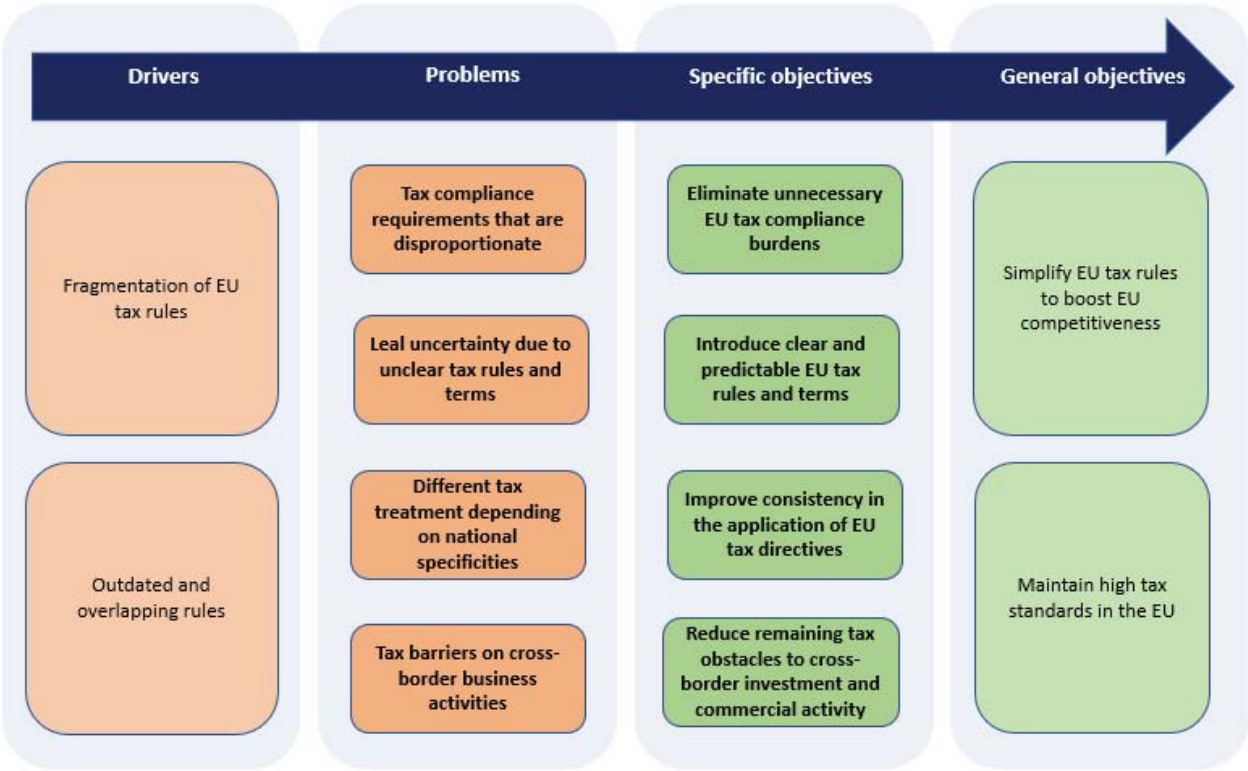
[51] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report and Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 19-43.

[52] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

4. OBJECTIVES: WHAT IS TO BE ACHIEVED?

This section outlines the general objectives, which are the treaty and policy-based objectives that the Omnibus on Taxation aims to contribute to, and the specific objectives, which set out concretely what the initiative is meant to achieve. The 'Intervention Logic' in Figure 2 presents these objectives jointly with the drivers and the problems that the Omnibus on Taxation aims to address.

Figure 2: Intervention Logic



4.1. General objectives

The general objectives of the Omnibus on Taxation must be seen in the light of the simplification agenda set by the Commission which is generally linked to improving the functioning of the internal market.

Firstly, the Omnibus on Taxation will seek to **simplify existing EU direct tax rules with a view to boost EU competitiveness** and, thereby, making the environment for doing business in the EU more attractive. The Draghi Report on EU Competitiveness[53] pointed out that internal barriers and lack of coordination between different rules and policies constitute an obstacle to EU competitiveness. Consequently, complexity, uncertainty, fragmentation, and trade barriers impede the proper functioning of the internal market and hamper the prospect for achieving its full potential. In this regard, the Omnibus on Taxation should contribute to the Commission's overall target of reducing administrative burdens by at least 25% for all businesses, and by at least 35% for SMEs.

[53] The Draghi report on EU competitiveness

Secondly, the Omnibus on Taxation will **ensure that high tax standards in the EU are maintained.** The original objectives of the existing Directives, such as removing double taxation, ensuring tax neutrality, establishing a common framework for dispute resolution, and tackling tax avoidance and evasion in the internal market, remain valid today and should not be substantially affected by the Omnibus on Taxation. Therefore, the Omnibus on Taxation should seek to improve the effectiveness and efficiency of the existing Directives without deregulating or recreating loopholes, which can be used for tax avoidance and evasion, or in any other way undermine the achievements at EU and international level in the area of taxation. Such actions would deteriorate the functioning of the internal market rather than improve it and, thereby, be contrary to the EU simplification policy.

4.2. Specific objectives

The specific objectives of the initiative contribute to achieving the general objectives.

Firstly, in line with the Commission's target to reduce red tape, the Omnibus on Taxation purposefully aims to **eliminate disproportionate EU tax compliance burdens**. The current cumulative effect of application of EU tax rules imposes disproportionate compliance costs for EU businesses to the detriment of their competitiveness.

Secondly, the Omnibus on Taxation aims to **introduce clear and predictable EU tax rules and terms** where needed. Ambiguities in legal drafting lead to divergent national interpretations, complex heterogeneous administrative practice, double taxation, increased litigation risks, and precautionary over-documentation, causing legal uncertainty which adversely affect tax standards and business decisions in the internal market.

Thirdly, the initiative also aims to **improve consistency in the application of the existing tax Directives**. Discretionary implementation has resulted in significant fragmentation in the application of the EU tax rules, undermining the original objectives for having the existing Directives, such as equal tax treatment across the EU. Substantial and procedural inconsistencies in the application of different Directives also hinder their effective application.

Finally, the initiative should **reduce remaining tax obstacles to cross-border investment and commercial activity.** Limitations in the current level of harmonisation of the EU tax rules are counterproductive for making business in the EU easier. Lack of coordination in the Member States puts EU businesses in a worse competitive position than other businesses operating in big, comparable market jurisdictions and weakens the growth prospects of the internal market, which makes it less attractive to investment in the EU.

5. WHAT ARE THE AVAILABLE POLICY OPTIONS?

This section outlines the EU acquis in the area of direct taxation focusing on a number of existing rules that can be linked to the problem drivers, i.e., inconsistent application and outdated or overlapping rules, which the Omnibus on Taxation seeks to address. The rules in question have been selected on the basis of thorough analysis, positions shared by Member States, a dedicated evaluation, and feedback gathered through different stakeholder consultations, including the main business associations. Consequently, this section will focus on the current rules that are linked to identified problems which could only be addressed by legislative action. Other problems that have been identified e.g., in the stakeholder consultations or in the ATAD evaluation, that could be addressed by soft law initiatives, such as administrative guidance, will not feature in the report. After the presentation of the current rules linked to the identified problems (the baseline), different options for simplification of the rules will be presented.

5.1. What is the baseline from which options are assessed?

5.1.1. Withholding tax exemption for payments of interests, royalties and dividends

According to the IRD, interest and royalty payments arising in one Member State are exempt from taxes imposed in that State provided that the beneficial owner is an associated company from another Member State or a permanent establishment situated in another Member State.

The PSD also exempts dividends and other profit distributions paid by subsidiaries to parent companies in different Member States from withholding taxes at source and eliminates double taxation of such income at the level of the parent company (participation exemption or relief by credit).

5.1.1.1. Eligible companies

The IRD and PSD only apply to companies of a Member State. To be considered a 'company of a Member State', three cumulative conditions have to be fulfilled: (i) the company must take one of the legal forms which are listed in the Annex to each Directive, (ii) the company must be tax resident in a Member State, and (iii) the company must be subject to corporate tax in a Member State.

Regarding the eligible forms of companies listed in the Annexes of the PSD, the European Court of Justice (CJEU) has ruled that the Annex to the PSD provides for an exhaustive list of companies.[54] Considering the similarity of requirements, this interpretation has been extended to the IRD. Consequently, payments of interests, royalties, and dividends, which are made to a company that takes a form which is not explicitly covered by each Annex respectively, are not entitled to benefit from the tax exemptions provided by the IRD and PSD. This limits the scope of the IRD and the PSD and makes the application non-flexible and outdated as there is currently opportunity to include new legal forms of companies constituted under the laws of the Member States.

Although these requirements seem alike in the IRD and the PSD, they differ in substance as the company forms listed in the Annex to each Directive are not aligned. Inconsistencies can, for example, be found concerning the European Company (EC) and the European Cooperative Society (ECS)[55], as well as for some company forms in certain Member States, which makes the application of the Directives complex. These differences in eligibility requirements would continue to create problems, as they entail inconsistent access for businesses to the benefits provided for in the Directives. It should also be mentioned that the TMD also includes a definition of 'eligible companies' which differs in substance from the IRD and PSD and creates further complexity. Without action, the inconsistency in the application of the Directives may increase as the list of eligible companies are not drafted in a dynamic way. While company legal forms may continue to develop, in most cases, the scope of the Directives remain the same.

5.1.1.2. Material scope

The IRD and PSD only apply to associated companies, i.e., businesses linked through significant ownership or common corporate control. The IRD is only applicable to interest and royalty

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[54] Judgment of the Court (First Chamber) of 1 October 2009, Gaz de France - Berliner Investissement SA v Bundeszentralamt für Steuern, Case C-247/08, ECLI:EU:C:2009:600.

[55] Council Regulation (EC) N 2157/2001 of 8 October 2001 on the Statute for a European company and Council Regulation (EC) N 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society.

payments made between associated companies of different Member States. The concept of an 'associated company' requires a direct minimum holding of 25% of the capital, or a minimum holding of 25% of the voting rights. The PSD is applicable to profit distributions paid by subsidiary companies to their parent company. The concept of 'parent company' requires a minimum holding, either direct or indirect, of 10% in capital, with the option to replace it, by means of bilateral agreements, with that of a minimum holding of voting rights.

Accordingly, the material scope of the IRD and the PSD differ. While the benefits of the IRD apply only to direct holdings of 25% in capital or voting rights, the benefits of the PSD apply to holdings, either direct or indirect, of 10% in capital or voting rights. Therefore, not only the percentage of holding differs, but also the nature of the holding (direct vs. indirect).

In 2011, the Commission presented a report on the functioning of the IRD which inter alia concluded that the holding requirement had been implemented in different ways in the Member States.[56] Some allowed for indirect holdings to be taken into account in determining eligibility, while others limited the application to direct holdings. This leaves companies uncertain about whether they will be able to avail themselves of the tax exemption in one country or another and can constitute a tax obstacle to cross-border activities. Missing alignment between the IRD and PSD regarding holding requirements will also continue to result in higher than necessary compliance costs for companies involved in cross-border operations. This will continue to produce incongruous results.

5.1.1.3. Procedural aspects

Under the IRD, the procedures to obtain the tax exemption in the Member States can either be designed on the basis of the attestation procedure, which is laid down directly in the IRD, or as a fully national procedure. Irrespective of the procedure, the source Member State must repay any excess tax withheld within one year. The PSD does not include any procedural rules for entitlement to the benefits. Each Member State may establish its own procedure to ensure that eligible companies can benefit from the rules.

In practice, the majority of Member States have not implemented any upfront requirement or procedure for companies to benefit from the tax exemptions under the IRD and the PSD, although some Member States have chosen to apply a variation of the attestation procedure.

During targeted consultations, many private stakeholders voiced concerns about the excessive procedural complexity in certain Member States in order to gain entitlement to the withholding tax exemption of dividends, interests and royalties under the IRD and the PSD. In this regard, it was pointed out that the length of the administrative procedures, sometimes up to 24 months, and complex procedural requirements for obtaining the benefit usually cause delays. In certain cases, the procedures even have a deterrent effect as it may be more cost-efficient for the companies to pay the withholding tax than claiming the exemption.

More recently, to address such issues, the EU adopted the FASTER Directive, which, among other measures, introduces standardised fast-track procedures. These procedures can take the form of relief at source, quick refund, or a combination of both, as determined by each Member State. The

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[56] Report from the Commission to the Council in accordance with Article 8 of Council Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States, COM/2009/0179 final.

scope of these fast-track procedures is limited to dividends on publicly traded shares, while relief for interest on publicly traded bonds remains optional for Member States. Additionally, the Directive allows Member States to deny, completely or partially, the application of these standardised fast-track procedures where an exemption from withholding tax is claimed. As a result, Member States may exclude payments exempted under the IRD and PSD from the benefit of these fast-track procedures.

5.1.2. Taxation of Controlled Foreign Companies

The ATAD provides for rules on the taxation of controlled foreign companies (CFCs) which aim to tackle profit shifting towards lower tax jurisdictions within a multinational group. These tax avoidance practices erode the tax base of the jurisdiction of origin of these flows, typically the one of residence of the parent company, through the transfer of profit to a CFC, i.e. subsidiary or a permanent establishment in another jurisdiction. The CFC rules generally attribute certain income from a CFC to be included in the parent company's taxable base when the tax imposed on the CFC is significantly lower, i.e., the tax paid in the entity jurisdiction is less than 50% of what would be paid in the parent jurisdictions.

5.1.2.1. Implementation options

When transposing the CFC rules, Member States are offered different options to mitigate the differing Member State views and legal traditions and is accommodated due to the Directive's design as a minimum standard. For example, Member States may choose between two different approaches to define what income of a CFC is subject to tax:

Model A targets non-distributed passive income of a CFC, such as interest, royalties and dividends, if the CFC is in a low-tax jurisdiction. While relatively mechanical in its application, the CJEU has ruled that Model A includes a substance clause limiting the scope of application of the CFC rule to wholly artificial arrangements within the EU.[57]

Model B targets non-distributed income arising from non-genuine arrangements specifically designed to obtain a tax advantage to be calculated in accordance with the arm's length principle. To reduce the compliance burden under Model B, Member States may adopt de minimis thresholds to exclude lower-risk entities with limited accounting profits and non-trading income from the rule.

According to the ATAD evaluation, 17 Member States opted to implement Model A, while 8 chose Model B, including one or both de minimis thresholds. Additionally, 2 Member States decided to adopt a variant of the rule that encompasses both models.[58] Consequently, the implementation of the ATAD varies widely across Member States. If not addressed, this will continue to result in fragmentation and inconsistent compliance requirements. This would then continue to contribute to legal uncertainty for businesses operating across borders. Retaining differences in key elements, such as the criteria for CFC status, would uphold the additional administrative burdens and related costs.

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[57] Judgment of the Court (Grand Chamber) of 12 September 2006, Cadbury Schweppes plc and Cadbury Schweppes Overseas Ltd v Commissioners of Inland Revenue, Case C-196/04. ECLI:EU:C:2006:544.

[58] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 14-15.

This is consistent with findings of the Draghi report[59] and it was confirmed by stakeholders who, in the targeted consultations, expressed that the CFC rules generate a significant administrative burden in compliance, while their impact on Member States' tax bases is considered to be rather modest.

5.1.2.2. Interaction with Pillar 2

Since the adoption of the ATAD, the legal environment at both the EU and international level has evolved significantly, particularly as a result of the OECD global minimum tax for MNEs (Pillar 2) which has been implemented in the EU through a Pillar 2 Directive.

By using some of the same mechanisms as the CFC rules, i.e., attributing low-taxed income of a subsidiary to the taxable base of a parent company, Pillar 2 ensures that large MNEs pay at least a 15% tax on profits in each jurisdiction they operate. Member States agreed at the OECD/G20 Inclusive Framework to the Pillar 2 rules, which accommodate CFC legislation by taking the relevant tax charges into account in the design of the global minimum tax. Yet, this does not change the fact that CFC rules share similar objectives to Pillar 2 and in practice, the interaction between the two sets of rules leads to duplication. It is now clear that this approach may create a risk of over-taxation.

As Pillar 2 was recently transposed by the Member States, the actual effects of the interaction between the two sets of rules are not yet possible to assess in a reliable manner. However, the theoretical consequences of applying Pillar 2 and CFC rules in parallel, i.e., the application of a Qualified Domestic Minimum Top-up Tax (QDMTT) at the level of a low-taxed CFC and the CFC tax imposed at the level of its shareholders, would be likely to result in economic double taxation, which is not in line with the intent of ATAD.

On this basis, businesses generally regard the two sets of rules as overlapping, causing double taxation and creating unnecessary administrative burden. During the targeted consultations, businesses overwhelmingly argued that the CFC rules have become redundant for MNEs in scope of Pillar 2. These views find support in the ATAD evaluation, which concludes that the implementation of the Pillar 2 Directive addresses similar risks through a global minimum tax and has weakened the rationale for maintaining the CFC rule for MNEs in scope of Pillar 2.[60] As such, upholding both sets of rules in parallel risks entailing future compliance costs above what is needed.

5.1.2.3. Application to SMEs

The CFC rules apply to all taxpayers that are subject to corporate tax in one or more Member State(s), including permanent establishments in one or more Member State(s) of entities resident for tax purposes in a third country, irrespective of their size.

In the EU, 99.8% of businesses are SMEs. However, only (i) 10% of them have cross-border activities, and (ii) 2% have subsidiaries outside of the EU. 42% of SMEs are standalone entities, i.e.

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[59] Draghi Report – The Future of European Competitiveness, Part B, p. 320; https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf#page=320

[60] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 36-38 and 47.

not part of a group and without associated enterprises.[61] The ATAD evaluation finds that CFC rules are costly.[62] Certain businesses may need to conduct an analysis or tick a box for internal control purposes even when they are effectively not affected by the rules. This may put a disproportionate administrative burden on smaller corporate taxpayers, as they need to rely on external expertise, even in the absence of risky arrangements. Consequently, while relatively few SMEs are in a position to engage in cross-border aggressive tax planning, they nonetheless face an administrative burden associated with applying CFC rules. If not addressed, this will continue to act as a barrier on SME growth.

5.1.3. Expensing of assets related to research and development (R&D)

As set out in Section 2.1.4, not all tax barriers have been removed for EU businesses operating in the internal market. One such issue, which has come into sharper focus in recent years as a result of the EU and global implementation of Pillar 2, is the treatment of R&D assets for tax depreciation purposes.

While the UK and the United States generally allow the full cost of R&D assets to be deducted in the year an investment is made – so-called immediate expensing – this is not the general rule in EU Member States. This is regrettable, because, as the Commission already stated in its Recommendation of 2 July 2025 on tax incentives to support the Clean Industrial Deal, immediate expensing carries important benefits for investment decisions by allowing taxpayers to recognise the full depreciable amount as a deduction in the tax year in which the investment is made.

The introduction of Pillar 2 has emphasised the need for a harmonised EU tax policy in this area. While the global minimum tax will generally improve the level playing field for EU businesses globally, it does not address differences of this kind, as Pillar 2 does not take into account temporary book–tax timing differences that arise from immediate expensing. As a result, divergences in the timing and design of R&D tax incentives remain outside its scope. These national distortions put EU businesses at a competitive disadvantage when performing an activity that is inherently international in nature, and makes the internal market less attractive for investments, as opposed to, for instance, research carried out in bigger markets with more growth potential, such as the United States.

5.1.4. Interest Limitation Rule

As a general rule, expenses incurred by a company in the context of its economic activity are tax-deductible. However, certain expenses may be disallowed or have a partial deduction, particularly if they can be linked to risks of abuse. Article 4 of the ATAD introduces an Interest Limitation Rule in the EU which restricts the deductibility of a company's interest expenses. The purpose of the rule is to limit the extent to which companies in high-tax jurisdictions with excessive debt can benefit from tax deductions for interest payments which can significantly erode their tax base.

Under the Interest Limitation Rule, businesses are generally entitled to deduct net borrowing costs, i.e., net interest expenses, up to 30% of their earnings before interest, tax, depreciation and amortisation ('EBITDA'). Nonetheless, Member States are permitted to adopt lower deductibility limits when transposing the rule. The ATAD also allows Member States to choose from several

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[61] VVA/KPMG, Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.
[62] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 47.

options regarding safe harbours, carve-outs, and exceptions, thus allowing for significant flexibility in the implementation.

According to the ATAD evaluation, the Interest Limitation Rule is widely considered to be the ATAD provision that has had the most impact. Not only is it affecting the largest number of companies, but it also emerges as the rule generating the strongest effects on taxpayer behaviour and on protecting Member States' tax bases. At the same time, it is often viewed as insufficiently targeted and the extensive flexibility afforded to Member States has created an excessive fragmentation in the implementation of the rule. While the minimum standard in ATAD leaves room for Member States to choose different options and apply supplementary rules to support domestic policy goals, such practices cause additional and avoidable regulatory and compliance cost.[63] Moreover, in line with the findings of the evaluation, it appears that the Interest Limitation Rule may continue to disadvantage capital-intensive sectors such as real estate, infrastructure, and innovative start-ups that rely on long-term debt financing, as it fails to acknowledge changes in the economic environment, particularly in a context of increasing interest rates.[64]

5.1.5. Hybrid mismatches

The ATAD establishes rules to neutralise hybrid mismatches, i.e., situations where the qualification of a cross-border transaction between associated enterprises differs between the relevant jurisdictions, resulting in a tax treatment that creates double non-taxation: (i) a double deduction or (ii) a deduction without inclusion. In its current form, ATAD addresses different types of mismatches, including both intra-EU arrangements and structures involving third countries.

According to the ATAD evaluation, rules on hybrid mismatches reinforce tax base protection, although they remain complex and highly technical, posing challenges for both tax authorities and smaller companies. The rules include intricate definitions, e.g., imported mismatches, structured arrangements, and layered compliance requirements, e.g., tracing multi-tier supply chains, that create excessive complexity and generate burdens for both taxpayers and tax authorities.[65] This is particularly the case of imported mismatches.

Standard hybrid mismatches arise from a direct inconsistency in the legal treatment of a certain transaction between two jurisdictions. An imported mismatch arises where an EU company makes a regular non-hybrid payment to a group company, or under a structured arrangement, and that payment funds a hybrid mismatch that occurs outside of the EU. In that case, double non-taxation is the result of the lack of hybrid rules in third states and takes place outside of the EU. As a result, the EU company is not directly implicated in the mismatch. Based on the evidence from the extensive stakeholder consultations, it appears that these arrangements are causing severe difficulties for tax authorities, given that their EU footprint is a subsidiary that is normally deprived of the necessary information which would allow identification of the imported mismatch.[66] Identifying imported hybrid mismatches thus requires information and evidence of aggressive tax

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[63] Draghi Report – The Future of European Competitiveness, Part B, p. 320; https://commission.europa.eu/document/download/ec1409c1-d4b4-4882-8bdd-3519f86bbb92_en?filename=The%20future%20of%20European%20competitiveness_%20In-depth%20analysis%20and%20recommendations_0.pdf#page=320

[64] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 46-47.

[65] Ibid., p. 48.

[66] Simplifying EU rules on direct taxation – omnibus; Annex 2: Stakeholder consultation synopsis report.

schemes enacted in jurisdictions outside the EU to which national tax administrations do not have ready or easy access. This would continue to considerably limit effective enforcement in the future.

5.1.6. Tax mergers

Under the TMD, companies engaging in cross-border mergers or reorganisations within the EU can defer taxation on capital gains resulting from restructuring transactions, until the actual disposal of the underlying assets. The TMD applies to companies listed in the annex to the TMD and covers a number of pre-defined restructuring transactions, such as mergers, divisions, partial divisions, and transfers of assets.

In addition, the Company Law Merger Directive[67] contains a section on cross-border mergers of limited liability companies. The scope and definitions of this part are generally aligned (with possible slight wording differences) with content of the TMD. However, since its update through the so-called 'Mobility Directive' in 2019[68], the Company Law Merger Directive introduced additional transactions which are not covered by, or differ from, the TMD, namely: (i) simplified mergers, (ii) divisions by separation, and (iii) cross-border conversions. As simplified mergers and divisions by separation are not mentioned in the TMD, the tax treatment of these restructuring operations is not covered therein, leaving it to Member States to decide how they should be taxed. With respect to the cross-border conversion, the TMD only covers transfers of registered offices of a European Company (Societas Europaea) or European Cooperative Society (Societas Cooperativa Europaea). Consequently, the transfer of registered office following a conversion is not covered by the TMD, leaving it also to Member States to decide how they should be taxed.

5.1.7. Dispute resolution mechanisms

Economic double taxation constitutes an important obstacle to the proper functioning of the EU internal market, as it increases the tax burden on cross-border activities and creates uncertainty for businesses operating in more than one Member State. Economic double taxation arises when the same economic profit is taxed in two jurisdictions without a corresponding relief, for example where a transfer pricing adjustment made by one tax administration is not matched by a corresponding adjustment in the other jurisdiction.

To eliminate double taxation, taxpayers may rely on the Mutual Agreement Procedure (MAP), a dispute resolution mechanism provided for in bilateral Double Tax Agreements (DTAs) on the basis of Article 25 of the OECD Model Tax Convention[69], under which the competent authorities of the countries concerned seek to resolve the dispute by mutual agreement. Within the EU, taxpayers also have access to two additional instruments: the EU Arbitration Convention and the DRM.

The DRM was introduced to implement OECD BEPS action 14 and to address the limitations of the Arbitration Convention by expanding the scope of covered disputes and strengthening the role of taxpayers in the procedure. In particular, it allows taxpayers to trigger the arbitration phase where tax administrations fail to reach an agreement within the prescribed timeframe, thereby

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[67] Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law.

[68] Directive (EU) 2019/2121 of the European Parliament and of the Council of 27 November 2019 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions.

[69] OECD (2025), The 2025 Update to the OECD Model Tax Convention, OECD Publishing, Paris, https://doi.org/10.1787/5798080f-en.

helping to prevent cases of double taxation from remaining unresolved due to administrative inertia.

Experience with the DRM remains relatively limited. This is partly because the DRM only applies to complaints submitted from 1 July 2019 onwards and concerns disputes relating to income or capital earned in tax years starting on 1 January 2018. In addition, tax disputes typically arise several years after the relevant tax year, following audits and the completion of domestic administrative procedures. Nonetheless, available figures suggest that the uptake of the DRM has been slower than initially expected. In 2024, for example, 761 new complaints were filed under the EU Arbitration Convention compared to 192 under the DRM, indicating that taxpayers still tend to rely more frequently on the Arbitration Convention than the DRM.

A targeted public consultation conducted in 2024, together with extensive consultations with Member States and private stakeholders, suggests that interpretative divergences may be contributing to the limited use of the mechanism. For example, the DRM requires taxpayers to submit the complaint simultaneously to all relevant competent authorities, but the text does not define what 'simultaneously' means. As a result, some tax administrations interpret this requirement strictly, i.e., requiring submission on the same day, while others accept complaints submitted within a shorter time span, such as within the same week or month. This divergence creates uncertainty for taxpayers that may discourage the use of the mechanism.

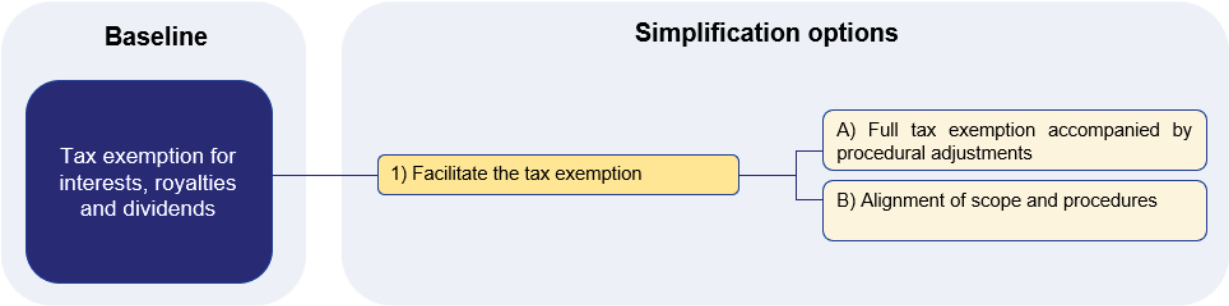
5.2. Description of the policy options

As the Omnibus on Taxation has a singular overarching objective – i.e., simplification – the options analysed below represent different means or ways of achieving the goal. Some of the policy options thus feature alternative measures, i.e., where a choice can be made between two options. In other cases, there is only one option which serves to achieve simplification. In this case, the alternative would be to uphold the status quo as described in the baseline.

5.2.1. Withholding tax exemption for payments of interests, royalties and dividends

To address the issues related to the application of the IRD and the PSD, particularly as regards eligible companies, the material scope, and the procedural aspects as outlined in Section 5.1, two alternative options should be considered. Option 1A regarding procedural aspects would not only require amendments to the IRD and PSD, but also to the FASTER Directive, in order to facilitate the functioning of the IRD and PSD.

Figure 3: Simplification options for IRD and PSD



5.2.1.1. Option 1A: Full tax exemption accompanied by procedural adjustments

This Option aims to extend the material scope of the IRD and PSD by providing an exemption from withholding tax for payments of interest, royalties and dividends, regardless of holding percentage, between companies within the EU.[70]

In parallel, the Annexes to each Directive listing eligible companies would be updated and aligned. Ideally, the wording should accommodate future forms and make it easier for businesses to determine whether they fall in or out of the scope of the Directives. This would be a direct response to many private stakeholders who emphasised the need for consistency on entitlement and explicitly referred to certain business forms which are currently not covered by all Directives. Several Member States also agreed that additional forms should be included in the Annexes.

In this way, cross-border payments of interest, royalties and dividends within the EU would be more attractive and the compliance burden for businesses would be reduced by eliminating some of the existing requirements, notably the holding percentage[71].

Option 1A would be paired with a protective measure aimed to prevent instances of double non-taxation on interest and royalty payments made outside of the Union, i.e., from an EU Member State to a third country. As a matter of principle, Member States would continue to apply their national rules, including those resulting from applicable tax treaties, to interest and royalty payments made to third countries. However, the protective measure would be triggered where the third country in which the recipient is established does not levy corporate income tax or applies a zero corporate income tax rate ('zero-tax jurisdiction') and in addition, no withholding tax is levied in the EU Member State.

The objective of this measure would be to ensure that interest and royalties are subject to taxation at least once. The measure would take the form of either a mandatory withholding tax on such payments at a rate chosen by each Member State individually or the denial of deductibility for tax purposes at source. No similar measure would be necessary to address risks of double non-taxation as regards profit distributions (dividends), as these are already taxed within the EU. A more consistent system of withholding taxes on royalties and interest payments towards low-tax jurisdictions will lower the likelihood of profit shifting by MNEs.

Compliance rules would also be put in place to ensure that the exemption does not require any unnecessary compliance. Currently, Member States often impose burdensome upfront procedures as a condition for accessing the benefits of the IRD and PSD. The extension of the scope of the IRD and the PSD should therefore be accompanied by a prohibition for Member States to impose any upfront procedures. The paying company would have to assess whether the conditions to benefit from the exemption are fulfilled by the beneficiary, and tax authorities would control a posteriori whether such conditions are actually met. However, for publicly traded securities, portfolio investors whose ownership of the paying company is below 5% are usually unknown to the paying company because shares are commonly held in nominee-registered accounts (investors are only required to disclose ownership above 5%). As a result, the paying company would not be able to assess whether the conditions of the PSD and IRD are met by the investor, and the exemption

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[70] For these purposes, the concept of company should be interpreted in accordance with the definitions and scope set out in the Interest and Royalties Directive and the Parent and Subsidiary Directive.

[71] Today, 14 Member States already give exemption from withholding tax on the basis of bilateral DTAs or national legislation for intra-EU interest payments, 8 for royalties, and 9 for dividends.

cannot be applied upfront. In such cases, the FASTER Directive could bring simplification through its standardised fast-track procedures. (i.e., 'relief at source' procedure or 'quick refund' procedure). Yet, in its current wording, the FASTER Directive allows Member States to deny, completely or partially, the application of the standardised fast-track procedures where an exemption from withholding tax is claimed. This wording would, de facto, prevent the benefit of these fast-track procedures to eligible payments exempted under the IRD and PSD. Therefore, the changes to the IRD and PSD would also be accompanied by an extension of the scope of the FASTER Directive to the latter. Otherwise, registered investors will not always be able to rely on the procedures provided under the FASTER Directive. The existing option in the PSD which allows Member States to limit the participation exemption to 95% would be limited to holdings exceeding 10% of the capital. The reason for this 10% holding condition is that management costs related to the holding of shares would mostly be incurred in cases where the participation is substantive, not for portfolio investments. It follows that the participation exemption would be full (100%) for holdings below 10%.

All in all, this option would provide for a more facile treatment of interest, royalties and dividends in the internal market, supporting investment and helping advance key objectives of the Savings and Investment Union.[72]

5.2.1.2. Option 1B: Alignment of scope and procedures

Under Option 1B, the corporate tax directives would maintain minimum holding requirements for the benefit of withholding tax exemptions. However, to improve consistency, the holding requirement of the IRD would be aligned with that of the PSD, i.e., the holding percentages would be adjusted to 10% and the IRD would be extended to include indirect holdings. In addition, and similar to Option 1A, the Annexes of both directives listing eligible companies would be updated and aligned. In this way, corporate tax directives would have a common and consistent approach to companies that can benefit from the withholding tax exemption.

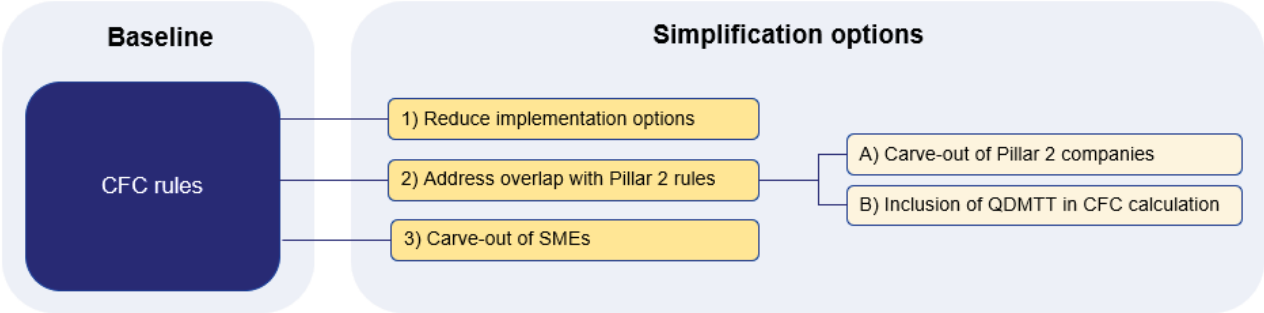
Similarly to Option 1A, the procedural rules for obtaining the tax exemption under the IRD and PSD would be adjusted to ensure that Member States do not impose any upfront procedures as a condition for accessing the exemption from withholding taxes. Here again, the taxpayers would self-assess that it is within the scope and meets the conditions of the PSD and IRD and would apply the exemption directly, as the case may be. Under this option, however, the FASTER Directive would not be amended, since the withholding tax exemptions set out in the IRD and PSD would not extend to investors holding less than 5% of publicly traded securities.

5.2.2. Taxation of Controlled Foreign Companies (CFCs)

To address the issues related to the application of the CFC rules in the ATAD, which are outlined in Section 5.1, several options could be considered.

[72] Among those objectives is the breaking down of barriers to integrated financial markets and supporting productive investments, as explained here: https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union_en#what

Figure 4: Simplification options for CFC rules in ATAD



5.2.2.1. Option 1: Reduce implementation options

In the transposition of the CFC rules in the ATAD, Member States can choose between Models A or B, or a combination of Models A and B, to determine what type of low-taxed CFC income should be attributed to the parent company.

Overall, Model A is generally more stringent and seen as providing greater legal certainty, while Model B is criticised by civil society organisations for being easier to circumvent, less legally certain and more complex. In addition, Model B, by and large, basically applies transfer pricing adjustments. It therefore has little added value, considering that Member States already apply transfer pricing, and its effectiveness is highly dependent on the features of the (diverging) national transfer pricing norms and practices of application. This was observed in Belgium which had implemented Model B in 2017 but found it inefficient as it did not add much to the transfer pricing rules. Belgium then switched over to Model A in 2019.[73]

On this basis, Option 1 entails making CFC rules based on Model A mandatory, meaning Member States will no longer be able to apply Model B for CFC purposes. This option would provide simplification in the application of CFC rules within the EU while still ensuring to maintain the highest level of protection for EU Member States.

5.2.2.2. Option 2: Address overlap with Pillar 2 rules

As described in Box 2 and Section 5.1.2.2, CFC rules and Pillar 2 use similar mechanisms to capture and tax low-taxed profits within company group structures. Although their design differs in several ways, the parallel application of the two sets of rules results in economic double taxation and duplicative administrative burdens. To address this, two options could be considered:

2A. Carve-out of Pillar 2 companies

Option 2A introduces a carve-out from CFC legislation only for MNEs whose (low-taxed) CFCs are fully subject to Pillar 2. If a group is headquartered in a Side-by-Side (SbS) jurisdiction (currently, only the United States), the Income Inclusion Rule (IIR) and Under-Taxed Profit Rule (UTPR) which are used to reallocate taxable income from a low-taxed entity to another entity in the group, will not apply to any of its subsidiaries. As such, the policy rationale would not apply to these structures in the same way, as it does for other entities in scope of the Pillar 2 Directive. To avoid jeopardising the level of protection imposed under ATAD, the CFC carveout would therefore

[73] Deloitte (2023), Belgium parliament adopts law introducing model A CFC rules.

only be extended to entities that are part of SbS groups where the relevant low-taxed subsidiary is subject to QDMTT.

2B. Inclusion of QDMTT in CFC calculation

Under Option 2B, Member States would take into account the QDMTT liability, in conjunction with corporate income tax, to determine whether an entity is a low-taxed CFC and, consequently, whether the application of the CFC rules is triggered.

Adding the QDMTT to the corporate tax liability would reduce the number of cases in which CFC rules are triggered. CFC rules would continue to apply where Member States operate a higher CFC effective tax rate. In those cases, credit would be granted for the QDMTT tax due, thereby ensuring that the simultaneous application of QDMTT and CFC legislation does not result in double taxation. Such approach is also consistent with the OECD Guidance on this topic, which does not allow a pushdown of the CFC tax when computing the effective tax rate for the purpose of applying QDMTT.

5.2.2.3. Option 3: Carve-out of SMEs

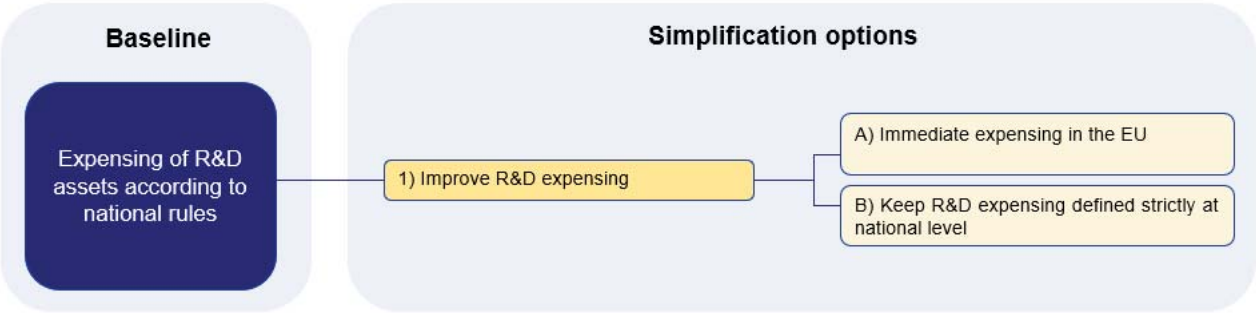
CFC taxation is justified only insofar as it targets arrangements lacking genuine economic substance. Subjecting small businesses to complex foreign-income imputations, despite low structural aggressive tax planning, risks overshooting that anti-abuse purpose. Compliance costs are especially heavy on SMEs. Therefore, in line with similar exemptions in this initiative and in other areas of taxation and EU law, this Option proposes to also carve out SMEs from the scope of CFC rules in the EU.

5.2.3. Expensing of assets related to research and development (R&D)

To address issues related to expensing of assets related to R&D as set out in Section 5.1.3, two options could be considered:

Figure 5: Simplification options for expensing of R&D assets

5.2.3.1. Option 1A: Immediate expensing in the EU



The diverging national tax depreciation treatments for assets related to R&D create an obstacle to cross-border activity in the internal market and bring unwelcome compliance costs for EU businesses. Taken together with the harmonised treatment of such measures under Pillar 2 and the more beneficial outcomes in key partner economies, such as the UK and the United States, this fragmentation also undermines the EU's broader competitiveness objectives. Yet, despite the

clearly cross-border and international dimension of R&D activity, no common EU framework currently exists to address it.

Against this background, and in line with the objectives of simplification and competitiveness, the Option would establish a common minimum framework at EU level for the tax treatment of capital expenditure on tangible assets used for R&D. It would, allow EU businesses to fully deduct the cost of qualifying R&D-related tangible assets in the year the expenditure is incurred, rather than depreciating the costs over time.

In particular, while immediate expensing of R&D expenditure strengthens innovation incentives by allowing firms to deduct the full cost of research investments in the year they are incurred, standard depreciation rules that spread deductions over multiple years erode the present value of those deductions once adjusted for inflation and the opportunity cost of capital. The Option directly addresses this limitation.

Furthermore, immediate expensing of R&D expenditure improves cash flow at precisely the stage when firms are often most financially constrained, thereby easing financing conditions for high-risk, long-gestation research projects. This effect is particularly consequential for early-stage and pre-revenue companies, whose ability to sustain investment in innovation frequently depends on maintaining adequate liquidity throughout extended development periods prior to the generation of taxable income.

The Option would define the scope of qualifying expenditure and set out harmonised rules on the timing of the deduction, including the possibility to claim it in the year that the expenditure is incurred or to carry it forward over a defined period. It would also introduce safeguards to prevent misuse of the allowance, including minimum use requirements for R&D purposes and a clawback mechanism where assets are disposed of.

The Option would contribute to simplification by removing a tax obstacle in the internal market, thereby lowering compliance burdens, increasing predictability for investors, and facilitating the scaling-up of R&D activities within the internal market. At the same time, the measure would strengthen the EU's competitiveness, including vis-à-vis major international partners such as the United States and the UK, by ensuring that all businesses benefit from a baseline tax environment supportive of innovation, while still allowing Member States to maintain or introduce more favourable regimes to attract and retain high-value R&D investment in an increasingly competitive international environment.

The question of whether to cover both tangible and intangible assets was examined. But extending the measure to intangibles would require a significantly more far-reaching intervention in the current tax landscape, given the wide variety of instruments Member States currently apply in that area (in addition to the full deductibility of researchers' salaries, there are measures such as lower tax rates, super-deductions, or tax credits). A broader measure covering both tangible and intangible assets would also entail substantially higher revenue implications for Member States. The targeted approach, limited to tangible assets, is therefore both proportionate and more

politically feasible, while still delivering a meaningful simplification and improvement in the operating environment for EU businesses.

Besides, accelerated depreciation and immediate expensing schemes for tangible assets are unaffected by Pillar Two. Against this background, these tax incentives could then help sustain investment after Pillar Two is implemented.[74]

Overall, this approach would ensure a coherent common baseline for the tax treatment of capital expenditure on tangible R&D assets in the internal market, reducing compliance complexity for businesses operating cross-border, strengthening the EU's competitiveness vis-à-vis its international partners. It would also allow Member States to maintain or further develop broader innovation incentives within a coordinated framework, thereby respecting key messages, such as strengthening competitiveness while keeping flexibility and simplicity, expounded by the Member States in the *Council Conclusions on tax incentives to support the Clean Industrial Deal*.[75]

5.2.3.2. Option 1B: Keep R&D expensing defined strictly at national level

The alternative option would be to maintain the status quo – i.e., continue to allow Member States to operate their own national frameworks for the tax treatment of capital expenditure on tangible R&D assets. This would, however, retain an entirely fragmented approach across the EU and sustain the possible disadvantage that currently exists when compared to other global economies who enact a more unified jurisdictional approach to R&D incentives. As a result, such option would fall short of the objectives of simplification and competitiveness, as administrative complexity for cross-border activities would remain unchanged and divergences in the tax treatment of R&D investment within the internal market would be maintained.

5.2.4. Interest Limitation Rule

To address the issues related to the application of the Interest Limitation Rule in the ATAD, which are outlined in Section 5.1, several options could be considered.

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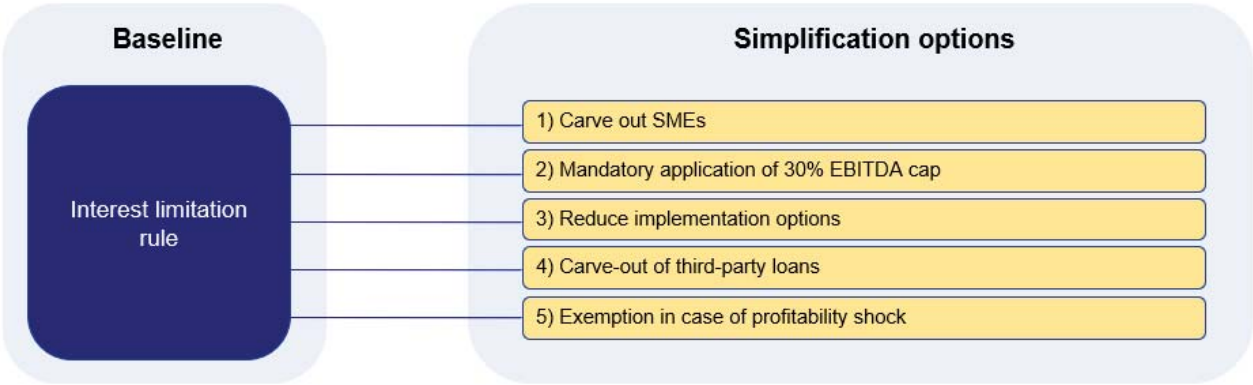
74 Heckemeyer, J. H., Nicolay, K., Spengel, C., Steinbrenner, D., and Wickel, S., 2025, Tax Incentives and Investments in the EU: Best Practices and Ways to Stimulate Private Investments and Prevent Harmful Tax Practices, Publication for the Subcommittee on Tax Matters, Policy Department of the Directorate for Economy and Growth) , Directorate-General for Economy, Transformation and Industry, European Parliament, Luxembourg.

75 Council conclusions on tax incentives to support the Clean Industrial Deal, ST 13501/25; https://data.consilium.europa.eu/doc/document/ST-13501-2025-INIT/en/pdf

Figure 6: Simplification options for the Interest Limitation Rule in ATAD



5.2.4.1. Option 1: Carve-out of SMEs

As most SMEs would tend to have borrowing costs below the EUR 3 million threshold annually, Option 1 could propose to make the de minimis safe harbour mandatory and, thereby, de facto carve out most SMEs from the application of the Interest Limitation Rule. This would differ from the status quo, which allows Member States a more stringent application of this rule, and would thus allow most SMEs to fully deduct their exceeding borrowing costs, while also ensuring a consistent approach across the Single Market.

In order to balance the simplification objective with the need to maintain the high level of protection created by the ATAD rules, the carve-out would only be applicable to SMEs as they have few incentives and/or resources to engage in tax planning using interest payments. According to the ATAD evaluation, larger businesses, especially MNEs, are more likely to engage in aggressive tax planning due to their scale and global operations, which provide more opportunities to exploit tax arbitrage opportunities. The data gathered for the ATAD evaluation shows that the largest MNEs are responsible for the majority of shifted profit. In particular, 60% of the total profit identified as shifted (EUR 159 billion out of EUR 270 billion) relates to the largest 10% of MNEs covered by this dataset.[76]

Considering that inflation may increase future borrowing costs, the de minimis safe harbour could also include a mechanism to regularly update the threshold based on economic indexes, and a pre-agreed formula, as is foreseen by the OECD BEPS Action 4. In such way, the de minimis safe harbour would be made dynamic and automatically adjusted.

5.2.4.2. Option 2: Mandatory application of 30% EBITDA cap

Under this option, the 30% EBITDA cap would be the only possible fixed ratio for deductibility of interest expenses. As it currently stands, business may deduct up to 30% of their EBITDA. By setting a fixed ratio for the maximum deductible interest expense, clarity and equal treatment would be improved with a common standard rather than different variations across the EU.

The current interest limitation set at 30% of a company's EBITDA is designed in a way which ensures that most companies are able to fully deduct their third-party interest expenses. The fixed

[76] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, p. 39.

ratio rule stems from the OECD's BEPS Action 4, where it is recommended to set a coordinated fixed ratio benchmark to reduce the risk that countries will be driven to apply a ratio which is too high to address base erosion and profit shifting risks. On this basis, in 2016, the OECD recommended applying a net interest/EBITDA ratio set at fixed ratio within a corridor of 10% to 30%. Once a benchmark fixed ratio exceeds 30%, the rate at which more groups are able to deduct all of their net third party interest expense increases more slowly.[77]

More recent data shows that a 30% threshold would allow most groups to fully deduct their third-party interest expenses. As a result, the is no need to adjust the 30% threshold to retain its objective.

5.2.4.3. Option 3: Reduce implementation options

This option would seek to limit the implementation variations of the Interest Limitation Rule by making two or three of the current options mandatory.

Firstly, the **group escape rule** would be mandatory. As it currently stands, Article 4(5) of the ATAD provides Member States with the option to introduce a group escape rule for taxpayers that are members of a consolidated group for financial accounting purposes. This exclusion can take either of the two following forms: (i) the equity escape rule, under which the Interest Limitation Rule does not apply if the company can demonstrate that its equity over total assets ratio is broadly equal to, or higher than, the equivalent group ratio, or (ii) the group ratio rule, under which a taxpayer can deduct higher amounts of exceeding borrowing costs, taking into account the indebtedness of the overall group at worldwide level.

Secondly, the **carry-forward mechanism** would be mandatory to ensure that the rule accommodates fluctuations in taxpayer's profitability and offers support to startups.

Thirdly, the **exclusion for long-term public infrastructure projects** could be reconsidered. It could, for instance, also be possible to exclude social housing activities. Some Member States have already introduced a similar exclusion. Providing legal clarity on this possibility would contribute to the Commission's policy on addressing the housing crisis and ensure coherence of the approach across Member States, which would significantly facilitate operations on a cross-border basis for companies supporting this critical policy area. In addition, there could be a separate, mandatory exclusion to cover the defence sector, which would also be in line with the Commission's policies on addressing security and defence challenges, and be consistent with the European Council's call to accelerate the work on all strands to decisively ramp up Europe's defence readiness within the next five years[78]. In light of that very call, this particular exclusion would, however, be applied on a temporary basis, allowing for the EU to review whether targeted support of this policy remains of equal priority over the long-term.

By making such rules mandatory, this option would make the application of the Interest Limitation Rule clearer and more streamlined across the EU, thus addressing some of the issues linked to the current flexibility of the overall rule which were identified in the ATAD evaluation while preserving the anti-BEPS effect and well-functioning of the rule.

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[77] OECD (2016), Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2016 Update: Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/9789264268333-en.

[78] Council Conclusions of 20 March 2025 (document EUCO 1/25)

5.2.4.4. Option 4: Carve-out of low-risk third-party loans

The current interest limitation set at 30% of a company's EBITDA is determined in a way that should ensure that most third-party debt is deductible as loans between independent parties generally cause little to no risk of tax speculation. Under this option, the deductibility of third-party debt could be extended by a carve-out from the scope of the Interest Limitation Rule.

To preserve the objective of the Interest Limitation Rule, i.e., to limit the extent to which groups can use intragroup interest expense to claim total net interest deductions in excess of their net third party interest expense, a restrictive definition of third-party loans would be introduced. Under this definition, the creditor should not be an associated enterprise or an entity of the same consolidated group for financial accounting purposes of the debtor, and the debtor should use the debt to finance its own activities, with no possibility of on-lending within the group.

Finally, an exclusion of third-party loans would also have automatic implications on the treatment of standalone entities, since these entities, by definition, exclusively borrow from third parties. Standalone entities would thus be de facto out of scope of the ATAD, which would make it redundant to maintain the optionality of the current exclusion.

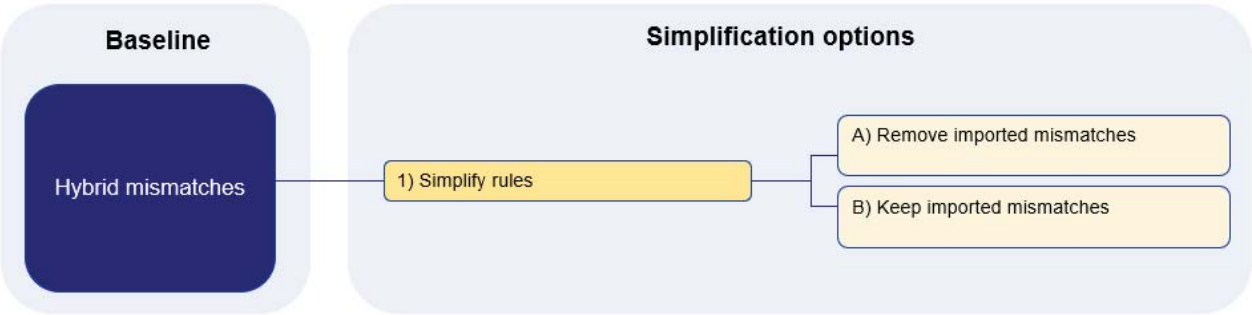
5.2.4.5. Option 5: Exemption in case of profitability shock

To ensure that the Interest Limitation Rule does not impact taxpayers beyond its objective, notably by placing additional pressure on industries in situations of economic distress, a safety net could be introduced: if a taxpayer's EBITDA is reduced by a certain percentage (e.g. 50%) in a year, no Interest Limitation Rule applies to this taxpayer in that year. The EBITDA reduction would be assessed at entity level.

5.2.5. Hybrid mismatches

To address the issues related to the excessive complexity and burden arising from hybrid mismatches, which are described in Section 5.1.5, two options could be considered.

Figure 7: Simplification options for rules on hybrid mismatches



5.2.5.1. Option 1A: Remove imported mismatches

The ATAD rules on imported mismatches are rarely applied due to the difficulties that tax authorities encounter in obtaining the necessary information to identify the actual mismatch. This is because the EU footprint of these arrangements is limited, as most of the steps take place in jurisdictions outside the EU. There is therefore minimal access to information to sustain findings. On this basis, keeping the rule on imported mismatches would maintain an administrative

obligation in force for taxpayers without, in practice, contributing to sustaining the current level of protection against tax planning practices in the EU.

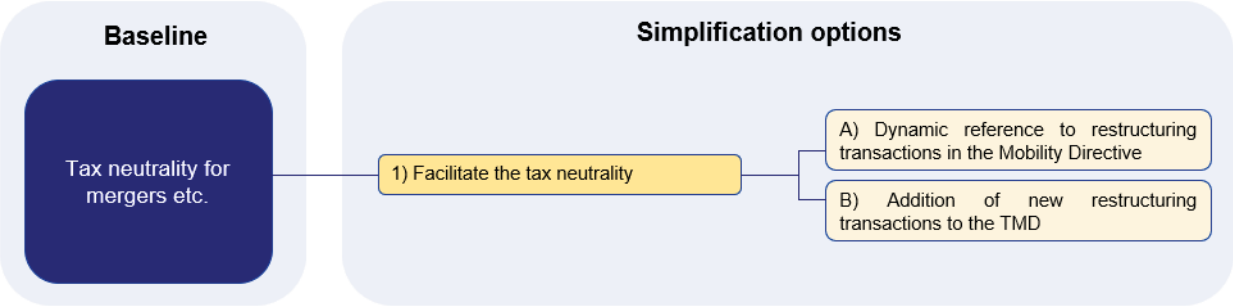
5.2.5.2. Option 1B: Keep imported mismatches

The alternative option would be to maintain the status quo – i.e., continue to apply the rules on imported mismatches. This would, however, imply a compliance burden on businesses and tax administrations to sustain a rule that is rarely applied, given the challenges already explained above, and which is therefore ineffective in practice.

5.2.6. Tax mergers

To facilitate the functioning of the tax neutrality for mergers etc. within the EU, two alternative options could be proposed:

Figure 8: Simplification options for TMD



5.2.6.1. Option 1A: Dynamic Reference to the Mobility Directive

Option 1A would introduce a dynamic link with the Company Law Merger Directive as amended by the Mobility Directive would allow for a full alignment of the Directives and prevent any mismatches should the Company Law Merger Directive be further amended in the future. Concretely, the TMD would include a direct cross-reference the Company Law Merger Directive.

On the one hand, the option would ensure that there is no immediate taxation when the new restricting transactions, i.e., simplified mergers, divisions by separation, and cross-border conversions, are carried out in the internal market. This would provide for a uniform tax treatment of all restructuring transactions that are allowed under the Company Law Merger Directive as amended by the Mobility Directive. On the other hand, this option could lead to uncertainty in the future, leaving the TMD too open to any future changes to the Company Law Merger Directive, including changes which may not always be adequate or necessary from a tax point of view.

5.2.6.2. Option 1B: Addition of new restructuring transactions to the TMD

Option 1B would extend the scope of the TMD by including the new restructuring transactions, i.e., simplified mergers, divisions by separation and cross-border conversions, which can be found in the Company Law Merger Directive as amended by the Mobility Directive.

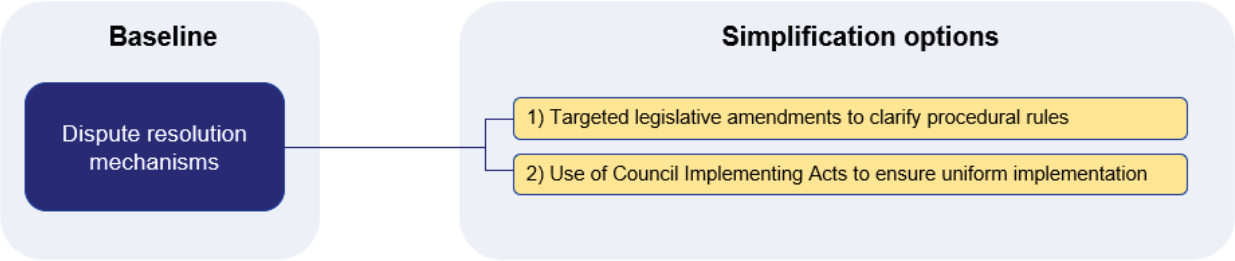
The introduction of cross-border conversions would effectively broaden the scope of the existing rules on transfers of office, ensuring that all transfers are governed by a uniform framework. This would apply regardless of the company's legal form (where covered in the annex) and irrespective of whether a prior legal form conversion is required beforehand.

Similar to Option 1A, Option 1B would provide for a uniform tax treatment of all restructuring transactions that are allowed under the Company Law Merger Directive as amended by the Mobility Directive. In addition, this option would cater for specific tax needs, while providing legal certainty to operators across the internal market.

5.2.7. Dispute resolution mechanisms

As outlined in Section 5.1.7, the use of the DRM is affected by a number of divergent interpretative issues that create tax uncertainty. Two simplification options could therefore be considered:

Figure 9: Simplification options for DRM



5.2.7.1. Option 1: Targeted legislative amendments to clarify procedural rules

This option would propose targeted legislative amendments to address the identified interpretative issues where amendments to the text of the DRM are needed to better clarify concepts and increase the tax certainty of the procedure. The targeted amendments would mainly focus on clarifying key procedural aspects of the complaint phase, including the meaning of the requirement to submit complaints "simultaneously" (Art. 3(1)), the consequences of failing to do so (Art. 3(1)), the possibility for taxpayers to remedy or resubmit incomplete complaints (Art. 3(4)), and the identification of the "affected person" required to lodge a complaint in multi-entity situations (Art. 3(1)). Further amendments would address the interaction between the DRM procedure and other ongoing dispute resolution procedures (Art. 16(5)), and procedural aspects of the dispute resolution stage, such as objections to the appointment of a person of standing (Art. 8(4–5)). Overall, these amendments would aim to remove ambiguities in the DRM and ensure a clearer and more predictable application of the procedure across Member States.

5.2.7.2. Option 2: Use of Council implementing acts

For issues that are inherently more complex and where uniform application cannot be achieved without binding rules, Council implementing acts could be used as a more appropriate tool. This would concern cases in which interpretative difficulties cannot be resolved through targeted legislative amendments alone but require more detailed binding provisions to ensure consistent implementation across Member States.

As a result, this option would include a provision empowering the Council to adopt Council implementing acts to ensure a more uniform implementation of the DRM and to clarify certain operational aspects of the procedure laid down in the DRM , including: (1) the communication flow between competent authorities; (2) the application of the simplified procedure for SMEs; and (3) the interaction between procedures under the DRM and proceedings before national courts.

5.3. Options discarded at an early stage

5.3.1. Abolish CFC rules

According to the ATAD evaluation, the rationale for retaining the CFC rules in a post-Pillar 2 environment is weakened. For groups within the scope of Pillar 2, the introduction of the Pillar 2 global minimum tax makes CFC rules partially redundant, despite differences in scope and functioning mechanisms. For smaller groups, outside the scope of Pillar 2, i.e., with a global turnover below EUR 750,000,000, academic literature suggests that tax avoidance is primarily concentrated among the largest and more complex structures, thereby calling into question the proportionality and effectiveness of maintaining the CFC rules in ATAD. Therefore, the possibility of discontinuing the CFC rules in ATAD could be considered[79].

However, this option has been discarded. While the introduction of Pillar 2 global minimum tax rules and the concentration of tax avoidance among larger and more complex MNE groups call into question the current scope of CFC rules in ATAD, a complete abolition of such rules would create a significant gap in the EU anti-avoidance framework. While tax avoidance risk may be limited for SMEs, full abolition of CFC rules would remove a key safeguard for MNE groups not effectively covered by the scope of Pillar 2 either due to their relatively smaller size, i.e., with a global turnover close to but still below EUR 750,000,000, or specific structure. This option would, therefore, not be fully in line with the general objective of maintaining high tax standards in the EU.

5.3.2. Abolish hybrid mismatches for Pillar 2 companies

During the stakeholder consultations, some businesses argued that the rules on hybrid mismatches in the ATAD should be abolished for companies within the scope of Pillar 2, as consistent treatment in accounting should ensure sufficient taxation at 15%. On this basis, the abolishment of the rules on hybrid mismatches for Pillar 2 companies could be considered.

However, this option has been discarded. Pillar 2 may ensure that the companies in scope pay a minimum level of tax but does not rectify the underlying differences in how financial instruments, entities, or transfers are treated under national tax rules. As a result, without the rules on hybrid mismatches, some groups of companies in scope of Pillar 2 may still have an incentive to exploit these differences, in order to erode their tax base in Member States where they pay an effective tax at a level which is above the minimum or to reduce the income included in the computation of the top-up tax amount, where applicable. This option would, therefore, lower the current level of protection against tax planning practices in the EU, which goes against the general objective of maintaining high tax standards in the EU.

5.3.3. Abolish the Interest Limitation Rule for Pillar 2 companies

During the stakeholder consultations, some businesses argued that since Pillar 2 already neutralises incentives for profit shifting through intra-group financing by ensuring a minimum 15% effective tax rate, the Interest Limitation Rule in the ATAD could be abolished for Pillar 2 companies. According to businesses, this would deliver important simplification and competitive gains without undermining anti-avoidance objectives.

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[79] Commission Staff Working Document: Evaluation of Council Directive 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.

Nonetheless, this option has been discarded. The Interest Limitation Rule protects the tax base. While Pillar 2 sets a minimum global tax rate, the Interest Limitation Rule ensures that the base to which the minimum effective tax rate applies is not eroded through excessive interest expenses. Consequently, the Interest Limitation Rule and Pillar 2 are not alternatives, and such option would lower the current level of protection against tax planning practices in the EU, which goes against the general objective of maintaining high tax standards in the EU. Moreover, removing the Interest Limitation Rule only for large companies would thus also provide those entities with an advantage over smaller competitors, who are generally already in less competitive financial positions and would then additionally suffer more stringent borrowing conditions than larger competitors. Accordingly, this would negatively impact the level playing field in the EU.

5.3.4. Carve Pillar 2 companies out of the ATAD

During the stakeholder consultations, businesses argued that the introduction of Pillar 2 ensures that companies worldwide are subject to a baseline level of taxation. According to them, this development creates redundancies in anti-abuse regulations, leads to unnecessary duplication, heavier compliance burdens and competitive disadvantages for EU-based groups.

However, this option has been discarded. Although Pillar 2 and the ATAD share common objectives, they differ in scope and do not necessarily address the same issues. As illustrated above, even with the implementation of Pillar 2, certain ATAD measures remain necessary to ensure that BEPS risks are minimised. A full exemption for Pillar 2 companies from the whole of the ATAD would substantially lower the current level of protection against tax planning practices in the EU, which goes against the general objective of maintaining high tax standards in the EU.

6. WHAT ARE THE IMPACTS OF THE POLICY OPTIONS?

6.1. The initiative to be assessed

As set out in the above chapters, the Omnibus on Taxation will cover all EU corporate tax Directives[80] and aims to potentially eliminate, amend or harmonise a wide array of tax rules. It will bring simplification for EU taxpayers with the objective of significantly lowering compliance and administrative costs, boosting EU competitiveness, and facilitating investment, while ensuring that the EU's high tax standards are maintained.

This Chapter explores the impact of the envisaged measures, which constitute responses to the baseline and have been individually outlined in Chapter 5. It first assesses the economic impact of the different policy options on the taxation of cross-border interest, royalty and dividend payments (Section 6.2.1 below), and the taxation of controlled foreign companies (CFC) belonging to groups subject to Pillar 2 (Section 6.2.2 below). The assessment is conducted both in terms of direct cost savings and broader, long-term economic impact. In addition, the analysis covers the aggregate impact in terms of compliance costs of the remaining options (Section 06.2.5 below) and the economic impact of the envisaged immediate expensing of R&D-related assets (Section 6.2.3 0 below) as well as certain changes to the Interest Limitation Rule (Section 0 below). This analysis is supported by the methodological and analytical approaches explained in Annex 4 to this report. Finally, this Chapter provides general remarks on the limits assessing the impact of the Omnibus on

[80] To recall, the Omnibus aims to amend the IRD, PSD, FASTER, ATAD (both directives), TMD, and DRM. The Pillar 2 Directive plays a key role, and interacts in some instances with these rules, but will not be amended.

tax administrations, and briefly explores potential environmental, social and fundamental rights impacts.

In this way, the outcome of the analysis in this chapter can be used to compare the options, as designed in three versions (Chapter 7), in order to subsequently determine the preferred way forward for this initiative (Chapter 8).

6.2. Economic impacts of policy options

The impacts of the policy options are assessed based on the material (monetary) and administrative impact for businesses, the EU and its Member States, in addition to, where possible, macro-economic impacts. Several methods were used to analyse the impact of the different policy options, namely desk research, stakeholder feedback through a call for evidence and extensive individual/multilateral meetings, discussions with Member States, and own calculations. The specific methodology and analysis used will either be explained directly in this Chapter or detailed in Annex 4. Among others, the analysis also uses CORTAX computable general equilibrium (CGE) modelling, provided by the JRC, to assess macro-economic impacts.

In brief, there are two types of data available, on the basis of which assessments of the policy options and related considerations are conducted: macro data derived from official statistics and a large database on individual companies (micro data).

However, the general scarcity of available data is a central problem that affects the ability to accurately assess the impacts and revenues related to certain current policy options at a sufficiently granular level. This is demonstrated in the difficulties to identify companies' specific financial and portfolio activities in a sufficiently segmented way – a way that would allow to assess the various options under the Interest Limitation Rule in more detail, or to know the exact number of taxpayers subject to CFC rules, and how often the CFC rules are therefore applied. In absence of such granular data, the impact of the exemption from CFC rules for certain companies cannot be estimated with greater precision.

More generally, a higher level of granularity would be needed to accurately quantify each problem and its related impacts. Such data is, however, available only at the taxpayer level or, to a certain extent, in the hands of national tax administrations; given the proprietary and confidential nature of such data (e.g., to whom (how many companies), at what rate (in which jurisdiction), and how many times CFC is applied, or the interest on loans that companies actually face and size of these loans for the Interest Limitation Rule related analysis), it is not available to the Commission. The Commission has thus sought data input from certain companies in order to conduct a reality-check on certain assumptions, and in order to extrapolate this information to a broader taxpayer base where possible. But this approach has its limitations. All estimates provided in this chapter must, therefore, be interpreted with due care. As stated, details on the methodology used in various calculations are further elaborated in Annex 4. Section 6.3 also addresses the limits of quantifying the impact of the measures on tax authorities.

6.2.1. Withholding tax exemption for payments of interest, royalties and dividends

More detailed information on the methodology used and analysis for the measures proposed in relation to withholding taxes can be found in Annex 4, Section 2 and Section 5.1.

6.2.1.1. Option 1A: Full exemption from withholding tax accompanied by procedural adjustments

Impact on companies

In a first instance, the impact of the measure has been assessed from a micro-economic point of view, taking into account both the direct compliance and administrative cost for corporate taxpayers themselves, as well as the indirect impact in terms of opportunity costs and effects of foregone tax payments. Section 2 of Annex 4 provides an overview in different steps of the methodology used to calculate this[81].

In brief, one of the specific objectives of the Omnibus on Taxation is to eliminate unnecessary EU tax compliance burdens. To estimate the potential impact of this in relation to interest, royalties and dividend flows in the EU, Annex 4 first describes the cost characteristics, before estimating the importance of the respective flows. Next, the tax relief at stake and potential cost reduction from the measure is calculated: in doing so, the analysis estimates that the direct cost relief from a full exemption on interest, royalties and dividends would amount to annual savings of approximately EUR 0.7 billion. This stems from the direct compliance cost savings as businesses would no longer engage in complex refund procedures. Moreover, under the current WHT system, investors incur opportunity costs because long procedures delay the refund of withholding taxes – money that could have otherwise been invested in the interim. Introducing a full exemption from WHT would correspond to important opportunity cost relief, leading to an estimated additional savings of approximately EUR 0.7 billion per year for taxpayers.

Lastly, stakeholder feedback has confirmed that the complexity associated with seeking refunds for withholding tax means that taxpayers often do not engage in these procedures, even in instances in which they are entitled; this is referred to as foregone tax relief that would also no longer be incurred. Introducing the exemption would correspond to additional estimated savings of about EUR 3.8 billion, funds that would consequently remain with taxpayers. The calculations for these respective estimates can be found in Section 2 of Annex 4, for interests/dividends and royalties separately.

Overall, total cost reduction from the corporate taxpayer's perspective (directly incurred costs, opportunity costs, and savings on foregone tax relief) from the introduction of this option would amount to an estimated **EUR 5.34 billion** per year for cross-border interest, dividend and royalty payments within the EU, subject to the caveats as provided at the end of Section 2 of Annex 4.

Impact on tax administrations

Reducing, to zero, withholding taxes on intra-EU payments would also alleviate the administrative burden for tax administrations. First and foremost, tax administrations would no longer need to apply and manage multiple tax refund procedures tailored to different sets of international rules. Today, refund procedures are cumbersome not only for companies to implement, but also for tax administrations to enforce as they include receiving applications (often paper-based), verifying the investor's tax residence and his/her eligibility for refund, checking anti-abuse rules, coordinating with other EU countries' tax authorities, performing (re)payments and, possibly, handling appeals/disputes. The introduction of this measure would thus significantly reduce the workload for tax authorities, and substantially decrease their administrative costs and resource burden/efforts. However, no quantitative projection is possible, given that costs related to certain administrative

[81] See section "Cost estimates for companies: Full exemption of interest, dividend and royalty payments (Option 1A)".

tasks/resource mobilisation inside the tax administrations are not publicly available, nor would they be delineated by enforcement per specific legislative measure. Further details can be found under Section 6.3 of this Chapter.

Impact on the economy

In addition to the above, the measure would have a long-term economic impact, which is simulated using the macroeconomic model CORTAX. The model captures the long-run responses of economic actors to changes in the tax environment and, therefore, allows the broader macroeconomic effects of the reform to be taken into account. See Box 6 for a short description of how the model works. In addition, Section 5.1 of Annex 4 also provides further information on the use of CORTAX for modelling the tax exemption for interest, royalty and dividend payments and lowering of compliance costs.

Box 66: Description of the CORTAX model

CORTAX is used for the macroeconomic impact analysis of various measures presented. It is a computable general equilibrium model specifically designed to evaluate long-term economic effects of corporate tax reforms in an international setting.[82] Its main purpose is to simulate how changes (policy shocks) in corporate taxation influence macroeconomic outcomes such as GDP, investment, consumption, employment, as well as tax revenues. The model shows long-term effects. This means that an initial equilibrium is 'shocked' by a policy measure, and the effects then measured against the expectation that, in the long-term, the economy would converge towards a new equilibrium. The macroeconomic outcome variables in the final steady state equilibrium are then compared to the values in the initial equilibrium, i.e., before the policy measure was introduced.

The model focuses particularly on the role of multinational enterprises and cross-border tax planning, allowing researchers and policymakers to assess both national and international corporate tax policy reforms. As such, CORTAX provides a comprehensive framework for analysing how corporate tax policies, and changes to them, affect economic activity in an internationally integrated economy. Its strength lies in its detailed modelling of multinational enterprises, profit shifting behaviour and cross-border capital flows, which captures interactions between businesses, households, and governments across multiple countries. The model is calibrated for thirty countries, including the twenty-seven member states of the European Union, the United Kingdom, the United States and Japan. In addition to these countries, the model includes a stylized tax haven that serves as a destination for profit shifting.

CORTAX has been widely used in policy analysis, including by the European Commission, to assess various economic, financial, and corporate tax initiatives.

Information on the use of CORTAX can also be found under Section 5.1 of Annex 4 to this report.

The simulation projects the abolition of the withholding taxes on the one hand, and the lowering of compliance costs for companies, on the other. The lowering of withholding taxes could reduce CIT revenue by an equivalent of -0.02% of GDP. However, the impact on *overall* tax revenue is a lot

[82] For an overview see: CORTAX - Joint Research Centre - European Commission.

milder (-0.01% of GDP) due to the positive macroeconomic feedback effects of the measure. In detail, this means that:

The proposed measure will stimulate overall economic activity, leading to an increase in the capital stock (about +0.07%) and GDP (about +0.04%). Importantly, there will also be positive spillovers for employment (about +0.02%). As economic activity expands, additional tax revenues are generated from other sources, such as corporate income taxes and capital gains. This means that any immediate revenue decline would be more than compensated by capital gains, investment, growth, and increased revenue streams over time. The ensuing lower tax burden will improve the EU's competitiveness as investment is expected to increase, which will trigger higher growth and create more jobs. Figure 10 details the findings of the simulation for this measure in the first row (Option 1A).

Figure 10: Long-term impact of the WHT exemption, simulation with CORTAX, % change relative to initial situation (EU-27)

Option		GDP	Capital	Employ-ment	Wages	CIT revenue	Overall tax revenue
1A	Full exemption of WHT	0.043	0.070	0.024	0.016	-0.750	-0.027
1B	Alignment of holding requirements	0.011	0.020	0.005	0.005	-0.191	-0.006

Source: European Commission, Joint Research Centre

These effects could be interpreted as lower-bound estimates. The positive feedback could be stronger as new tax revenue could also be expected from the new 'protective' measure, namely the withholding tax levied upon outbound royalty and interest payments towards zero-tax third country jurisdictions as explained under Section 5.2.1.1 above. This effect is, however, not included in the simulation. Today, outbound payments to Offshore Financial Centres (OFC) [83] are significant according to Eurostat's balance of payments statistics.[84] Much of it is likely used as vehicles for profit shifting to OFCs. This has direct implications for growth that go beyond the direct effect of resources shifted offshore. A more comprehensive system for the application of withholding taxes on outbound payments could therefore lead to more productive allocation of intangible assets, more innovation in the EU, and ultimately higher growth.

6.2.1.2.Option 1B: Alignment of scope (holding requirement) and procedures

Impact on companies

This Option would seek to align the material scope of the IRD and the PSD, lowering the holding requirement of the IRD to 10%. It would also align the procedures for obtaining the withholding tax exemptions under the Directives. The effect of lowering of the holding requirements in the IRD to 10% is simulated such that it would correspond to the 10% requirement stipulated in the PSD. As laid out in detail in Annex 4, Section 2 [85], this option could affect about 7% of interest and royalty payments, as those are the estimated shares of companies with holdings between 10% and 25%. The scope of Option 1B is therefore significantly smaller than Option 1A because it applies to fewer companies, therefore covering significantly fewer payments (see Figure 11).

[83] A list of about 40 countries that provide financial services at disproportionate scale, relative to the size of their economy. They are often characterised by very low or zero taxes on corporate profit.
[84] This data has substantive quality issues and missing data points, especially when it comes to outflows to zero-tax jurisdictions. This renders an accurate quantification of the magnitude of the problem not possible.
[85] See Section "Cost estimates for companies: Alignment of scope and procedures (Option 1B)"

Figure 11: EU located shareholders with EU subsidiaries (Orbis): different scope of Options 1A and 1B

Shareholders with a share …	% of all shareholders (*Orbis*)	Incresed coverage of IRD through…		Increased coverage of PSD through..	
		.. Option 1A	.. Option 1B	.. Option 1A	.. Option 1B
… below 10%	10%			x	
… below 25%	17%	x			
… between 10% and 25%	7%		x		

Taxud illustration

Estimates based on this approach indicate that lowering the holding percentage requirement for entitlement to the IRD could result in cost savings of about EUR 1.5 billion per year for taxpayers across the EU (Annex 4, Section 2). That is, given a more muted impact on taxpayers than under full exemption, estimated cost savings are significantly smaller than estimated above for Option 1A.

Impact on tax administrations and the economy

As this option does not remove the withholding tax, but simply aligns existent holding requirements and procedures, cumbersome refund procedures would remain applicable across the EU – despite the facilitated approach established as a result of the future introduction of the FASTER Directive. This also means that tax administration will continue to have to administer refund procedures, conduct audits, etc. as is currently the case. This likely means little impact on administrations other than adjusting to the slightly altered rules.

The results of the *Cortax* simulation are detailed in Figure 10 above for Option 1B (second row). The effect is significantly lower than for Option 1A, given that Option 1B would not expand the scope of IRD and PSD as widely as is the case for Option 1A (Figure 11). Consequently, the positive macro-economic feedback would be much less pronounced. As above under option 1A, Section 5.1 of Annex 4 provides further information.

6.2.1.3. Why simplifying taxation of intra-EU payments matters

Either policy option considered results in significant annual cost savings for taxpayers: of about EUR 5.34 billion per year under Option 1A, or EUR 1.5 billion per year under Option 1B. The capital that corporate taxpayers would consequently get to keep can then be engaged in new investment, contributing to more economic growth and higher employment, and boosting competitiveness at a company level and for the EU. Analysis demonstrates that removing withholding taxes on all cross-border payments of interest, royalties and dividends within the EU (Option 1A) leads to tax savings that have significant positive long-term macro-economic effects on investment and growth.

However, the overall economic impact of major simplifications that come with these measures go beyond these measurable monetary cost savings. They include the long-term positive impact of higher legal certainty for investors and companies that comes with a more uniform approach to withholding taxes (notwithstanding the level of these uniform taxes). In Option 1A, cross-border payments within the EU would no longer be subject to a complex system of withholding taxes and refund applications that comes with it. While even domestic withholding taxes differ a lot across EU Member States, bilateral treaties between countries make the system even more difficult to access and engage with. With a uniform system in place, investors would no longer need to navigate through numerous sets of rules in bilateral tax treaties – and no longer engage in complex compliance and cost-heavy refund procedures. This leads to a more straightforward compliance framework, fewer errors and, importantly, fewer legal concerns linked to investment decisions.

Studies confirm that tax complexity has a negative impact on FDI and investment in general.[86] Simplifying cross-border tax rules will, therefore, create more confidence in future investment, inducing more potential investors to actually realise cross-border investment. Moreover, it has been shown that tax complexity has the potential to distort investment decisions.[87] If the consequences of a given investment become less predictable, investors may not only decide against it. They may also eventually invest in projects which, from the point of view of expected return and future productivity gains, may not be a first choice or first best. They may, for example, shy away from investing cross-border and instead limit themselves to the domestic context, not taking advantage of the Internal Market. This would be at the expense of economic growth. Studies show that investment within the EU Internal Market is usually more efficient than purely domestic investment because market integration improves capital allocation, increases competition, enables economies of scale, and facilitates knowledge spillovers, thereby raising productivity and returns on investment.[88] These circumstances lead to inefficient allocation of resources across investment projects which, in the long run, will be to the detriment of EU competitiveness and jobs.

Likewise, tax complexity reduces the effectiveness of tax policy measures designed to promote investment. When it comes to investment, businesses react less sensitively to changes in corporate tax rates if tax complexity is high. This will likely 'undermine the ability of tax policy to affect economic growth'.[89] By introducing a significant simplification and harmonisation in the tax framework applicable to cross-border operators, it could thus be expected that investment across the internal market would be positively affected boosting competitiveness of EU businesses as well as overall economic growth, and thus the EU as a whole. It is worth reiterating, however, that equivalent positive effects would not ensue under Option 1B as under Option 1A, since the former would retain the complexities associated with the application of withholding tax across the EU.

Impact on maintaining high tax standards

Not only are both options fully in line with the original objectives of the IRD and the PSD, but they would also pursue to eliminate double taxation and facilitate cross-border investment and capital flows in the EU to a greater extent than the current rules. Further, both options would preserve the existing safeguards designed to mitigate and limit tax evasion and avoidance. A full withholding tax exemption in the EU would be coupled with a protective measure to ensure that interest and royalty payments are taxed when distributed from a Member State to a zero-tax jurisdiction. In addition, a reduction or elimination of holding requirements, and the removal of any upfront procedures for verifying whether the conditions for the exemptions are fulfilled at the time of payment of the interest, royalties or distribution of profits (dividends), should not affect the powers of Member States to carry out *ex post controls* and to apply national anti-abuse rules, including

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[86] Esteller-Moré et al (2021), The role of tax system complexity on foreign direct investment: Applied Economics: Vol 53 , No 45, find that tax complexity in a country leads to FDI outflow, Euler et al (2024), Tax Complexity and Foreign Direct Investment - WU Vienna University of Economics and Business, confirm that tax framework complexity is a deterrent for investment. This affects, inter alia, complex administrative procedures. Braun et al (2025), Tax Complexity and Firm Value - WU Vienna University of Economics and Business, find (for the US) that tax complexity reduces Tobin's Q, a core indicator signalling investment incentive.

[87] For example: Euler et al (2024), Tax Complexity and Foreign Direct Investment - WU Vienna University of Economics and Business; Heckemeyer (2022), Removal of taxation-based obstacles and distortions in the Single Market in order to encourage cross border investment.

[88] See the seminal Cecchini-Report (1988), Europe 1992, or more recently: IMF (2024), esp. on fragmented markets: Scaling up the single market to boost productivity; ECB (2025) on the untapped potential of the EU Single Market.

[89] Amberger et al (2026), Corporate Tax System Complexity and Investment Sensitivity to Tax Policy Changes - University of Iowa.

rules on beneficial ownership. Consequently, the anti-tax avoidance framework should remain effective and robust.

6.2.2. Simplification in the context of the CFC rules

More detailed information can be found in Annex 4, Section 3, in particular as regards the potential economic double taxation resulting from the simultaneous application of the CFC rules and Pillar 2.

6.2.2.1. *Option 1: Reduce implementation options: Make "Model A"* mandatory

Impact on companies

As explained in previous chapters, the ATAD allows for two CFC income definition models to be implemented at national level, or a combination of both. Ten Member States have currently implemented Model B or some hybrid version of the CFC income definition.[90] If Model A were mandatory, these Member States would also apply the same defined categories of passive income of the controlled companies. Model A is simpler than Model B as it adds legal certainty to taxpayers (Section 5.2.2.1). Moreover, with a uniform application of Model A, taxpayers would face a consistent approach to CFC rules across all Member States. This harmonisation would lead to simplified administrative processes, as tax reporting and compliance would be streamlined under a single set of CFC rules. This could lead to lower administrative costs and a reduced need for specialised tax advisory services.

As regards the number of companies affected, based on data available in *Orbis*, some 114,000 companies in the EU would be subject to the ATAD rules, from which about 40,000 companies are located in the ten Member States that so far have not yet (fully) implemented Model A. These companies can be the owners of entire groups, but most of them are owners of fewer entities.

As regards the costs involved, it is assumed that, on average, ATAD-related costs for MNEs are EUR 33,000 per year. This is because compliance checks related to the application of CFC rules would constitute only a part of the total compliance costs related to the ATAD rules as a whole. Next, as explained in detail in Section 1 of Annex 4 (given the lack of available empirical data to confirm the exact proportion), the current analysis uses an assumption that the CFC rules account for one third of these ATAD-related costs, specifically.

As regards the compliance cost savings, there is no empirical data that would facilitate estimating the actual savings per company. Assuming, therefore, that these companies would generate at least 10% compliance related savings as a result of the simplified and unified framework under which they would then operate,[91] it is estimated that relevant controlling companies could save an amount of about EUR 45 million per year (≈33,000 EUR * 1/3 * 10% * 40,000 companies).

Impact on tax administrations

A single framework for CFC rules across the EU provides consistent criteria for enforcement, eliminating the need to apply different models in different jurisdictions. Those jurisdictions not currently applying Model A, and thus their administrations, will incur initial implementation costs as they shift from the use of one or a hybrid approach to implementation of only Model A.

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[90] Eight Member States (Cyprus, Estonia, Hungary, Ireland, Latvia, Luxembourg, Malta, Slovakia) have adopted Model B and two Member States (the Netherlands, Spain) adopted a combination of the two models. Source: ATAD Evaluation.

[91] The 10% possible savings is a hypothesis made on the basis of conservative assumptions following stakeholder consultations that indicate this is one of the primary impediments when operating on a cross-border basis.

However, as further explained in Section 6.2.5 of this Chapter, these costs to administrations cannot be quantified as there is no empirical data to assess the potential cost implications – whether strictly from an IT or human resource (adaptation, personnel) point of view. On the other hand, with one unified system of CFC rules, tax administrations across the EU can develop streamlined processes and procedures, enhancing operational efficiency. This reduces the time and effort required to adapt to varied frameworks and cuts down on administrative overhead. The efficiency gained from enabling companies operating on a cross-border basis to use only one system could also result in fewer mistakes and thus fewer instances of oversight and audit. Finally, an EU-wide standardised system of training and guidance can be developed more easily.

Impact on the economy

Please refer to section 6.2.2.5.

6.2.2.2. Option 2A: Carving out Pillar 2 companies from CFC rules

Impact on companies

Section 3 of Annex 4 explains how this option would operate structurally and how this would impact Pillar 2 companies from a tax obligation point of view.

As regards compliance cost savings, the following can then be deduced from this. According to the company-level database *Orbis*, the number of MNEs present in the EU and in scope of Pillar 2 (i.e., those with a consolidated turnover of at least EUR 750 million) is estimated at approximately 4,700 companies. For those, the total cost related to ATAD is assumed to be EUR 100,000 based on what the ATAD study [92] finds for large, complex MNEs. As for Option 1 above, it is assumed that a third of these overall ATAD compliance costs are related to compliance with CFC-rules and related activities (and likewise, the explanation for this assumption can be found in Section 1 of Annex to this report). Doing away with CFC rules for these MNEs could save compliance costs of about EUR 160 million (≈100,000 compliance cost per company * 1/3 * 4,700 companies). This could be an upper-bound estimate because:

- Not all MNEs have subsidiaries in the EU of which they are shareholders, and not all MNEs would benefit or fully benefit from the carveout as explained in Annex 4.

- Overlaps in the administrative actions linked to CFC and Pillar 2 compliance would imply that savings would not amount to the full cost of CFC-related paperwork.

Impact on tax administrations

Excluding Pillar 2 companies from CFC rules would simplify the workload for tax administrations, resulting in likely important resource savings; however, it is impossible to provide a quantification of said savings in light of the lack of empirical evidence related to the internal costs of applying/enforcing specific rules. By eliminating the overlap between CFC rules and Pillar 2 regulations, tax administrations will face a less complex regulatory environment for enforcement purposes. The reduction in complexity could lead to more efficient processing of tax filings and enquiries, and fewer audits, allowing administrators to carry out a narrower scope of compliance checks. Overall, this should allow easing the burden on resources, personnel and technological resources at the level of tax administration. These arguments also hold for Option 2B, below

[92] Study prepared for the European Commission to support an evaluation of the Anti-tax Avoidance Directive (ATAD) - Final Report (2025). Here: Volume 2, p. 38.

(accounting for QDMTT for CFC), albeit to a lesser extent as fewer companies would be relieved from CFC.

Impact on the economy

Please refer to section 6.2.2.5.

6.2.2.3. Option 2B: Inclusion of QDMTT in CFC calculation

Impact on companies

As for Option 2A, Section 3 of Annex 4 provides an analysis of how this option would affect Pillar 2 companies from a tax point of view, which will be more targeted and technical. As a result, it is likely that compliance cost savings would not be as significant as in Option 2A because CFC rules would continue to apply where Member States operate a higher CFC effective tax rate. CFC rules would still apply if the effective tax rate of an MNE subgroup (the entities of a group in a certain country) was at least 15%. In all other cases, QDMTT would be triggered – and CFC would *not* be triggered in order to prevent double taxation.

We analysed the option using an *Orbis* sample of about 88,000 subsidiaries of EU shareholders, all part of groups whose consolidated turnover is EUR 750 million or above. QDMTT may be triggered for about 46,000 of these entities as they show an effective tax rate below 15%. These represent 53% of all in-scope entities. Under Option 2B, CFC rules would therefore *not* be triggered for these entities.

It is thus assumed that the compliance cost savings under this option would amount to only about one half (53%) of those estimated for Option 2A. Consequently, estimates for Option 2B indicate a potential cost savings of about EUR 84 million (≈ EUR 160 million * 53%).

Impact on tax administrations

Please refer to similarities under section 6.2.2.2 above.

Impact on the economy

Please refer to section 6.2.2.5.

6.2.2.4. Option 3: Carve-out of SMEs

Impact on companies

As a starting basis, this option would carve out SMEs, which would be identified based on the Eurostat definition, widely used across EU legislation, taking into account only those companies with a turnover of EUR 50 million or less. A micro-analysis conducted based on the *Orbis* company database estimates that the number of shareholders with foreign subsidiaries and a turnover below EUR 50 million is estimated at 55,000. On the basis of a recent study, estimates indicate that the CIT-related compliance costs of 'medium'-sized enterprises could amount to around EUR 4,700 per entity.[93] Here too, one can assume that only a fraction of these compliance costs is devoted to CFC-compliance or related activities, considering that for an SME, the control of other entities is a burdensome task. However, given the lack of precise empirical evidence, the analysis uses the same assumption as under options 1 and 2 above, i.e., that CFC compliance costs would amount to approximately one third. The analysis estimates that this option would amount to

[93] VVA/KPMG, Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.

about EUR 90 million (≈ 55,000 companies * 4,700 compliance cost per entity * 1/3) in CFC-related cost savings as a result of carving out SMEs.

Impact on tax administrations

SMEs account for over 99% of businesses in the EU.[94] However, only around 10% have cross-border activities,[95] and only about 5% of SMEs are part of a group.[96] It therefore follows that CFC legislation is relevant to an extremely small population out of the overall number of SMEs. Firstly, the vast majority of these SME groups do not operate on a cross-border basis and therefore do not have operating structures that would avail themselves of controlled foreign companies; or possess limited resources for engaging in cross-border aggressive tax planning. On this basis, it appears inefficient for tax administrations to bear the responsibility for, and dedicate resources to, enforcing the CFC rules in this limited context, especially considering that anecdotal evidence from several EU Member States indicates that CFC rules are rarely in effect applied to SMEs.

Impact on the economy

Please refer to Section 6.2.2.5.

6.2.2.5. Why simpler CFC rules matter

Reduced costs for companies

The above analyses demonstrate that under all circumstances, simplifying the application of CFC rules for the EU results in important cost savings, irrespective of the policy option or combination chosen. This is because any more unified and potentially simpler approach for implementing CFC rules across the EU would result in an easier operating environment, with savings redirected towards investment in new projects, expansion, and innovation. To that end, Option 1 would, by making Model A mandatory, provide clearer EU-wide rules-based taxation of CFCs, as opposed to having to impose and enact an always case-by-case assessment. Under the second set of options, sub-Option 2A (carveout of Pillar 2 companies from CFC) would significantly reduce the administrative burden for shareholding entities of the 4,700 MNEs in scope of Pillar 2 present in the EU as it would eliminate their compliance obligations in the context of CFCs. Whereas for Option 2B, the reduction would be lower, as fewer companies would be relieved form CFC rules. Both options would thus reduce the regulatory fragmentation of CFC-rules, enabling companies to reduce operational costs in significant ways. The associated cost savings of, for example, combining option 1 with 2A could amount to approximately EUR 205 million (EUR 45 million and EUR 160 million, respectively). Whereas combining Option 1 with 2B would achieve fewer savings of about EUR 129 million (EUR 45 million and EUR 84 million, respectively).

Reduced costs for tax administrations

Option 1 (harmonise implementation of Model A across the EU) could entail some potential costs as a result of the change in the administrative approach. However, overall cost savings for tax administrations from the proposed changes in the application of CFC rules would likely be

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[94] Small and medium-sized enterprises | Fact Sheets on the European Union | European Parliament

[95] European Commission (2023), Proposal for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT) and Proposal for a Council Directive on Transfer Pricing SWD(2023) 308 final (p. 41). This information is based on data from: VVA/KPMG (2022), Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.

[96] Eurostat Statistics Explained: SMEs - independent and in enterprise groups - Eurostat

important and stem from enacting simpler and less burdensome enforcement obligations as fewer companies would have to be checked (see each option for details above).

Positive impact on the economy

The long-term macroeconomic effects will, on the other hand, go far beyond the primary savings of administrative costs from both a corporate taxpayer and tax administration point of view. This conclusion is in line with the economic rationale outlined in the context of tax exemptions for outbound payments (see Section 6.2.1.3): when businesses have clarity and predictability regarding tax obligations stemming from income of CFCs, they are more likely to invest abroad. Large MNEs would feel more encouraged to invest in the EU, as this investment would not trigger additional CFC-related compliance obligations (Option A). Moreover, unified EU-wide CFC rules that apply in all Member States provide businesses with the certainty they need to make informed, long-term financial decisions and level the playing field for potential investment in an EU country (Option B). As a result, the EU would become a more attractive place to invest.

Impact in terms of maintaining high tax standards

At the same time, it is important to note that removing the CFC rules for either Pillar 2 companies or SMEs (options 2A and 3 above) would not compromise the standard in the fight against tax avoidance and evasion, as objectively sought under the ATAD. As previously noted, information as to the number of times CFC rules are applied, across which EU jurisdictions and to which specific companies is not available. However, when it comes to option 2A, the Pillar 2 Directive enacts rules that ultimately ensure that companies pay a real effective tax rate as well as introduces safeguards that limit risks associated to how that effective rate is achieved. When it comes to option 3, exclusion of SMEs, anecdotal evidence from several Member States indicates that administrations have had almost no CFC cases related to SMEs in the nearly ten years since ATAD started to apply. This indicates that these rules are rarely triggered for SMEs, possibly because these companies' operating structures are less apt to expand abroad and to engage in aggressive tax planning. CFCs and have no or little cross-border activity. Their exclusion would thus not hinder anti-avoidance and evasion or aggressive tax planning efforts. Rather, it would bring significant cost and resource savings, and thus benefits, to both companies and tax administrations

6.2.3. Immediate expensing of assets related to research and development (R&D)

Impact on companies

As a first consideration, the possibility to immediately expense R&D related tangible assets simplifies the accounting and tax compliance process. Traditionally, R&D costs may need to be capitalised and depreciated over a number of years, which involves calculations and ongoing record-keeping. Immediate expensing allows taxpayers to deduct these costs one-off, in the year that these are incurred, streamlining the accounting process. This relief from recurrent compliance actions can result in lower administrative and compliance costs, enabling taxpayers to allocate resources more efficiently. In particular, immediate expensing aligns the tax treatment of companies' actual expenditure to the point in time where companies actually take the risk to invest. Immediate expensing thus allows more efficient sharing of risks with the government.[97] In other words, taxation will become less distortive with respect to companies' decision to accept risks when investing.

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[97] This argument was put forward by Musgrave and Domar in their seminal work on taxing risky investment as early as 1944. See Domar, E. D., and R. A. Musgrave. "Proportional Income Taxation and Risk-Taking." The Quarterly Journal of Economics 58, no. 3 (1944): 388–422.

The measure would benefit all companies in the EU, also SMEs. Commission analysis revealed that CIT-related compliance costs in the EU could amount to about EUR 53 billion, of which EUR 48 billion could fall on SMEs.[98] Total compliance costs are usually linked to different activities, and there is no empirical information as to what share of total compliance costs could fall on calculations related to tax depreciation, especially not depreciation in the context of R&D. In the absence of statistical information, a conservative informed assumption is taken (given the likely relative ease of a change in procedures) which is based on the relative importance of R&D-related in total costs as observed in the firm-database *Orbis*.[99] It is assumed that 0.5% of total CIT compliance costs could be saved. If so, savings would amount to around EUR 265 million (≈ EUR 53 billion * 0.5%).

Impact on the economy and public finances

Allowing businesses to fully deduct the cost of qualifying R&D-related tangible assets in the year that the investment is made, rather than depreciating the costs over time, is a matter of fairness as it allows deducting expenses when they actually happen. The measure will have significant positive impact on the capital costs of businesses.

This implies a reduction in corporate income tax (CIT) revenues by about 1.9%.[100] However, the impact on overall rax revenue is almost neutral due to significant positive macroeconomic feedback effects that trigger tax expenditure other than CIT. What this means in sum, can be detailed as follows:

Although the compliance cost reduction may be relatively limited (analysed above), the positive impact of faster R&D depreciation on capital formation will be significant. This is because the policy change lowers the after-tax financing constraints and reduces the cost of capital. It is well documented that accelerated depreciation promotes innovation.[101]

By allowing companies to immediately deduct expenditures on equipment, machinery and buildings used for R&D, the reform lowers the after-tax cost of investment and therefore strengthens incentives to invest. To best capture that main impact, a general equilibrium model simulation was performed (using CORTAX) that focuses on the long-term impact of lowering the cost of capital, taking account of allowances that may already be in place in Member States. The results are detailed in Figure 12, row 1.

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[98] European Commission (2023), Proposal for a Council Directive on Business in Europe: Framework for Income Taxation (BEFIT) and Proposal for a Council Directive on Transfer Pricing SWD(2023) 308 final (p. 41). This data is based on a study for the European Commission: VVA/KPMG (2022), Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.

[99] The assumption is compatible with the cost-structure of EU companies. In *Orbis*, for companies with information about R&D costs, their share in total costs is about 2.5%. Extrapolating this value to all companies (assuming zero R&D costs for companies with no information) would result in average R&D costs accounting for 0.5% of total costs on average for all companies in the EU.

[100] Comparable magnitudes of CIT revenue effects have been observed in other contexts. For example, the introduction of full expensing in the UK has been estimated by the Institute for Fiscal Studies (IFS) to reduce long-run CIT revenues by up to around 3.7%, illustrating that relatively pronounced impacts on CIT revenues are not uncommon in the context of investment tax incentives. Source: Institute for Fiscal Studies, *Full expensing and the corporate tax base*, IFS Green Budget, October 2023.

[101] For example: Huang and Liu (2024): Structural tax reduction, financing constraint relief and enterprise innovation efficiency - ScienceDirect.

Figure 12: Immediate expensing of R&D assets, simulation with CORTAX, % change relative to initial situation (EU-27)

Immediate expensing of…	GDP	Capital	Employ-ment	Wages	CIT revenue	Overall tax revenue
1 Tangible fixed assets	0.17	0.43	0.04	0.10	-1.94	-0.02
2 All fixed assets (incl. intangibles)	0.31	0.79	0.07	0.20	-3.77	-0.04

Source: European Commission, Joint Research Centre

In the simulation, this more generous tax treatment leads businesses to increase investment now and in the future, as they anticipate the lowering of capital cost also for future investment. This will raise the overall capital stock in the economy by about 0.4%. A larger capital stock increases workers' productivity, which translates into higher wages (around +0.1%) and higher employment (about +0.04%). Through these channels, the reform also stimulates economic activity more broadly, resulting in an increase in EU27 GDP of roughly 0.17% per annum in the long run. This would imply that, after implementing immediate R&D expensing, GDP would be higher by an equivalent, in 2025 values, of EUR 32 billion per annum than if the EU continues without the measure.

Therefore, the expansion of economic activity largely compensates for the short-term CIT loss. Higher wages and employment increase revenues from labour income taxes, while higher consumption raises indirect tax revenues. As a result of these feedback effects, the overall impact on total tax revenues in the longer run is effectively neutral, with total revenues declining by only about 0.02%.

The simulation was also run for an option that would expand the R&D immediate expensing to include all fixed assets – i.e., also intangibles (results detailed in Figure 2, row 2). As CORTAX, however, does not distinguish tangible from intangible assets, the measure was scaled by introducing the share of tangibles in all R&D expenditure into the model (about 50%.). The analysis shows that in such case, all macroeconomic effects could be expected to double in size. What this demonstrates is that an expansion of the scope of the measure to include also intangible assets would significantly increase the revenue impact, rendering the measure further away from budget neutrality. More technical details about the simulation can be found in Annex 4, Section 5.2.

Impact on maintaining high tax standards

The measure would be designed in accordance with international tax standards, as the option includes a definition of qualifying R&D expenses, and the application would take inspiration from similar legislation adopted by other like-minded international partners.

6.2.4. Simplification in the context of the Interest Limitation Rule

The following subsections assess the individual impacts of certain options under the Interest Limitation Rule as outlined in Chapter 5. However, given the interlinked and inter-dependent nature of some of the design options, several are assessed in aggregate (under 'Options quantified in aggregate' of Section 6.2.4.6). This section is based on a detailed analysis, the methodology and approach behind which is presented in Annex 4, Section 4.

6.2.4.1. Option 1: Carve-out of SMEs (making the de mimimis of EUR 3 million mandatory)

Impact on companies

The analysis presented in detail in Annex 4, Section 4.1, shows why the ATAD de minimis rule agreed in 2016 ensures that small entities today rarely see any restriction on their ability to deduct their interest expenses. This is specifically intended, and the measure was designed with this objective in mind, given that third-party loans is the most important source of funding investment for SMEs. The analysis in Annex 4, Section 4.1, is based on a large sample of unconsolidated accounts from the firm database *Orbis*. The vast majority from that sample stems from SMEs. It is estimated that about 96% of these companies in the EU are already de facto carved out by the de minimis rules currently being implemented. In reality, this percentage is likely higher as small entities are underrepresented in the sample. Notwithstanding these uncertainties, the estimate for the sample will increase to over 99% if the de minimis of EUR 3 million becomes mandatory in all EU Member States. This means that nearly all SMEs will be carved out with the revised de minimis threshold, allowing the sample to save about EUR 900 million per year on corporate tax expenditure.

Due to the underrepresentation of especially small entities in Orbis, the *number* of SMEs so far limited in their interest deduction that would be carved out with the mandatory de minimis cannot be estimated with exact precision. In the *Orbis* sample, this would affect an estimated 63,000 firms (3.4% of the sample), see Annex 4, Section 4.1. These companies would no longer have to bear compliance costs related to the Interest Limitation Rule. In light of *Orbis'* coverage issues, the number must also be seen as a lower-bound estimate.

A study specifically on the tax compliance costs of SMEs in the EU has found that CIT-related costs could amount to EUR 3,300 per year on average.[102] One third of these compliance costs could be related to the Interest Limitation Rule.[103] With these assumptions, compliance cost savings for SMEs could amount to at least EUR 69 million (≈ 63,000 firms * 3,300 EUR * 1/3).

Impact on tax administrations

Please refer to section 6.2.4.8. and Annex 4, Section 4.3.

Impact on the economy

Please refer to section 6.2.4.7.

6.2.4.2. Option 2: Mandatory 30% EBITDA threshold

Impact on companies

Implementing a unique EBITDA threshold would affect Member States that currently apply a threshold lower than 30%, namely: the Netherlands (24.5%) and Finland (25%). These countries would have to increase their respective EBITDA thresholds by 5.5 and 5 percentage points, respectively. There is no individual cost estimate for this measure. Its compliance cost savings are included under 'Options quantified in aggregate' below in Section 6.2.4.6.

Impact on tax administrations

Setting the threshold to 30% in those two countries will result in no or very little impact on tax administrations. This is because today, tax authorities are already responsible for the

[102] This information is based on the underlying data from: VVA/KPMG (2022), Tax compliance costs for SMEs: An update and a complement, Final Report. It is the average for cross-border working SMEs in EU-27.
[103] See Annex 4, Section 1 for this assumption.

implementation and enforcement of these measures (e.g., in case of audits, etc.). Establishing a harmonised threshold would require no change in how the measure is assessed or enforced in a national context.

Impact on the economy

Please refer to section 6.2.4.7.

6.2.4.3. Option 3: Reducing implementation options

The proposed reduction of implementation measures would (1) make the group-escape rule, (2) carry-forward mechanisms and (3) the exclusion of defence related projects mandatory, further unifying EU tax law. There is no individual cost estimate for this measure. Its compliance cost savings are included under 'Options quantified in aggregate' below in Section 6.2.4.6. At the same time, these changes are likely to result in no or very little impact on tax administrations. This is because tax authorities are already responsible for the implementation and enforcement of these measures (e.g., in case of audits, etc.). A change in the rules themselves would not entail a change in resources to continue current practices; if anything, streamlining of the rules and limiting options could facilitate implementation and ease the audit burden on authorities.

Impact on the economy

Please refer to section 6.2.4.7.

6.2.4.4. Option 4: Carve-out of low-risk third-party loans

Impact on companies

This option is analysed on a sample of companies, the details of which are also presented in Annex 4, Section 4.2. The analysis shows that the share of groups that cannot (fully) deduct their low-risk third-party interest expenses from their tax base due to the Interest Limitation Rule could be 8.5% (of all groups). This non-deduction affect mainly large groups, which thus leads to an assumption that ATAD-related compliance costs could amount to EUR 100,000 on average for these groups, and that one third of these ATAD-costs are related to the Interest Limitation Rule.[104] Note that an estimated 151,000 groups currently operate in the EU (and EFTA).[105] Under these assumptions, the overall compliance cost savings could then be estimated to be around EUR 430 million per year (≈100,000 EUR * 1/3 * 8.5% * 151,000 groups).

Impact on tax administrations and public finances

Please refer to section 6.2.4.8. and Annex 4, Section 4.3.

Impact on the economy

Please refer to section 6.2.4.7.

6.2.4.5. Option 5: Exemption in case of a profitability shock

If a taxpayer's EBITDA is reduced by a certain percentage (e.g. 50%) in a year, the measure would foresee that no Interest Limitation Rule applies to this taxpayer in that year. There is no individual

[104] See Annex 4, Section 1 for these assumptions.
[105] 151 004 multinational enterprise groups in EU and EFTA - News articles - Eurostat.

cost estimate for this measure. Its compliance cost savings are included under 'Options quantified in aggregate' below.

6.2.4.6. Options quantified in aggregate

Impact on companies

There are several other simplifications related to the Interest Limitation Rule that are considered, single options identified in Chapter 5, but which are analysed in aggregate. For example, an Option 2: mandatory application of an EU-wide (30%) EBITDA threshold (Section 6.2.4.2); Option 3: Reducing implementation options (Section 6.2.4.3); Option 5: Exemption in case of a profitability shock (Section 6.2.4.5). All these measures would limit the currently large variation of the implementation of the Interest Limitation Rule across the EU. They would standardise the Interest Limitation Rule across Member States, thereby contributing to a more consistent interpretation of legal terms. Exemptions in the case of profitability shocks from one year to another would smoothen the impact of the Interest Limitation Rule on interest expense deductibility, also simplifying the Interest Limitation Rule and facilitating compliance.

It is well established that, from the perspective of internationally active companies, standardisations and simplifications would directly reduce compliance costs.[106] The measures proposed here would eliminate the need for businesses to navigate varied implementation rules across the Member States, such as different thresholds and escape rules. They could therefore reduce compliance cost of all MNE groups operating in the EU. However, there is no empirical precedent or quantitative data that one could use to estimate the cost reduction a company could realise due to the measures. In the absence of any information in that context, we assume that the cost of complying with the Interest Limitation Rule could be reduced by 5% per group on average. The assumption could then result in savings of EUR 80 million per year (≈ 33,000 EUR * 1/3 * 5% * 151,000 groups). This would imply overall ATAD-related compliance costs per group of EUR 33,000, and that one third of these costs relate to the Interest Limitation Rule (see Annex 4, Section 1 for these assumptions).

Impact on the economy

Please refer to section 6.2.4.7.

6.2.4.7. Why simplifying the Interest Limitation Rule matters

The estimates on the direct reduction of compliance costs presented in the sections above demonstrate that the reduction resulting from proposed measures to amend the Interest Limitation Rule can free up financial resources for companies to invest in growth, innovation, and expansion, benefiting overall economic activity. This is particularly relevant for SMEs as they are, relative to their size, disproportionally affected by the cost of tax compliance.[107]

However, as stated earlier, the direct compliance cost reduction does not capture the full long-term potential of reducing complexity, especially when it comes to the deductibility of interest. Standardisation of international tax law will contribute to greater legal certainty (Section 6.2.1.3), making it easier to predict the future cost of investment, ultimately generating higher confidence in investment. Reducing implementation options (Option 2), installing a unique EU-wide EBITDA

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[106] For example: European Parliament, Overview on the tax compliance costs faced by European enterprises.
[107] VVA/KPMG (2022), Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.

threshold (Option 3), and better absorption of economic shocks for interest deduction (Option 5) would all serve that purpose.

A certain positive long-term impact can be expected from Option 4 (taking out the current restriction for low-risk third-party interest payments) in particular. As on-lending of third-party loans within the group would be excluded, such loans would not facilitate profit shifting as they are negotiated at arm's length and typically used to finance investment projects of group members. Exempting third-party interest payments from the Interest Limitation Rule would, therefore, leave more room for productive cross-border investment (FDI) today. It is well documented that FDI in the EU is one of the major drivers of innovation, mainly through the diffusion of knowledge across countries and across businesses.[108] There would be more FDI after exempting interest expenses to third parties from the Interest Limitation Rule as businesses would have more confidence in higher net-returns and lower compliance costs for future investment. More groups would then invest abroad in/across the internal market, fostering innovation and competitiveness, and generating higher growth for EU citizens.

Moreover, exempting certain volumes of third-party interest payments from the Interest Limitation Rule would also tackle one major deficiency of the Interest Limitation Rule: its strong pro-cyclical impact on company cash-flow. This effect can be very significant during economic downturns.[109] Especially during times of increasingly frequent and adverse macro-economic shocks, carving out third-party loans (Option 4) would protect businesses from disproportionate limitations to cost deduction – more than discretionary year-by-year exemptions could achieve (Option 5). Global economic crises since the Covid pandemic have revealed that shocks tend to persist for more than just a year. During that period, companies' debt obligations may remain constant – or may even increase as interest rates tend to go up due to inflationary pressure. At the same time, deductibility shrinks as profits decline. This is exactly what happened since the onset of the global energy crisis in 2022 when the cost of borrowing for non-financial corporations went up from 1.4% (Q4, 2021) to 5.3% (Q4, 2023).[110] Non-deductibility of these costs could reduce a company's cash-flow, thereby causing serious financial distress to otherwise productive companies.[111] Removing the Interest Limitation Rule in the case of third-party borrowing will thus strengthen companies' confidence in future investment as they can rely on the tax policy framework to stabilise deductibility across the business cycle. Consequently, companies' propensity to invest would likely increase, especially if businesses rely heavily on external debt.[112]

Impact on maintaining high tax standards

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[108] OECD (Foreign Direct Investment Qualities and Impact | OECD).

[109] For example, Finnish companies have seen their effective tax burden increase by up to 19% during the Great Recession in 2008 because of limitations in interest deduction. Ropponen (2021), Interest limitation rules and business cycles: Empirical evidence.

[110] ECB series: cost for non-financial corporations of newly agreed loans (annualised rate).

[111] Authors argue that tight deductibility limits would improve market selection as it lowers the likelihood of unproductive businesses stay alive. See Olbert (2025), The impact of tax shields on bankruptcy risk and resource allocation | Review of Accounting Studies. This argument holds in the absence of strong cyclical fluctuation. If strong limitations coincide with pronounced downturns the effect gets amplified and may thus lead to the selection process overshooting in the sense that healthy businesses get wiped out due to reduced cash-flow.

[112] Fich (2025), M&A Under Pressure: How Interest Limitation Rules Are Shaping Corporate Dealmaking | ECGI, turns the argument around: the introduction of interest limitation rules disrupted corporate investment significantly (here: M&A). Businesses with limited cash reserves would be most affected as they rely heavily on third-party debt funding.

All potential changes to the Interest Limitation Rule (options) analysed in the sections above would retain the safeguards and rules intended to mitigate and limit tax evasion and avoidance and, as such, remain in line with the objectives originally established by the ATAD. For the most part, simplifications to be introduced would, as already analysed above, ensure legal certainty and enact more facile and effective rules across the internal market for cross-border operations. This is particularly the case for measures aimed at reducing implementation options, which would ensure that the rule continues to fulfil its core function of preventing tax avoidance while minimising fragmentation, compliance costs and legal uncertainty. Furthermore, by eliminating on-lending and capital contributions or other equity contributions, for example, even the carve-out of low-risk third party loans would be designed in a way to ensure no new risks to BEPS standards. Moreover, a de facto carve out for SMEs maintains the objectives already established under ATAD, under the clear understanding that these smaller companies should be able to deduct their interest expenses and would not possess the means to consistently engage in aggressive tax planning, avoidance or evasion (through, for example, on lending) in a manner similar to MNEs.

6.2.4.8. Impact on tax authorities and public finances

Carving out certain companies from the Interest Limitation Rule as suggested in Options 1 (SMEs) and 4 (low-risk third-party loans) would also reduce administrative costs for financial administrations as this would cut down on the numbers of compliance checks and enforcement and lead to fewer transactions that would require monitoring and analysis. Financial administrations may then be able to allocate resources more effectively, focusing on higher-risk areas or more complex cases, potentially improving the efficiency of tax enforcement overall. As for the other options considered, changes to existing provisions under the Interest Limitation Rule would likely result in no or little impact for tax administrations since tax authorities are already responsible for the implementation and enforcement of these measures (e.g., in case of audits, etc.).

The economic analysis of these measures is also further elaborated on in Annex 4. As regards the de minimis threshold, for instance, Section 4.1 of Annex 4 contributes to showing that the impact of implementing an obligatory de minimis threshold of EUR 3 million everywhere in the EU could reduce the tax revenue of some Member States. As a result of the disparate application of the de minimis threshold, the effect is expected to be felt in Member States where no formal de minimis rule or a lower than EUR 3 million threshold is implemented today. In the EU, the overall revenue impact could amount to around EUR 900 million per year. Regarding the carve-out of interest from low-risk loans from the ILR, on the other hand, the impact on public finances is hard to quantify but, as explained in Section 4.3 of Annex 4, it could be financially neutral.

6.2.5. Aligning & streamlining legislation in the context of tax mergers, dispute resolution mechanisms and removal of imported hybrid mismatches

Impact on companies and on the economy

Streamlining legislation related to tax mergers and dispute resolution, and the removal of imported hybrid mismatches would contribute to a more consistent interpretation of legal terms, improve legal clarity and certainty of MNE groups and decluttering EU tax law. To that extent, the impact of this measure on companies will be very similar to the package of measures outlined above in Section6.2.4.4 6.2.4.6. in the context of the Interest Limitation Rule (in particular: reducing implementation options and making sure that all Member States apply the same 30% EBITDA threshold). Both pairs of measures enhance legal certainty. They reduce ambiguity and inconsistencies in the application of tax rules across Member States. By harmonising provisions – be it through a uniform EBITDA threshold under the Interest Limitation Rule or through aligning tax merger and dispute resolution legislation – they aim to create a more predictable and stable

legal environment for businesses operating within the EU. Given these similarities, it is assumed that the effect of the streamlining and simplification measures discussed here would be the same as for the package outlined in Section 6.2.4.6 in relation to the Interest Limitation Rule. The compliance cost reduction could then amount to EUR 80 million per year.

By minimising disparities in how Member States apply tax rules, the measures also help prevent distortions in the Single Market, thereby promoting economic growth: Clear and viable dispute resolution mechanisms reduce the risk of inconsistent outcomes in cross-border cases and allow disputes to be resolved in a faster manner. This promotes fair competition and prevents regulatory arbitrage. Likewise, reducing disparities in how Member States' tax authorities handle restructuring events - mergers and separations - could foster a more level playing field across the EU, enhancing fairness and consistency in tax treatment.

Impact on tax authorities and maintaining high tax standards

Today, tax administrations already have the responsibility to enforce the rules of the TMD, engage in dispute resolution when this is requested under the DRM, and enforce the ATAD mismatch rules as they currently stand. Changes in these in line with the options assessed in this report would result in a minimal impact on tax authorities. Increased legal certainty and more efficient procedures should facilitate the work of tax authorities by reducing procedural uncertainties and administrative complexity, thereby allowing resources to be used more effectively in the analysis and resolution of disputes. While the proposed changes under the DRM could potentially lead to a greater number of disputes being brought under the DRM, this would likely occur at the expense of disputes currently pursued under other legal frameworks, such as Article 25 OECD Model MAPs or the Arbitration Convention. As a result, the overall number of disputes handled by tax authorities and the related workload would likely remain broadly unchanged

Meanwhile, all proposed measures under the TMD and DRM would retain high tax standards as they do not entail an undermining or lowering of standards in any way. When it comes to imported mismatches, as previously explained, the information to identify and assess relevant tax schemes in third country jurisdictions is not available or easily identifiable/checked. Anecdotal evidence from several EU Member States confirms that these rules are thus rarely, if ever, applied in practice.

6.3. General remarks on the limits assessing the impact of the Omnibus on tax administrations

The proposed measures will often times simplify administrative procedures also for tax administrations, partly through exempting companies from having to comply with certain rules. For example, by exempting SMEs from the Controlled Foreign Company (CFC) rules and the Interest Limitation Rule, tax administrations will no longer need to allocate resources to monitor, assess, and enforce compliance for a large segment of smaller businesses. This will streamline risk assessment procedures, reduce the volume of required documentation (e.g., CFC reporting and interest deduction calculations), and free up capacity for tax authorities to focus on higher-risk cases, such as large multinationals and aggressive tax planning structures. Additionally, standardised thresholds and clearer definitions will minimise disputes and requests for advance rulings, further cutting down on administrative workload.

However, the administrative savings resulting from such efficiency gains for *tax authorities* are impossible to quantify. This is not only because the current burden varies significantly between Member States due to differing enforcement practices, but also because indirect efficiency gains (e.g., faster case processing, reduced litigation, or reallocated staff resources) cannot be measured

in monetary terms without precise information about the individual cost structures of tax administrations particularly in the context of ATAD-rules. A recent study on the impact of the ATAD rules has consulted Member State administrations especially on the tax-administrative costs.[113] Despite detailed questions and engagement with tax administrations as part of the methodological approach, the study could not provide detailed, broken-down quantitative information about the recurrent costs these rules impose on tax administrations. This is because tax administrations themselves cannot separate costs by provision or even Directive, given that these rules have been incorporated in national legislation and are not treated separately (from for overall CIT implementation and enforcement costs) by tax inspectors or administrators.

The study, however, found that ATAD related costs appear proportionate to the number of corporations that must comply with them. Clarifying the application of the rules, or carving out certain companies from specific rules, as some omnibus measures would seek to do, would imply that the cost for audits and controls could decline. For example, the analysis of Section 6.2.4.4 estimates that 8.5% of MNE groups present in the EU may no longer have to deal with Interest Limitation Rules as low-risk loans would be carved out from these rules. This alone could affect an estimated 13,000 – mostly complex – MNE groups. While Carve-outs assessed under Sections 6.2.4.1, 6.2.2.2 or 6.2.2.4 would also bring potential streamlining and lower administrative burdens for tax authorities. However, given the data limitations described, point estimates of potential cost savings for tax administrations cannot be provided. This contrasts with the ability to analyse the reduction in compliance costs for *businesses*, as these can be estimated using publicly available company level information and, not least, because *Orbis* provides a large database of detailed and relevant accounting information at firm level.

6.4. Environmental impacts

No particular and direct environmental impact is expected. The initiative is a horizontal simplification measure in the field of direct taxation, aimed at streamlining, clarifying and updating the existing corporate tax framework. Any environmental effects are therefore likely to be indirect and limited. To the extent that the simplifications free up resources, some businesses may choose to allocate part of those resources to more environmentally sustainable investments. However, such effects would be contingent on subsequent business decisions and cannot be robustly quantified or directly attributed to the initiative.

6.5. Social impacts

Regarding employment and social impacts, the policy options are not expected to produce any material direct social impacts, as it does not concern any labour, social or other directly related rights. Yet, the tax compliance cost savings could be used in productive activities. For instance, businesses could hire or train staff or increase salaries. In such cases, the impact could be positive. Nonetheless, the freed-up funding could also be used for other business purposes or distributed to shareholders. Accordingly, business-level decisions will determine to what extent such effects materialise.

[113] Study prepared for the European Commission to support an evaluation of the Anti-tax Avoidance Directive (ATAD) - Final Report (2025). Here: Volume 2, p. 35.

6.6. Impact on fundamental rights

The initiative was also examined as regards its potential impact on fundamental rights, in particular the Charter of Fundamental Rights of the EU. No significant impact is expected. By reducing fragmentation and unnecessary compliance requirements, improving predictability and facilitating cross-border business activity within the internal market, it may have a limited positive bearing on the freedom to conduct a business and the effective exercise of the right of establishment. Such potential impacts cannot be interpreted as meaning that the problems outlined in Chapter 2 lead to any discrimination or unjustified restrictions.

Finally, where the implementation of the initiative entails the processing of personal data, such processing would have to comply fully with the applicable Union framework on data protection. The initiative is therefore considered to be compatible with the Charter.

7. HOW DO THE OPTIONS COMPARE?

The initiative has two general objectives: to simplify EU tax rules in order to boost EU competitiveness, while maintaining high tax standards in the EU (Chapter 4). These are to be achieved through four specific objectives: eliminating disproportionate EU tax compliance burdens, introducing clear and predictable EU tax rules and terms, improving consistency in the application of EU tax directives, reducing remaining tax obstacles to cross-border investment and commercial activity (Chapter 4).

To achieve these objectives, the Omnibus on Taxation will amend up to seven Directives through a wide array of policy options. Due to the large number of measures under consideration, and as not every single option can be assessed individually, it is necessary to assess different combinations. This allows a comparison between, on one hand, the different policy options for the main interventions of this initiative (i.e. in relation to the taxation of cross-border payments and the taxation of controlled foreign companies), and, on the other hand, the remaining policy options as opposed to retaining the status quo.

Accordingly, this report compares three potential approaches for the Omnibus on Taxation proposal depending on different levels of ambition: **(1) The Comprehensive Omnibus on Taxation** compiles the most impactful simplifications for all envisaged measures which have alternative options, e.g., for the withholding tax relief under IRD and PSD, the overlap between CFC rules and Piller 2, and the update of the TMD. Further, to keep the ambition high, it also entails all other simplifications where the only real choice is between a change or keeping the status quo, such as for R&D expensing and the Interest Limitation Rule. This version will thus assess the most extensive potential for simplification. **(2) The Medium Ambition Omnibus on Taxation** distinguishes itself from the comprehensive approach by offering the least impactful simplifications for measures which have alternative options. To keep the ambition to a moderate level, it also entails all other simplifications where the choice is between a policy change or keeping the status quo, though leaving out the introduction of a new measure related to R&D expensing. **(3) The Limited Ambition Omnibus on Taxation** entails a far more limited number of measures, but that nonetheless deliver on the overall simplification objectives of the omnibus. This option, therefore, includes measures such as reducing implementation options for the Interest Limitation Rule in ATAD and ensuring updates to the TMD and DRM, that are most likely to deliver quick results but requiring a more minimal effort.

The tables below show a scale that indicates to what extent each of the approaches contributes to achieving the specific objectives, considering the different impacts of the policy options, which are discussed in Chapter 6. The scale is based on the following four steps: (0) irrelevant/no change, (+) limited contribution, (++) partial contribution, and (+++) substantial contribution. In addition, it will be considered to what extent the three approaches effectively deliver on the envisaged objectives, efficiently achieve the envisaged objectives at the lowest reasonable cost, and to what extent the approaches are coherent with the Tax Omnibus itself (internal coherence) and with other EU legislation, international obligations, and broader EU policy goals (external coherence).

7.1. Comprehensive Omnibus on Taxation

Policy option(s)	**Specific objectives**			
Taxation of cross-border interest, royalty and dividend payments	Eliminate disproportionate EU tax compliance burdens	Introduce clear and predictable EU tax rules and terms	Improve consistency in the application of EU tax directives	Reduce remaining tax obstacles to cross-border investment and commercial activity
Option 1A: Tax exemption accompanied by procedural simplification	+++	++	+++	+++
Taxation of CFCs				
Option 1: Mandatory application of Model A	+	+	+++	+++
Option 2A: Carveout of Pillar 2 companies	+++	+	+	+
Option 3: Carveout of SMEs	+++	++	0	0
Research and development (R&D)				
Option 1: Immediate expensing for acquired tangible R&D assets	+	+	+++	+++
Interest Limitation Rule				
Option 1: Carveout of SMEs	+++	++	+	+
Option 2: Mandatory application of 30% EBITDA cap	++	0	++	++
Option 3: Reduce implementation options	0	+	+++	++
Option 4: Carveout of low-risk third-party loans	+++	++	0	0
Option 5: Exemption in case of profitability shock	++	++	++	+
Hybrid mismatches				
Option 1A: Abolish imported mismatch rules	+++	+	0	0
Tax mergers				
Option 1B: Addition of new restructuring transactions to TMD	0	+++	++	++
Dispute resolution mechanism				
Option 1: Clarify operative rules	0	+++	++	++
Option 2: Use of Council implementing acts	0	+++	++	++

Overall:	+++	+++	+++	+++

Effectiveness: The comprehensive approach addresses all identified problems by compiling an Omnibus on Taxation which is ambitious and holistic in its simplification measures and thus delivers on all envisaged specific objectives to the greatest extent possible. In this way, this approach also accommodates various calls for simplification from the stakeholder consultations, ranging from most frequent asks, which concentrated around the withholding tax relief under PSD and IRD and the overlap between CFC rules and Pillar 2, to more moderate asks relating to the TMD and the DRM. This approach is expected to have high-scale impacts as the aggregated cost savings for EU businesses are **roughly** estimated to reduce compliance and financial costs by about **EUR 6-7 billion** (EUR 6.6 billion)[114], out of which recurrent costs related to cutting down on administrative burden approximate to about EUR 2 billion per year.

Efficiency: As one of the specific objectives is to eliminate disproportionate compliance costs, it has already been stated that the expected economic benefits of the comprehensive approach are significant. By making some of the existing rules mandatory, e.g., for the CFC rules and the Interest Limitation Rule, this approach would entail implementation costs for Member States that do not already apply these options. Nonetheless, the enhanced uniformity in the rules would increase the operational efficiency in the internal market. In general, the one-off costs linked to the transition of the new rules would be relatively minor, as the comprehensive approach focuses on reducing existing requirements, rather than introducing new ones and the carve-outs, e.g., related to the CFC rules and the Interest Limitation rules would entail resource savings for tax administrations. On this basis, the benefits of the comprehensive approach outweigh by far expected costs, and the significant savings from this approach would be redirected towards investments in new projects, expansion and innovation contributing to growth and boosting competitiveness.

Coherence: the comprehensive approach is coherent within the proposal itself as it offers the broadest possible range of simplification measures across the existing EU tax framework, while maintaining all the original objectives of the respective tax Directives in place. As a matter of fact, it strengthens the Commission's tax policy objectives by extending the progress already made under the IRD, PSD, FASTER and TMD, while addressing the overlapping CFC and Pillar 2 rules by introducing a common solution at EU level. It will also contribute to achieving other ongoing Commission priorities, such as building a strong Savings and Investments Union, encouraging cross-border commercial activity and business expansion in the internal market, as well as facilitating business restructurings. The introduction of a new measure for R&D expensing in this approach is also in line with the Commission Recommendation on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State Aid Framework (115). Finally, it helps address security and defence challenges in the EU, particularly by excluding defence projects from the scope of the Interest Limitation Rule.

In conclusion, this approach can be expected to deliver on all the specific objectives in a cost-efficient way, and thereby significantly simplify tax rules across the EU to boost the competitiveness of EU business and stimulate investment and economic activity in the EU. Although the simplification measures are ambitious, they remain coherent with the existing EU

[114] Financial costs included in this number stem from the exemption of all payments of interest, royalties and dividends from withholding tax (Option 1A): companies save EUR 4-5 billion as they would no longer forego tax reliefs and would no longer bear opportunity costs due to delayed refund. See Section 6.2.1.1. and esp. Annex 4, Section 2.

[115] Commission Recommendation of 2.7.2025 on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Deal State Aid Framework. C(2025) 4319 final.

policies and international standards as they are accommodated by necessary safeguards, such as the protective measure for the withholding tax relief under the IRD and PSD, thereby ensuring that the current high tax standards in the EU are not compromised.

7.2. Medium Ambition Omnibus on Taxation

Policy option(s)	**Specific objectives**			
Taxation of cross-border interest, royalty and dividend payments	Eliminate disproportionate EU tax compliance burdens	Introduce clear and predictable EU tax rules and terms	Improve consistency in the application of EU tax directives	Reduce remaining tax obstacles to cross-border investment and commercial activity
Option 1B: Alignment of scope and procedures	++	++	++	++
Taxation of CFCs				
Option 1: Mandatory application of Model A	+	++	+++	+++
Option 2B: Inclusion of QDMTT in CFC calculations	0	+	+	+
Option 3: Carveout of SMEs	+++	++	0	+
Research and development (R&D)				
Option 1B: Keep status quo	0	0	0	0
Interest Limitation Rule				
Option 1: Carveout of SMEs	+++	+	+	+
Option 2: Mandatory application of 30% EBITDA cap	++	0	++	++
Option 3: Reduce implementation options	0	+	++	++
Option 4: Carveout of low-risk third-party loans	+++	++	0	+
Option 5: Exemption in case of profitability shock	++	++	++	++
Hybrid mismatches				
Option 1A: Abolish imported mismatch rules	+++	+	0	0
Tax mergers				
Option 1A: Dynamic reference to the	0	++	++	++

Mobility Directive				
Dispute resolution mechanism				
Option 1: Clarify operative rules	0	+++	++	++
Option 2: Use of Council implementing acts	0	+++	++	++
Overall	++	++	++	++

Effectiveness: The medium ambition approach entails a wide range of simplification measures that address all identified problems within existing Directives and responds to the need for action that was stressed by stakeholders in the stakeholder consultations. It does not go beyond the existing EU tax framework as requested by stakeholders in the Call for Evidence as it does not provide action related to R&D expensing. Nonetheless, it delivers well on all specific objectives. The approach is roughly estimated to reduce compliance and financial costs by around **EUR 2-3 billion** (EUR 2.4 billion)[116], out of which recurrent costs related to cutting down on administrative burden is around EUR 1 billion per year. Although these estimations are significantly lower than under the comprehensive approach, mainly due to the alternative options chosen to address the problems related to the withholding tax relief under the IRD and PSD and the overlap between CFC rules and Pillar 2, this approach is still expected to provide high-scale impact.

Efficiency: As one of the specific objectives is to eliminate disproportionate compliance costs, it has already been stated that the expected economic benefits of the medium ambition approach are high. As this approach does not include a new measure related to R&D expensing and as the alternative options chosen to address the problems related to the withholding tax relief under the IRD and PSD and the overlap between CFC rules and Pillar 2 are less thorough than in the comprehensive approach, the implementation and transition costs are expected to be lower, without specific impact on tax administrations. While the savings would allow for a more effective allocation of resources, the positive economic impact would be more limited as the dynamic impacts on investment and growth would be marginal.

Coherence: The medium ambition approach is coherent within the proposal itself as it offers a broad range of simplification measures across the existing EU tax framework, building on the achievements already made at EU level. Like for the comprehensive approach, all measures are designed to preserve the original objectives of the existing Directives. It also contributes to other EU policies, like addressing security and defence challenges in the EU and the Savings and Investments Union, but to a much lesser extent than the comprehensive approach.

In sum, while this outcome will fully ensure high tax standards and appears effective in achieving the envisaged objectives in a cost-efficient way, its interventions in two key areas, i.e., in relation to the withholding tax relief under the IRD and PSD and the overlap between CFC rules and Pillar 2, are less thorough and, consequently, prove less effective in achieving the objectives to simplifying EU tax rules with a view to boosting EU competitiveness.

[116] Financial costs included in this number stem from the exemption of all payments of interest, royalties and dividends from withholding tax (Option 1B): companies save EUR 1-2 billion as they would no longer forego tax reliefs and would no longer bear opportunity costs due to delayed refund. See Section 6.2.1.2 and esp. Annex 4, Section 2.

7.3. Limited Ambition Omnibus on Taxation

Policy option(s)	Specific objectives			
Taxation of cross-border interest, royalty and dividend payments	Eliminate disproportionate EU tax compliance burdens	Introduce clear and predictable EU tax rules and terms	Improve consistency in the application of EU tax directives	Reduce remaining tax obstacles to cross-border investment and commercial activity
Status quo	0	0	0	0
Taxation of CFCs				
Status quo	0	0	0	0
Research and development (R&D)				
Status quo	0	0	0	0
Interest Limitation Rule				
Option 2: Mandatory application of 30% EBITDA cap	++	0	++	++
Option 3: Reduce implementation options	0	+	++	++
Hybrid mismatches				
Option 1A: Abolish imported mismatch rules	+++	+	0	0
Tax Merger Directive				
Option 1B: Addition of new restructuring transactions to TMD	0	+++	++	++
Dispute resolution mechanism				
Option 1: Clarify operative rules	0	+++	++	++
Option 2: Use of Council implementing acts	0	+++	++	++
Overall	**+**	**++**	**++**	**+**

Effectiveness: The limited ambition approach targets existing measures in a simpler and more straight forward way, such as reducing the implementation options for the Interest Limitation Rule and extending the scope of the TMD, to generate simplification results thorough the easiest and most accessible options. In this way, this approach delivers on all specific objectives, although it is to a far lesser extent than the two previous approaches. In addition, it fails to address identified problems related to the withholding tax relief under the IRD and the PSD and the overlap between CFC and Pillar 2 rules, which were amongst the most highlighted needs for action in the stakeholder consultations. This approach is roughly estimated to reduce compliance costs (recurrent costs related to administrative burden) by around **0.1-0.2 billion**.

Efficiency: While this approach does not entail what could be considered the biggest simplification measures, it has some merit, as it would deliver on the objectives of the omnibus without entailing considerable implementation and transition costs. At the same time, it has already been stated that the expected economic benefits of the comprehensive approach are low, so it is an approach which neither entails economic benefits, nor costs, resulting in no considerable impact.

Coherence: The limited ambition approach is coherent within the proposal itself as it offers a broad range of simplification measures across the existing EU tax framework, building on the achievements already made at EU level. However, it does not contribute significantly to other EU policies and it falls short of delivering on the Commission's aim to cut recurring administrative costs by EUR 37.5 billion by the end of the 2024-2029 Commission mandate.

In sum, simplification by the least extensive means has the advantage that the legislative proposal would be very targeted, focusing on the Interest Limitation Rule, the Hybrid Mismatch Rules, the TMD and the DRM. Although, these elements would contribute to achieving the specific and general objectives, this version is expected to be less effective than the others as it misses out on the opportunity to simplify the rules to a greater extent and fails to meet the requests from the vast majority of stakeholders in the stakeholder consultations to table an ambitious and holistic Omnibus on Taxation. Consequently, the assessment of the limited ambition approach demonstrates well the importance of proposing a reform of wide scope, since various specific objectives would be less supported if the status quo were to be retained in several areas. For this reason, focussing only on the two key measures appears less effective and efficient than proposing an Omnibus on Taxation with a broader and more ambitious scope.

8. PREFERRED OPTION

Based on the outcome of the previous section, where the different simplification approaches were assessed and compared, the preferred approach is the comprehensive approach to the Omnibus on Taxation. Each of the options, which feature in the preferred approach, are analysed in more detail below.

8.1. Comprehensive Omnibus on Taxation

8.1.1. Withholding tax exemption for payments of interest, royalties, and dividends

Option A accounts for the preferred simplification measure. This is to facilitate the tax exemption of cross-border interest, royalties, and dividends within the EU, i.e., a tax exemption of all such payments without consideration of holding threshold and accompanied by reduced or no procedural requirements.

Overall, the option scores high in terms of fulfilling all the specific objectives. It will, inter alia, provide consistency in the application of the IRD and the PSD by extending the scope of these Directives to all interest, royalty, and dividend payments within the EU, while removing upfront procedural requirements. The update and alignment of the Annexes will contribute to having clearer rules. In this way, unnecessary tax compliance burdens linked to the application of these Directives should be significantly reduced as fewer requirements will have to be met, in order to benefit from the rules and as the option also provides for greater harmonisation of the procedures, thereby also delivering on reducing remaining tax obstacles to cross-border investment and commercial activity.

These results indicate not only a significant contribution to reaching the general objectives of the Omnibus on Taxation proposal itself, as the proposal simplifies EU tax rules with a view to boosting EU competitiveness, but also to other EU policies such as the Savings and Investment Union. At the same time, the option upholds the original objectives of the IRD and the PSD, i.e., eliminating double taxation and reducing administrative burdens within the EU, while the accompanying protective measure targeting royalty and interest payments to zero-tax jurisdictions will remove the risk of unintended consequences, such as leaving the door open for tax planning practices. The protective measure will ensure that the current level of protection, and thereby the high tax standards, are maintained in the EU.

8.1.2. Taxation of Controlled Foreign Companies

To address the identified issues related to CFC rules in the ATAD, the preferred simplification measures constitute a combination of Option 1, i.e., mandatory application of 'Model A', Option 2A, i.e., carveout of Pillar 2 companies, and Option 3, i.e., carveout of SMEs.

The mandatory application of the CFC rules based on 'Model A' introduces a common CFC standard in the EU. Compared to the current divergence in the application of the rules, the measure will effectively improve the consistent application of the CFC rules in the ATAD and replace national specificities related thereto, thereby making the rules clearer. While this will simplify the application of the rules for businesses across the EU, the mandatory application will also bring legislative approximation towards higher tax standards in the EU as 'Model A' provides for a more objective test than 'Model B' which is based on Transfer Pricing rules entailing a high degree of discretion.

The carveouts ensure that two low-risk cases will not have to apply the CFC rules: SMEs, which present a low risk for engaging in abusive cross-border tax practices, and large MNEs, which are subject to the Pillar 2 global minimum tax. Thereby, these measures will eliminate unnecessary compliance burdens for these businesses and contribute to simplifying EU tax rules while keeping them fully in place where these are necessary for maintaining the current high tax standards in the EU. The original objective of the CFC rules, i.e., to prevent multinational groups from shifting profits from a parent company in a high tax jurisdiction to subsidiaries in low or no tax jurisdictions to reduce the group's tax liability, is thus well preserved in accordance with international standards laid down in the OECD BEPS Action 3.

8.1.3. Expensing of assets related to research and development (R&D)

To boost EU competitiveness, this option introduces a simplified and consistent rule to ensure immediate expensing for acquired tangible R&D assets, which is particularly important given the existing favourable treatment of R&D expenses in key partner economies. This option will introduce clearer and more predictable rules compared to the current national divergencies and will reduce an identified tax obstacle to cross-border investment and commercial activity in the internal market, thereby simplifying tax rules across the EU and stimulating economic activity with an overall stable tax collection. To ensure that the measure meets both general objectives, it is designed in accordance with the highest tax standards, as the option will include a definition of qualifying R&D expenses, and the application will take inspiration from similar legislation adopted by other like-minded international partners.

8.1.4. Interest Limitation Rule

To simplify the functioning of the Interest Limitation Rule in ATAD, it is preferred to introduce all envisaged options, as they will make the rule more efficient and effective compared to the status quo.

In particular, Option 2, i.e., mandatory application of the 30% fixed ratio of the EBITDA, and Option 3, i.e., reduction of implementation options, will simplify the EU tax environment by ensuring a more consistent application of the Interest Limitation Rule and replacing national specificities related thereto. These options respond directly to the simplifications that stakeholders were asking for in the consultations and to the findings of the ATAD evaluation, where it has been pointed out in unison that the flexibility of the current rule creates problems in practice. These options will, therefore, contribute to the general objectives of the Omnibus on Taxation by simplifying the Interest Limitation Rule with a view to boosting EU competitiveness. Enhancing

the harmonisation of the rule will also contribute to maintaining high tax standards in the EU as it will provide for a more uniform EU approach that still meets international standards as set out in the OECD BEPS Action 4.

In turn, Option 1, i.e., a carveout for SMEs, and Option 4, i.e., carveout of third-party loans, will ensure that the rule is more targeted, as low-risk cases will be alleviated from the associated compliance burdens. The carveout will not alter the original objective of the Interest Limitation Rule, i.e., to prevent using high debt financing to artificially reduce taxable profits in high-tax jurisdictions, as the rule is intended to align taxation with genuine financing needs and prevent base erosion by ensuring that interest deductions correspond to actual earnings. In the low-risk cases in question, taking out a loan will generally reflect the company's financing needs and the current level of protection will not be adversely affected by unintended consequences linked to these options. Hence, high tax standards remain within the EU.

Finally, Option 5, i.e., exemption in case of profitability shock, addresses the specific case where the Interest Limitation Rule should not be imposing additional compliance or tax burden on a company which experiences a significant drop in its EBITDA. This option will facilitate doing business in the EU in periods of general economic difficulty or when a company faces occasional economic challenges and, thereby, it improves the competitiveness of EU companies. The option does not lower the current level of protection as it will only apply in cases where a company's difficulties reflect its economic reality. Tax planning opportunities will, therefore, not be an unintended consequence of the option, and the high tax standards in the EU will continue to apply.

8.1.5. Hybrid mismatches

To reduce the complexity related to the hybrid mismatch rules, the preferred simplification measure is to abolish the rules on imported mismatches, i.e., Option 1A, due to their limited use, practical difficulties in application, and, as a result, little-to-no practical effect. This will make the rules clearer without altering the original objective of the rules, i.e., eliminating hybrid mismatch arrangements that exploit differences in the tax treatment of instruments, entities, or transfers between two or more countries to achieve double non-taxation, as it is only doing away with a rule which does not offer any protection in practice. The hybrid mismatch rules in the EU would therefore remain in line with the primary rules of the international standards as set out in the OECD BEPS Action 2. The option will thereby contribute to simplifying the EU tax landscape by eliminating compliance burdens in a certain field without lowering high tax standards.

8.1.6. Tax mergers

As for the TMD, the preferred option is to update the existing definitions to include the new restructuring transactions in the Mobility Directive (Option 1B). This will ensure the most consistent application and remove a tax obstacle for business reorganisations which are already acknowledged by EU law. The original objectives of the TMD, i.e., harmonising the tax treatment of cross-border corporate reorganisations, would be fully pursued and extended to new restructurings, thereby ensuring a wider level of protection for EU companies and facilitating more types of restructurings to boost EU competitiveness. It would also run counter to the objectives of the Omnibus on Taxation if these cases were left to be regulated in accordance with diverging national tax approaches.

8.1.7. Dispute resolution mechanisms

Regarding the DRM, the preferred approach is a combination of targeted legislative amendments to the text of the DRM (Option 1) coupled with the possibility of adopting Council implementing acts

(Option 2), depending on the nature of each issue. The original objective of the DRM, i.e., improving procedures for resolving double taxation disputes between Member States, will not be affected. In fact, the interpretative issues identified in the application of the DRM cannot be effectively addressed through a single instrument; instead the combination of the options will effectively eliminate interpretative divergences and deliver to the greatest extent on providing clear and predictable EU tax rules and terms, while also largely ensuring a uniform treatment of matters within the scope of the DRM by replacing national rules related to the DRM with a harmonised approach. These measures are complementary and expected to simplify the application of the DRM while the improved functioning of the DRM will offer a higher level of protection and enhance the tax standards in the EU.

8.2. REFIT (simplification and improved efficiency)

Under this programme, the Commission ensures that EU laws deliver their intended benefits for individuals and businesses while achieving simplification and cutting red tape, whenever possible. This condition is fulfilled, given the very intention of the proposed package: to simplify and cut red tape. As noted in Section 8.1, all businesses in the scope of the EU acquis will benefit from the simplifications which are envisaged under the Omnibus on Taxation proposal. The Omnibus on Taxation is therefore in accordance with REFIT.

For further details, see Sections 4.1, 5.2, 6, and 0.

8.3. Application of the 'one in, one out' approach

According to the 'one in, one out' approach, new administrative burdens resulting from the Commission's proposals should be offset by reducing existing burdens in the same policy area. As noted in Section 8.1, the preferred option has the potential to significantly reduce tax compliance costs for businesses in the EU.

Proposals are designed so that the cost of implementation is minimal, especially if expressed as annualised present value (i.e., distributed over the entire period a company will exist). It is so low that they cannot be seriously estimated for both companies and financial administrations.

As a result, it is difficult to fully apply the 'one in, one out' approach in this situation as the Omnibus on Taxation is meant to amend the existing rules to make them simpler and more effective rather than removing or adding rules. On the basis of the Omnibus on Taxation, the estimated administrative cost savings is about EUR 2 billion.[117]

However, as mentioned in the context of model simulations presented in Chapter 6, the **full macro-economic benefits** of the proposed simplification measures for businesses **outweigh by far these direct cost savings** and, all the more so, the cost of their implementation. This is because these cost savings will play a role each time that companies make a decision about whether or not to invest cross-border. This will create important second-round effects.

Consider that withholding taxes at zero percent across the EU will make complex refund procedures unnecessary (Section 6.2.1.1); or that many companies having to comply with P2-

[117] The latter amount includes savings from avoiding financial costs stemming from the exemption of all payments of interest, royalties and dividends from withholding tax (Option 1A): avoiding foregone refund and opportunity costs due to late tax refunds, a total of EUR 4.6 billion. See Chapter 6, Section 6.2.1.1 and Tables 1 and 2 of Annex 4.

related rules will be relieved from having to also comply with CFC rules (Section 6.2.2.2); or that many companies now subject to interest limitation rules would no longer have to check compliance with these rules in the future (Sections 6.2.4.1 and 6.2.4.4). All these measures create **more legal certainty** for a significant number of companies which, in turn, will foster **confidence in future investment**. It will motivate more of those companies to actually decide in favour of a given investment, which today still consider that their cost is no match to the potential return. As a result, more companies will invest in other EU countries, tapping into the full potential of the internal market.

9. HOW WILL ACTUAL IMPACTS BE MONITORED AND EVALUATED?

Monitoring and evaluation are key constituents of this simplification initiative, regardless of the policy options to be finally selected. Progress towards achieving the objectives will be monitored and evaluated on the basis of the data already collected in combination with potential new information.

9.1. Monitoring

The Commission will periodically monitor the implementation of the Omnibus on Taxation proposal and its application in close cooperation with the Member States. Monitoring in a continuous and systematic way will allow the Commission to identify whether the policy proposal is being applied as expected and to address implementation problems in a timely manner. Collection of factual data on the suggested monitoring indicators will also provide the basis for the future evaluation of the initiative (Section 9.2).

Below, indicators are suggested to measure the success of the initiative in light of the specific objectives (Tabel 1) and general objectives (Tabel 2):

Table 1: Monitoring of specific objectives

Target	Indicators
Eliminate disproportionate EU tax compliance burdens	• Significant change in tax compliance costs for businesses, relative to their turnover (established through a dedicated survey). • Share of companies for whom exceeding borrowing costs remain non-deductible for both groups and SMEs, established on the basis of a firm-level sample as done for this Impact Assessment (Chapter 6 and Annex 4, Section 4 for 2024). • Change in R&D expenditure as percent of GDP • Level of costs and cost savings borne by tax administrations (established through dedicated surveys)
Predictable EU tax rules and terms	• Stakeholder views on issues with the interpretation of specific provisions, the existence of operational and technical inconsistencies (e.g. different definitions, different reporting standards), and how different policy choices in implementation affect effectiveness • Change in the number of cases resolved using the DRM • (Change in tax compliance costs for businesses, relative to their

	turnover)
Consistent application of EU tax directive	• Stakeholders' views on harmonisation and on the variation of options for transpositions and effects on business operations • Existence of tax gaps and overlaps • (Change in tax compliance costs for businesses, relative to their turnover)

Table 2: Monitoring of general objectives

Target	**Indicators**
Simpler tax rules boosting EU competitiveness	• Change in FDI within the EU (Balance of Payment Statistics) • Change in tax compliance costs for businesses, relative to their turnover • Comparison of costs and benefits from stakeholders' perspective (feedback on the issues addressed by the Tax Omnibus)
Maintaining high tax standard in the EU	• Evidence of issues in the design of the Tax Omnibus, e.g., gaps or loopholes that make the existing Directives prone to be circumvented (stakeholder views) • Change in the use of aggressive tax planning as indicated by the amount of interest and royalty payments bound for jurisdictions outside the EU • Stakeholders' views of the extent to which the Tax Omnibus influenced business organisation and tax planning choices

To measure the indicators, the Commission will use different tools, such as stakeholder surveys/questionnaires, public information, e.g., from Eurostat, company level databases, e.g., Orbis, external and internal research, and statistics, e.g., on the judicial activity of the CJEU. The Commission will also review the situation in the Member States regularly and publish a report. The monitoring framework will be subject to further adjustments in accordance with the final legal and implementation requirements and timeline. Given the current lack of data, it will be difficult to isolate the impacts of the Omnibus. Hence, stakeholder will also be surveyed on the basis of generalised questions to obtain broad-ranging qualitative data. Similarly, a survey specifically on ATAD-related compliance costs will be carried out. It must be sufficiently large to allow for econometric techniques.[118] Those will be used to analyse the effect of the Omnibus on compliance costs, controlling to the largest possible extent for other observable and non-observable cost drivers.

[118] The survey could update the analysis presented in Tax compliance costs for SMEs: An update and a complement Final Report KPMG/VVA 2022.

9.2. Evaluation

Considering the impact of the initiative on several existing EU direct tax Directives, which have been transposed by the Member States, it will be necessary to give Member States time to properly implement the adjustments which will be adopted in Council as part of the Omnibus on Taxation proposal. On this premise, the first evaluation should not take place earlier than five years after the new rules start to apply.

In addition to the data outlined in Section 9.1, Member States will be asked to communicate to the Commission any relevant information that is necessary for the monitoring and evaluation of the Omnibus on Taxation proposal. After giving a picture of the functioning of the new EU tax rules, the evaluation should assess whether the outlined objectives have been met, including to what extent the expected simplifications have materialised. The Commission will inform about the evaluation results in the form of an evaluation report, which will be submitted to the Council.

ANNEX 1: PROCEDURAL INFORMATION

Lead DG, Decide Planning/CWP references

The lead Directorate General is the Directorate General for Taxation and the Customs Union (DG TAXUD).

References:

- Agenda Planning: Omnibus on Tax Simplification (PLAN/2025/2875)
- Call for evidence on simplifying EU rules on direct taxation (Ref. Ares(2026)1712759)
- The initiative was announced in the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions on the Commission work programme 2026 (COM(2025) 870 final)

Organisation and timing

An Inter-Service Steering Group (ISSG) was set up to steer and provide input to this impact assessment report. The steering group, led by the Secretariat-General, met on: 23 January, 25 February and 20 March 2026.

The following Directorates General were invited to the Steering Group: AGRI, BUDG, CNECT, COMM, COMP, ECFIN, EEAS, EMPL, ESTAT, FISMA, GROW, INPTA, JRC, JUST, REGIO, SJ, OLAF, TRADE. In addition to the meetings of the Inter-Service Steering Group, DG TAXUD met in bilateral meetings with representatives of the following Directorates General to discuss the analysis in the impact assessment, the design of options, and other policy issues: COMP, FISMA, JRC, and the Secretariat-General.

Consultation of the RSB

The preparation of the Impact Assessment report was discussed with the Regulatory Scrutiny Board in an upstream meeting on 9 March 2026.

The report was submitted to the Regulatory Scrutiny Report on 8 April 2026.

The Impact Assessment report was scrutinised by the Regulatory Scrutiny Board and discussed in the relevant meeting on 29 April 2026. In the opinion dated 4 May 2026 and in line with the decision of the President of the Commission P(2026)1 of 28 April 2026, the Regulatory Scrutiny Board provided recommendations on how the quality of the draft report submitted should be improved.

On this basis, the Impact Assessment report has been revised. The main changes to the report are summarised in Table 3:

Table 3: TAXUD revisions following the RSB recommendations

Comments of the RSB	*How and where comments have been addressed*
(C) What to improve	

(1) The report should provide more robust evidence including quantitative observational data, to demonstrate the extent to which the identified problems impose costs and burdens on economic operators. It should explain how this constrains economic activity and impacts growth and competitiveness and also their impacts on public authorities. To the extent possible, observational as well as more granular opinion data should be used to demonstrate the size of the problems and establish the dynamic baseline. The report should also bring forth relevant evidence from key sources, such as the ATAD evaluation and its support study.	More data, e.g., from the Call for Evidence, the ATAD evaluation and other publicly available studies, has been added in Chapter 2 to provide more robust evidence on the identified problems. It has also been clarified in Chapter 3 (EU action) and 5 (baseline scenario) that not all problems that are identified, e.g., in the ATAD evaluation and in the Call for Evidence, feature in the report as the report focuses on identified problems that can only be addressed by legislative action.
(2) The report should strengthen the intervention logic by providing a clearer description of some of the proposed measures and how they correspond to the identified problems and objectives - especially for measures concerning R&D expensing and imported hybrid mismatches. It should, for example, include an analysis of legal uncertainties and diverging national rules on expensing of R&D, and also clarify that the measure is a new initiative rather than a change of existing EU rules regarding expensing. As regards imported hybrid mismatches, it should better describe the problems. The report should also outline the underlying logic guiding the combination of individual measures into the proposed options, and provide further clarification on the main differences between the ‘comprehensive’ and ‘medium’ ambitions.	The intervention logic has been revised to ensure that there is a clearer link between the identified problems (Chapter 2) and envisaged objectives (Chapter 4). The wording of the specific objectives has also been slightly adjusted to make it less prescriptive and more open to different simplification options. More attention has been given to the SMART criteria in the Better Regulation Guidelines, and the measurability of the envisaged objectives has been improved, e.g., by the use of qualitative metrics as indicators for success (Chapter 9). More explanations have been added concerning R&D expensing and Hybrid Mismatch Rules to the explanations concerning the problems (Chapter 2), the baseline scenario and the policy options (Chapter 5). The underlying logic, i.e., different levels of ambition, for the composition of the different approaches to the Omnibus on Taxation has been clarified (Chapter 7). In the same vein, the ‘medium ambition’ and ‘limited ambition’ approaches have been modified to provide three ways, which are more differentiated, in which the different policy options could be compiled in the Omnibus on Taxation. The assessments of the three approaches have been improved and adjusted accordingly.
(3) The report should elaborate on the impact on public administrations, including costs, cost savings, and short-term and long-term effects on tax bases and tax revenues. The report should analyse potential obstacles that could	The analysis in chapter 6 has been supplanted with additional elements on costs and impact on public revenues, where such analysis is possible taking into account significant data limitations, as well as further elements of a macroeconomic

hinder the effective and timely implementation of the proposed options by Member States.	nature to the extent growth, employment, investment impact can be assessed through existing economic models. Further explanations on assumptions underlying points of analysis have also been added (either in the text or details in Annex to support conclusions).
4) The report should enhance its analysis of costs, cost savings, and risks, including an examination of potential impacts on objectives such as removing double taxation, eliminating unnecessary or disproportionate tax compliance cost, ensuring tax neutrality, and tackling tax avoidance and evasion. The analysis should also better assess the resulting costs and benefits from applicable efficiency perspectives, and also consider the distributional effects on various stakeholders. The report should further assess the effects on the EU business environment and economic growth.	In addition to the points above, the analysis has been better delineated by stakeholder group, clarifying impacts on companies (corporate taxpayers), tax administrations, and in macro/economic terms. The analysis also provides assessment on the impact of maintaining high tax standards in the Union for all relevant measures and policy options.
(5) The report should provide more empirical evidence to support the assumptions used in the analysis and provide a sensitivity analysis where appropriate. It should, for example, demonstrate the robustness of assumptions such as 0.5% CIT compliance cost savings for R&D, the 5% ILR-related cost reduction, and the assumption on CFC and ILR related compliance costs. Additional explanations on the assumptions and data sources used in the model should be included.	Detailed explanations of the empirical evidence used, where available, has been added and explanations provided for assumptions and data sources when those are necessary/used.
(6) The report should be written using non-technical language and be a self-standing document that is accessible to non-expert readers.	The report, and particularly Chapter 2 (problems), has been revised to give a simpler and clearer presentation of identified problems. To provide a better overview, a timeline for the adoption of the existing Directives has been added in Annex 7. The use of abbreviations has been limited, and more definitions of key concepts have been added to make the report more accessible to non-expert readers. The baseline scenario has been moved from an Annex to the main body of the report to ensure that the report is self-standing.

Evidence, sources and quality

The evidence base for this impact assessment report is based on various different sources, such as:

- Modelling by the European Commission's Joint Research Centre using the CORTAX model.
- Feedback from the targeted stakeholder consultations and call for evidence, as summarised in the synopsis report in Annex 2.
- The ATAD evaluation.
- Exchanges with additional stakeholders through the Platform for Tax Good Governance and with Member States in Commission Working Party IV.
- Desk research and quantitative analysis.

ANNEX 2: STAKEHOLDER CONSULTATION (SYNOPSIS REPORT)

Stakeholders' engagement strategy

The consultation strategy for the Omnibus on Taxation encompasses the following activities:

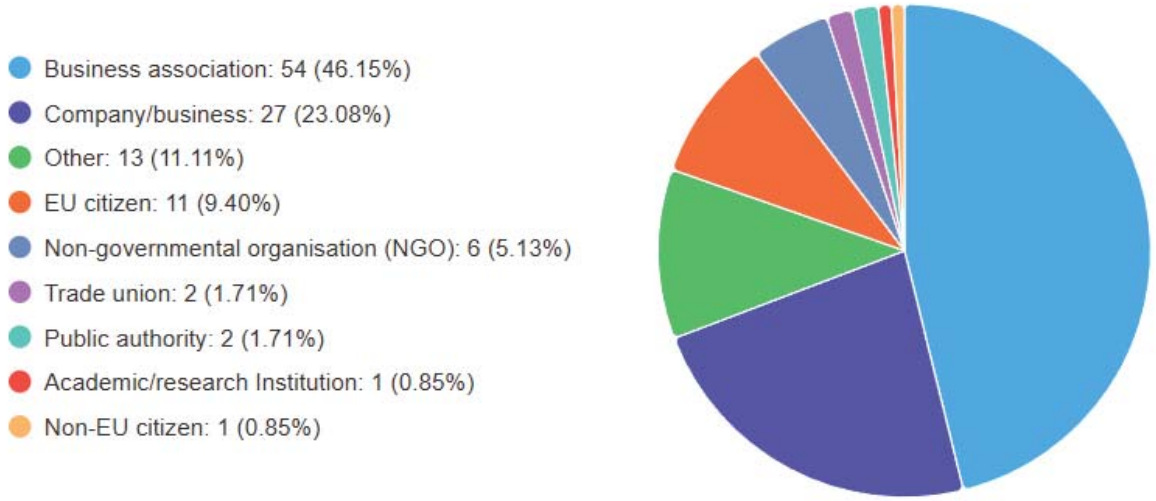
- Feedback to the Call for Evidence published on the Commission website on 16 February 2026
- Targeted consultations with a wide range and large number of key stakeholders

No public consultation has been conducted as extensive targeted consultations have been held with key stakeholders over the course of 15 months.

Feedback on the Call for Evidence

The consultation period through this feedback mechanism took place between 16 February and 30 March 2026 via the Commission website[119]. 117 contributions were submitted during this consultation period by the following categories of stakeholders:

Figure 10: Respondents to the Call for Evidence by category



Source: https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/16912-Simplifying-EU-rules-on-direct-taxation-omnibus/feedback_en?p_id=22324

Overall, stakeholders fully supported the initiative to simplify existing EU tax rules with a view to improving the functioning of the internal market and ensuring Europe's attractiveness as a place to invest and to do business. Nonetheless, the views on how exactly the simplification should be conducted varied.

[119] Simplifying EU rules on direct taxation – omnibus.

The majority of stakeholders, i.e., approximately 77%, expressed the need for enhancing harmonisation and limiting national discretion in implementing the existing Directives. Other recurrent askes concerned, e.g., rationalising and modernising the existing Directives, reducing overlaps, inconsistencies, and administrative burdens, as well as standardising and clarifying the terms and rules. Around 50% of the stakeholders found that the procedures following from the Directives should be standardised, including through the use of digital tools. Around 60% also pointed out the importance of making the rules and procedures simpler for SMEs.

In terms of specific issues and possible simplifications to the existing Directives, for the IRD and the PSD, approximately 67% of the stakeholders expressed the need to simplify the current withholding tax relief framework. The main issues concentrated around the access to withholding tax relief which was considered as too complex, the eligibility requirements too strict and the application of the Directives too inconsistent. On this basis, it was *inter alia* suggested to remove upfront requirements, such as attestations, in order to benefit from the tax exemption, or to increase administrative cooperation between the Member States by harmonising the procedural rules, including by introducing a standardised documentation framework, across the EU. It was also suggested to remove withholding taxes within the EU entirely or to harmonise the withholding tax rates. It was suggested to update the list of company forms in annex to each Directive to incorporate changes seen during the last years or even make the list more flexible and to harmonise the beneficial ownership requirements and the participation exemption method. The need for clarifying the scope of the specific anti-abuse rules was mentioned. Moreover, it was pointed out that the current requirement of a 25% direct holding requirement in the IRD is too restrictive and should be aligned with the holding requirements under the PSD. Also, for the IRD, it was highlighted that the material scope is too narrow, e.g., excluding payments that, from an economic perspective, perform the same function as interest or royalties, such as remuneration arising from hybrid financial instruments, loans with variable or profit-linked components, redemption premia, and other financial returns, and that the concept of interest should be harmonised. For the PSD, it was suggested to harmonise the concept of ‘profit distribution’ across the EU, to ensure that all Member States interpret the holding requirements as covering indirect ownership, to consider holding periods at group level, and to avoid distortive outcomes from the 5% exemption limitation.

For the ATAD, the main message from stakeholders was to address the complexity and keep the protection. More specifically, approximately 68% of the stakeholders found the parallel application of ATAD and Pillar 2 disproportionate. In this regard, it was *inter alia* suggested that: The Interest Limitation Rule could be abolished if the lender is established in a jurisdiction which has implemented a QDMTT, and CFC rules and rules on hybrid mismatches could be abolished for Pillar 2 companies. Concerning CFC rules, it was also pointed out that by around 60% of the stakeholders that fragmentation and legal uncertainty should be reduced, e.g., by harmonising rules and reporting obligations (e.g., by allowing only the implementation of one Model). Concerning the Interest Limitation Rule, issues were pointed out by approximately 52% of the stakeholders. In this regard, it was stressed that the current economic conditions, such as inflation, financing needs, and income volatility, should be addressed. In addition, it was suggested to enhance the target and proportionality of the rule, e.g., by excluding third party loans, introducing more coherent definitions of ‘EBITDA’, ‘interest expense’ and ‘borrowing costs’, allowing for certain sector specific requirements, making some of the safeguards mandatory, such as the group escape rule and the infrastructure project exemption, while broadening its scope, and clarifying the treatment in liquidation scenarios. Concerning the hybrid mismatches, concerns were raised by around 43% of the stakeholders. It was, e.g., mentioned that the applicability of the rules should be limited to intra-group transactions, that the rule on imported mismatches should be: removed, limited to ‘back-to-back structures’, or clarified. In addition, it was requested that the definition of ‘acting together’ should be clarified, and that a de minimis threshold should be introduced. Concerning the general

anti-abuse rule (GAAR), approximately 44% of the stakeholders suggested to clarify and target its scope, e.g., by providing guidance on its interpretation and by refining the interaction with Pillar 2. Concerning exit taxation, it was suggested to introduce tax deferral upon exit or until realisation of gains, instead of an instalment, and to standardise the method for determining the market value. Lastly, on a general note, around 67% of the stakeholders stressed that the minimum standards in ATAD, which are transposed differently in the Member States, create fragmentation and complexity which could be addressed by enhancing harmonisation in this area, e.g., by limiting implementation options as much as possible and by reducing 'gold plating', i.e., unilateral introduction of additional requirements above the minimum set out in EU legislation, in the Member States. It was also noted by approximately 45% of the stakeholders that the ATAD rules are disproportionate for SMEs and which could be solved by introducing carve-outs for SMEs.

For the TMD, approximately 38% of the stakeholders found that the scope should be extended and updated. It was *inter alia* pointed out that it has not kept pace with developments in EU company law, i.e., the Company Merger Directive as amended by the Mobility Directive, and modern business practices. It was also stressed that there is a need for clarification of the specific anti-abuse rule, the treatment of losses carried forward, the effective dates, and the rules concerning partial divisions, including the rules for allocating shared or functionally important assets. Finally, it was noted that the scope and eligibility requirements should be aligned with the IRD and the PSD and extended to cover transparent entities and that it should be ensured that the benefits are not denied where the merger or division includes a tax transparent entity.

For the DRM, around 38% of the stakeholders found that dispute resolution remains too slow and complex. It was *inter alia* pointed out that there is a need for a more meaningful participation of the taxpayer and more timely and effective resolution of double taxation disputes, e.g., under the supervision of the Commission. In this regard, it was e.g., suggested to enhance transparency, to ensure a consistent interpretation of the admission criteria, to enforce timelines more strictly and impose interest and penalties, where applicable, to clarify the interaction with MAP procedures, to establish a permanent arbitration body, to clarify the definition of affected person, and to extend the scope to disputes arising from the application of the Pillar 2 Directive. It was also stressed that there is a need for an EU framework for dispute prevention, e.g., in transfer pricing, which can be bilaterally or multilaterally adopted by Member States.

The feedback showed no demand for modifying the original policy objectives of the existing Directives. Conversely, a few stakeholders emphasised that simplification efforts should be done in a way that does not undermine the important policy objectives of the existing Directives. Some went further and noted that the existing Directives should be reinforced, e.g., with new dedicated anti-abuse rules and minimum substance requirements. Others also suggested that new tax initiatives should entail systematic reviews of existing measures, e.g., to ensure that simplification is continuous rather than a one-off matter and that the impact for SMEs is regularly evaluated.

Finally, approximately 61% of the stakeholders expressed that the simplification should go beyond amending the existing Directives, e.g., to further support innovation and growth through a more ambitious and holistic tax agenda. Other asks in this area related: to taxation of unrealised capital gains, to introduce a common distribution-based tax system in the EU and a centralised EU reporting and one-stop-shop model, to shift from taxing income to taxing pollution and resource-use, to have more incentives for SMEs, to improve Transfer Pricing within the EU, to introduce mutual recognition of tax-exempt public benefit entities, to exclude jurisdictions with a QDMTT from the EU list of non-cooperative jurisdictions, to review the implementation of the OECD Pillar 2, and to expand the scope of simplification to indirect taxation, cross-border workers, and existing proposals, such as BEFIT, and the Pillar 2 Directive.

Targeted Consultations

Over the course of the policy development process, a number of interviews and meetings were carried out with different private stakeholders, including businesses of different sizes operating in different sectors. The consultations mainly covered issues related to the IRD, PSD, TMD, and DRM as a separate study was carried out for the ATAD by an external contractor as part of the evaluation of the ATAD.

Overall, it can be said that the stakeholders favour the objectives of simplification and tax competitiveness but their current issues and needs for simplification vary relative to their size, activities, and the Member States in which they are operating. The key take-aways from the discussions can be summarised as follows:

Concerning the IRD and the PSD, most stakeholders face compliance burdens, particularly in some Member States where taxpayers have to either request a refund of paid withholding tax or undergo lengthy and costly upfront procedures to benefit from the tax exemption. Stakeholders suggested to align formalities and deadlines, and to introduce a digitalised and standardised procedure across the EU, including EU digital tax resident certificates, building on the FASTER Directive. Some stakeholders also highlighted heavy compliance burdens related to beneficial ownership tests and noted that complex rules have a deterrent effect on distributing profits across borders – contrary to the objectives of the Directives. Some stakeholders found that withholding taxes could be fully removed within the EU, or at least procedures with upfront compliance requirements should be abolished.

In addition, concerning the IRD and the PSD, many stakeholders stressed the need for a common definition of beneficial ownership and common beneficial ownership test within the EU to provide more certainty to taxpayers and tax authorities. It was also noted by some stakeholder that the PSD does not include a ‘beneficial owner’ definition. Nonetheless, several Member States limit the application of the PSD in situations where the recipient is not considered the beneficial owner, which is clashing with the legal concept of a ‘shareholder’. Some stakeholders also highlighted the general need for common understanding and interpretation of terms in the Directives. Particularly concerning the ‘eligible companies’, it was pointed out that the annexes should be updated and aligned. With regard to the holding requirements, most stakeholders shared the view that the IRD and the PSD should be aligned on the use of indirect holdings and percentages as the they are currently treated differently across the EU because discretion to the Member States led to deviations in the conditions to benefit from the Directives. Some stakeholders found that the scope of the Directive should be broader and that the tax exemption should ideally apply irrespective of holding requirements within the EU.

Regarding PSD, some stakeholders raised concerns in relation to the implementation of Article 4(3) which allows Members States to exclude, from the tax base, the deduction of management costs relating to the holding for a fixed amount corresponding to 5% of the profits distributed. According to stakeholders concerned, when the actual expenses are lower than the flat rate, this may result in a part of the dividends or profit distributions not being exempt, leading to inconsistencies with the aim of the PSD to eliminate double taxation.

On the anti-abuse rules in the IRD and the PSD, many stakeholders experienced difficulties in the application of the specific anti-abuse rules, the beneficial ownership tests, and the general anti-abuse rule in the ATAD. It was highlighted that benefits should not be denied if the arrangement does not result in a tax advantage. While some stakeholders suggested to merge the anti-abuse

provisions of the PSD and IRD, others found that they could be abolished as the general anti-abuse rule in ATAD was sufficient. It was also mentioned that a common understanding of key concepts, including clarifications on ‘tax advantage’ and timing of assessment for non-genuine arrangements, would be helpful.

Concerning the TMD, not all stakeholders had experience with restructurings. Among the relevant stakeholders, some found a need for clarification on the type of operations that fall within the scope of the TMD. In this regard, it was also pointed out that TMD should be aligned with the Company Law Merger Directive as amended by the Mobility Directive to cover more restructuring forms. Few stakeholders advocated for extending the scope of the TMD to all taxes, including real estate (transfer) taxes, stamp duties, local and regional taxes, to ensure full tax neutrality and to make it easier for businesses re-organise within the EU. A few stakeholders also suggested to have common rules on tax losses and valuation methods.

Stakeholders in-scope of Pillar 2 highlighted the need to review the EU tax legislation in view of the implementation of Pillar 2. They pointed out that certain elements of the EU tax legislation, particularly concerning ATAD, have been rendered obsolete, and should be withdrawn with a view to reducing administrative burden and boosting the EU’s competitiveness.

Finally, concerning the DRM, most stakeholders found the procedures too lengthy, time-consuming, and that there was a lack of uniformity amongst existing mechanisms. In this regard, it was pointed out that it is important for tax certainty that the procedures are binding and have set deadlines. Some stakeholders also called for allowing procedures in English, or one or two additional big EU languages, and more extensive involvement of taxpayers during the procedures. It was stressed that the DRM should create an obligation for Member States to solve the issue in question and that Member States’ possibility to deny access should be limited. Several stakeholders also expressed the view that the scope of the DRM could be extended and that more dispute prevention initiatives, such a corporative compliance programmes, are needed in the EU.

ANNEX 3: WHO IS AFFECTED AND HOW?

1. Practical implications of the initiative

The initiative directly affects the companies that will be subject to and thus liable to domestic taxes on companies of EU Member States, as well as their respective national tax administrations, by simplifying EU tax rules to boost EU competitiveness, while maintaining high tax standards in the EU. Citizens will indirectly benefit from the increase in GDP. It also indirectly affects the tax revenues of Member States.

Companies will bear minimal initial adjustment costs for training the personnel to the new rules. This is because the Omnibus on Taxation either eliminates, clarifies or updates existing EU rules, or, where the initiative introduces new harmonised rules, builds on existing approaches, e.g. the FASTER Directive for withholding tax procedures, or simpler frameworks (e.g. the tax depreciation treatment of assets related to research and development). Accordingly, it is also expected that recurrent costs will be very low. Because the new measures aim to simplify EU tax rules, there will be a significant cost reduction overall for EU businesses.

Similarly, the impact for tax administrations should be positive, because, apart from the initial cost for training, they can be expected to free up human resources thanks to exemptions from existing administrative burdens (e.g. withholding tax), a more targeted scope for some of the EU rules (e.g. CFC, Interest Limitation Rule), and clearer mechanisms such as for dispute resolution.

2. Summary of costs and benefits

As explained in Chapter 6, it has not been possible to estimate costs for each of the envisaged policy options. Also, input from stakeholders has been limited in terms of quantitative estimations of the relevant costs, which accordingly makes it difficult to provide robust estimates. In addition, depending on the business model of the different groups, the cost of applying the existing EU rules is expected to differ substantially. For instance, a group which is centrally organised would have less costs than a group which mainly operates its administrative functions at the level of its subsidiaries in different Member States. Below, an attempt is made to describe some of the possible costs, noting that these are likely to be relatively very small, especially when compared to the potentially large cost savings derived from simplification. No recurrent costs are expected, given that the very nature of the Omnibus on Taxation is to reduce recurrent compliance costs.

I. Overview of Benefits (total for all provisions) – Preferred Option		
Description	***Amount***	***Comments***
	Direct benefits	
Reduction of tax-related compliance costs for cross-border operating companies.	For all companies: EUR 6.6 billion per year - Exemption from WHT on intra-EU cross-border interest, royalty and dividend payments: EUR 5.34 billion per year (of which EUR 4.59 billion accrue to lower foregone tax relief and lower opportunity costs; EUR 0.75 billion accrue to incurred costs, i.e., lower administrative burden). - Carveout of Pillar 2 companies and SMEs from CFC rules: EUR 160 million respectively EUR 90 million per year - Mandatory application of CFC Model A: EUR 45 million per year	Chapter 6 provides explanation for estimates under different scenarios.

	- Common tax depreciation treatment of R&D assets: EUR 265 million per year - De minimis exclusion (SMEs) and carve-out of qualifying third-party loans from the interest limitation rule: EUR 69 million and EUR 430 million per year respectively - Other simplifications of the interest limitation rule: EUR 80 million per year - Other measures (hybrid mismatches, tax mergers, dispute resolution): EUR 80 million per year	
Cost savings in legal advice and litigation procedures concerning dispute resolution and business reorganisations.	Difficult to estimate. Legal advice and litigation costs for complex tax matters can range from several thousands to a few millions per company per case. More tax certainty and common rules can lead to a substantial reduction of such costs.	Chapter 6 provides explanation for estimates under different scenarios.
Supporting EU competitiveness through exemption from WHT on intra-EU cross-border interest, royalty and dividend payments.	In the long run: EU GDP could be higher by +0.04% relative to the status quo.	Chapter 6 provides explanation for estimates under different scenarios.
Supporting EU competitiveness through simpler, common and more beneficial tax depreciation treatment for investments in the area of research and development (R&D).	In the long run: EU GDP could be higher by +0.2% relative to the status quo.	Chapter 6 provides explanation for estimates under different scenarios.
Indirect benefits		

(1) Estimates are gross values relative to the baseline for the preferred option as a whole (i.e. the impact of individual actions/obligations of the preferred option are aggregated together); (2) Please indicate in the comments column which stakeholder group is the main recipient of the benefit;(3) For reductions in regulatory costs, please describe in the comments column the details as to how the saving arises (e.g. reductions in adjustment costs, administrative costs, regulatory charges, enforcement costs, etc.;);.

II. Overview of costs – Preferred option

		Businesses		Administrations	
		One-off	**Recurrent**	**One-off**	**Recurrent**
Exemption from WHT on intra-EU cross-border interest, royalty and dividend payments	Direct adjustment costs	None/very marginal	n/a	None/very marginal	n/a
	Direct administrative costs	None/very marginal	n/a	None/very marginal	n/a
	Direct regulatory fees and charges	none	n/a	none	n/a
	Direct enforcement costs	none	n/a	none	n/a
	Indirect costs	None/very marginal	n/a	None/very marginal	n/a

Taxation of CFCs	Direct adjustment costs	None/very marginal	n/a	None/very marginal	n/a
	Direct administrative costs	None/very marginal	n/a	None/very marginal	n/a
	Direct regulatory fees and charges	none	n/a	none	n/a
	Direct enforcement costs	none	n/a	none	n/a
	Indirect costs	None/very marginal	n/a	None/very marginal	n/a
Simpler, common and more beneficial tax depreciation treatment for investments in the area of research and development (R&D)	Direct adjustment costs	Very marginal	n/a	Very marginal	n/a
	Direct administrative costs	Very marginal	n/a	Very marginal	n/a
	Direct regulatory fees and charges	none	n/a	none	n/a
	Direct enforcement costs	none	n/a	none	n/a
	Indirect costs	none	n/a	none	n/a
Other simplifications	Direct adjustment costs	Very marginal	n/a	Very marginal	n/a
	Direct administrative costs	Very marginal	n/a	Very marginal	n/a
	Direct regulatory fees and charges	none	n/a	none	n/a
	Direct enforcement costs	none	n/a	none	n/a
	Indirect costs	none	n/a	none	n/a

(1) Estimates (gross values) to be provided with respect to the baseline; (2) costs are provided for each identifiable action/obligation of the preferred option otherwise for all retained options when no preferred option is specified; (3) If relevant and available, please present information on costs according to the standard typology of costs (adjustment costs, administrative costs, regulatory charges, enforcement costs, indirect costs;).

III. Contribution to the administrative burden reduction targets – Preferred option(s)					
Administrative costs **[M€]**	**New recurrent costs (INs)** (nominal values per year)	**Removed recurrent costs (OUTs)** (nominal values per year)	**Net cost (INs – OUTs)** (nominal values per year)	**New one-off costs (INs)** (annualised total net present value over the relevant period)	**Removed one-off costs (OUTs)** (annualised total net present value over the relevant period)
All businesses		For all companies: ~EUR 2 billion per year - Exemption from			

		WHT on intra-EU cross-border interest, royalty and dividend payments: EUR 0.75 billion per year of lower administrative burden. - Carveout of Pillar 2 companies and SMEs from CFC rules: EUR 160 million, EUR 90 million per year respectively - Mandatory application of CFC Model A: EUR 45 million per year - Common tax depreciation treatment of R&D assets: EUR 265 million per year - De minimis exclusion (SMEs) and carve-out of qualifying third-party loans from the interest limitation rule: EUR 69 million EUR 430 million per year respectively - Other simplifications of the interest limitation rule: EUR 80 million per year - Other measures (hybrid mismatches, tax mergers, dispute resolution): EUR 80 million per year			
• in which SMEs					
Public administrations					
Citizens					

3. Relevant sustainable development goals

The below table provides an overview of the Sustainable Development Goals (SDGs) that are at stake and the progress that is expected under the preferred option for the Omnibus on Taxation, as described in Chapter 8.

IV. Overview of relevant Sustainable Development Goals – Preferred Option(s)

Relevant SDG	Expected progress towards the Goal	Comments
e.g. SDG no. 8 – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	The Omnibus on Taxation proposal contributes to SDG 8 by reducing tax compliance burdens, clarifying tax terminology, replacing uneven treatments and divergent national rules with a single EU approach, while maintaining high EU tax standards, thereby fostering a more efficient, predictable, and growth-supportive business environment across the EU.	The Omnibus on Taxation is expected to lead – in the long term to a positive impact on GDP – see above.
e.g. SDG no. 9 - Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation	Through simpler and more coherent EU tax rules, as well as a more beneficial treatment for investments in research and development, the Omnibus on Taxation will support EU industry and innovation, including infrastructure and digitalisation.	The Omnibus on Taxation is expected to stimulate GDP growth, as said above, in particular also thanks to the positive impact of the proposed immediate expensing for the acquisition of R&D-related tangible assets.

ANNEX 4: ANALYTICAL METHODS

1. General remarks about compliance costs per MNE group

It should be strongly noted that there is a general absence of reliable statistics about the level of ATAD-related tax compliance costs for MNEs. Therefore, the analysis presented in this impact assessment and the methodological approaches explained in detail in this Annex rely on information received from stakeholder interviews in the context of a related study carried out for the European Commission in 2025. The study concludes that:

"Costs for large and more complex companies for which rules are relevant can be higher, although often hard to disaggregate from compliance with other EU provisions, typically managed by the same offices or teams. With the exception of one outlier, costs are in the order of EUR 100,000 per year at the level of an MNE group (corresponding to two-three full-time staff dedicated to ATAD compliance)." [120]

For the purposes of analysing the impact of several possible measures, it is thus assumed that, at the level of large groups, ATAD related activities do incur compliance costs at the level of EUR 100,000 per year if the respective measure affects large groups, especially those subject to Pillar 2. If the measure is broader, or affects smaller MNEs in particular, one third of this amount is assumed (about EUR 33,000). As the study confirms, no empirical information is available concerning how these costs can be disaggregated to the single ATAD components. Given these limitations, it is thus assumed that CFC and ILR rules make up one third of these costs each, given the importance and complexity of each of these rules.

By-and-large, the ATAD consists of five rules. In principle it could thus be assumed that each rule accounts for one fifth of the compliance costs, in absence of further information. However, the ILR and CFC rules both have been brought forward predominantly by stakeholders in the targeted consultations as presenting concerns and both have a wide scope of application, compared to other rules of the ATAD (e.g. the hybrid mismatch rules concern specific cases depending on the legislation gaps between different legal orders; exit taxation concerns specific transactions).

In terms of volume and tax revenues at stake, the ILR would also appear as most significant, which can be an additional indication that firms may dedicate more attention and efforts to it. Similarly, the CFC rules require identifying ownership structures and analysis of the operations and balance sheet of each relevant entity, differentiating between different types of income and identifying relevant substance, in order to determine whether and to what extent income should be attributed to other entities.

The other rules of the ATAD are less comprehensive. Moreover, both ILR and CFC rules impose ongoing obligations on firms. The other ATAD rules can also be complex. Yet, on average they likely cause lower compliance costs because:

- Their likelihood of imposing an ongoing compliance burden is lower as they are triggered by events (transactions).

[120] Study prepared for the European Commission to support an evaluation of the Anti-tax Avoidance Directive (ATAD) - Final Report (2025). Here: Volume 2, p. 38.

- They are mostly relevant for MNE groups, rather than constituting a permanent compliance obligation to a large number of firms.
- GAAR, in particular, are based on broader principles (as opposed to complex formulaic rules). This is why they are less likely to trigger proactive restructuring and to impose a risk of disputes.

In the absence of more accurate information we therefore apply the informed assumption that ILR and CFC-rules make a share of one third in total ATAD-related compliance costs each, with the other ATAD-elements accounting for the remaining third.

2. Analysis of options: tax exemptions for interest, royalty and dividend payments

Step 1: Cost characteristics

A tax exemption of cross-border intra-EU payments of interest, royalties and dividends from withholding tax would mean a significant cost reduction for investors. Investors currently have to incur three types of costs when seeking a refund of overpaid withholding taxes. If withholding taxes are set at zero in all Member States (i.e., no tax difference between Member States), these costs would no longer be incurred. The analysis conducted on the extension of this exemption across all EU Member States addresses three different angles of potential impact.

First, incurred costs that arise directly to investors, or the relevant operations department of the custodian or an external service provider as they engage in paperwork required to comply with current refund rules: These costs are assumed to account for an average of 2% of the refundable amount. The calibration of the parameter is based on earlier Commission studies.[121] It includes the cost of operations departments of the custodian itself or of an external service provider, but also fees for the processing of late filings. Paperwork and a variety of source country requirements are amongst the cost drivers.

Second, opportunity costs due to delayed claims and payments of tax refunds: Delays in refunding of withholding taxes paid currently entail a financial disadvantage for the investor. Studies confirm that refund procedures usually take between several months and years.[122] The resulting delayed cash-flow may keep investors from funnelling liquid means into interest-bearing investment during the period of delay. To assess the opportunity cost of this foregone cash-flow, the analysis uses a risk-free investment in government bonds as an example of one such missed opportunity and assumes that, based on 2024 numbers, such one-year investment would bear an average yield of 2.2%. We also assume an average refund period of one year (which is already relatively generous compared to the time it takes in many Member States), to assess then the possible financial impact.

Third, foregone relief to investors: Due to complex and cumbersome refund procedures, taxpayers may be dissuaded from claiming back overpaid withholding tax. This may be the case especially for smaller investors with little resources to deal with these procedures. Following assumptions

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[121] New EU system for the avoidance of double taxation and prevention of tax abuse in the field of withholding taxes (WHT) Accompanying the document Proposal for a Council Directive on Faster and Safer Relief of Excess Withholding Taxes: SWD/2023/216 final; The Economic Impact of the Commission Recommendation on Withholding Tax Relief Procedures and the FISCO Proposals, Commission Staff Working Document, 24 June 2009.
[122] SWD/2023/216 final (p. 96).

made in earlier Commission analyses, it is assumed that foregone relief affects 10% of the relevant cross-border flows.[123]

Step 2: Estimating the underlying monetary flows for interest and dividend payments

As a starting point, the analysis estimates the amounts that are currently flowing from the source country (the company) to the country where the investor is located. These amounts may be subject to a tax at source which may be refunded to the investor. While information about cross-border income (interest, dividends) and royalty flows does exist in Eurostat's Balance of Payment statistics, this information is patchy for certain country pairs. The analysis therefore uses this data only for royalty payments (Step 3). For interest and dividend payments, a different approach is used, which follows earlier Commission analysis.[124] For interest and dividends, we start from information about the bilateral stock of the relevant investment, i.e., the investment position of an investor located in Member State A investing in Member State B. This information is available from the International Monetary Fund's statistics on portfolio investment positions.

We use the portfolio investment statistics (as opposed to FDI statistics) because these better capture the investments currently not covered by the PSD and IRD. Those directives foresee no withholding taxes on cross-border dividend, interest and royalty payments, but this exemption does not apply if the association between payer and payee involves a holding below 10% (PSD) or below 25% (IRD). Thus, a withholding tax applies below these thresholds. As Member States often withhold taxes at the national rate, which is usually higher than the one of the tax treaty that is applicable to a specific (bilateral) situation, withholding taxes are associated with refund procedures which differ substantially per Member State and lead to significant compliance costs.

The statistics give the amount of portfolio investment in stock debt security assets and equity assets issued by a company in country B and held by the investor in country A (i.e., stocks of assets per country pair A/B). Next, these stocks are multiplied by average yields to obtain an estimate for bilateral flows of income payments from country B (source) to country A (investor). For year 2024, interest flows are proxied by multiplying debt security assets by the 10-year government bond yield as given by the European Central Bank (2.4%), while dividend flows are obtained by multiplying equity stocks by the Eurostoxx 600 average yield (2.5%).

Step 3: Estimating the underlying monetary flows for royalty payments

Unlike interest and dividend payments, in the system of National Accounts, charges for the use of intellectual property are not considered income flows stemming from direct investment but a compensation for performing a service. We can therefore not rely on investment stocks as a starting point for flow estimates as it happened in Step 2 above for interest and dividends. Rather, the approach for royalties looks directly at Eurostat's Balance of Payments statistics which measure international royalty flows. The assumptions about the cost components (Step 1) and using the bilateral levels of withholding taxes (Step 4) applied to royalties are the same as above.

Step 4: Estimating the refundable tax relief withheld at source on these flows

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[123] Ibidem.
[124] Ibidem.

In order to estimate the potential current tax refund for each country pair, these payment flows have to be multiplied by the corresponding withholding tax rate, or rather, the overpaid part of the withholding tax that would be up for refund if there were a positive difference between the domestic tax withheld at source (in the country of the company) and the tax due in the Member State of the investor. Domestic withholding tax rates in the country of the investor may apply if there is no bilateral agreement about the level of withholding taxes on flows between the two countries. However, such agreements exist between almost all Member States, so that the relevant refundable tax difference is usually the one between the domestic withholding tax at source and the tax rate applicable for bilateral interest, dividend and royalty payments as stipulated in the treaty. Thus:

(Equation 1) Refundable WHT = Domestic WHT (at source) – Treaty WHT

Information about the level of bilateral withholding taxes applied to interest, dividend and royalty payments is given by the International Bureau of Fiscal Documentation (IBFD).

Cost estimates for companies: Full exemption of interest, dividend and royalty payments (Option 1A)

Estimated interest and dividend payments

The following flow estimates are obtained for interest and dividend payments:

Estimated cost = cost-factor (Step 1) *times* estimated flows (Step 2) *times* withholding tax difference between source and investor country (Step 4)

Table 1: Assumptions and estimates for cross-border interest and dividend payments within the EU

	Interest and Dividends [1)]			
	Income flows	million EUR		
1	Interest (from Debt instr.)	161,890		
2	Dividends (from Equity)	188,981		
3	Interest+Dividends	350,871		
	Refundable tax relief			
4	Interest (from Debt instr.)	13,483		
5	Dividends (from Equity)	12,241		
6	Interest+Dividends	25,724		
7	Implicit rate of WHT relief, dividends and Interest:	7.3%		
	Cost relief estimate	Total	Interest	Divid.
8	Foregone tax relief (investors not claiming)	2,572	1,348	1,224
9	Opportunity costs of delayed claims and payments of tax refund (+1 year)	561	294	267
10	Incurred costs (paperwork etc.)	514	270	245

The three estimated cost measures then cumulate to annual tax savings from the perspective of the investor of EUR 3.6 billion for cross-country interest and dividend payments within the EU (rows 8-10). This is higher than the estimation under the FASTER Impact Assessment.

Estimated cost reduction: royalty payments

Unlike interest and dividend payments, in the system of National Accounts, charges for the use of intellectual property are not considered income flows stimming from direct investment but a compensation for performing a service. We can therefore not recur on investment stocks as a

starting point for flow estimates as it happened in (Step 2 above) above for interest and dividends. Rather, the approach for royalties looks directly at Eurostat's Balance of Payments statistics which measure international royalty flows (Step 3). The assumptions about the cost components (Step 1) and using the bilateral levels of withholding taxes (Step 4) applied to royalties are the same as above.

For royalties, the total cost amounts to EUR 1.7 billion (rows 5-7 in Table 2).

Table 2: Assumptions and estimates for cross-border royalty payments within the EU

Royalties [2]	
	million EUR
1 Income flows (charge for use of intell. property)	70,216
2 Refundable tax relief	11,951
3 Implicit rate of WHT relief Royalties	17.0%
Cost estimate	
5 Foregone tax relief (investors not claiming)	1,195
6 Opportunity costs of delayed claims and payments of tax refund (+1 year)	261
7 Incurred costs (paperwork etc.)	239

[2] Estimation based on EStat Balance of Payment royalty flows (charges for the use of intell. property)

Total estimated cost reduction

Overall, total cost reduction from the investor's perspective (savings on foregone tax relief, opportunity costs and incurred costs) therefore amounts to an estimated EUR 5.34 billion per year for interest, dividend and royalty payments (rows 1-3 of Table 3).

Table 3: Total estimates for cross-border payments within the EU and tax revenue losses, Option 1A (million EUR)

Total cost relief estimate (Interest, Dividends, Royalties)	
1 Foregone tax relief (investors not claiming)	3,767
2 Opportunity costs of delayed claims and payments of tax refund (+1 year)	821
3 Incurred costs (paperwork etc.)	753

Cost relief estimates for companies: Alignment of scope and procedures (Option 1B)

We estimate the impact of lowering the holding requirement of the Interest and Royalty Directive (IRD) from today's 25% down to 10%. This lowering will bring more investors under the IRD, so that more investors would see their payments exempt form a WHT. How many investors may be affected by that? To roughly estimate this, one should first estimate the share of investors today holding shares between 10% and 25%.

Table 4: Rough estimate of flows from shareholdings between 10% and 25%

1 EU-located shareholders with subsidiaries in the EU (Orbis)	100%
2 … with a share below 10%	10%
3 … with a share below 25%	17%
4 ->… with a share between 10% and 25%	7%

A query run on the company level database *Orbis* shows that the percentage of EU-located shareholders holding less than 10% shares in EU-located subsidiaries is 10% (Table 4). For a share of at least 25% the percentage is 17%. Aligning the holding requirement for interest and royalty payments to the one stipulated in the PSD for dividends would thus affect about 7% of interest and royalty payments, as those are the estimated shares of companies with holdings between 10% and 25%. In other words, Option 1B would 'free' 7% of royalty and interest payments from a withholding tax, while Option 1A would free 17% of royalty and interest payments from a withholding tax. The ratio between savings for royalties and interest payments between Option B and Option A is therefore 7%/17%. With this assumption, lowering the IRD requirement could result in cost savings of about EUR 1.5 billion per year. This is shown in Table 5.

Table 5: Cost estimate Option 1B (million EUR)

1	Tax relief from full exemption for interest and royalties (Option 1A without dividends) (Tables 1 and 2 without dividends)	3,607
2	Tax relief from aligning IRD with PSD holding requirement of 10% (Option 1B) (= row 1 x 7 / 17)	1,489

Caveat for estimates of both options

As an outcome of the approaches explained in detail above, the estimated cost savings of exempting intra-EU interest, royalty and dividend payments from WHT amount to about EUR 5.34 billion per year (Option 1A) and EUR 1.5 billion (Option 1B). There are, however, two uncertainties linked to these estimates that should be taken into consideration:

- Estimates could be adjusted downwards because they are based on statistics about portfolio investment positions, which inevitably include individuals as investors. It is not possible to estimate with exactitude how investment by individuals compares to portfolio investment by companies. Based on the limited statistics, however, it may be around 40%.[125] However, the share in the actual investment volumes held by private individuals, as opposed to other investors, is likely to be lower. On this basis, the statistics on portfolio investments are deemed to provide a reliable source of information for the purposes of this analysis.

- On the other hand, estimates could be adjusted upwards because they do not include the savings of compliance costs incurred by investors that hold larger shares (non-portfolio investment) today, i.e., investment that already falls into the scope of the IRD and PSD, respectively. These costs chiefly involve compliance with the procedures for proving entitlement to the benefits of the IRD and PSD. Albeit to a possibly a lesser extent, the measure leads to cost savings here too. This is because the measure results in eliminating upfront procedures ahead of payments of interest, royalties and dividends; and this simplification will apply to all such payments, regardless of whether they are linked to portfolio or direct investment. The paying company would thus no longer have to assess whether the conditions to benefit from the exemption are fulfilled by the beneficiary.

[125] Coordinated Portfolio Investment Survey (CPIS) Survey Guide, Second Edition (p. 96 for Belgium).

3. Analysis of options: CFC Rules

The options for which the methodological and analytical approach is detailed herein are analysed in Section 6.2.2. The purpose is to estimate the reduction in compliance costs through better aligning CFC-rules for Pillar 2 companies.

Today's potential economic double taxation

As the legal framework and applicable tax rules stand today, there is an assessed partial overlap between CFC and Pillar 2 rules, which potentially leads to instances of economic double taxation. These overlaps are outlined in the table below (see row 1). A shareholder-subsidiary pair may be subject to Pillar 2 either because the subsidiary is located in a jurisdiction that applies top-up taxes to companies in its territory (QDMTT, first column) and/or the shareholder in a jurisdiction that includes income in other low-taxed jurisdiction when calculating the minimum tax (i.e., Income Inclusion Rule - IIR, second column). Overlaps with CFC-rules can be particularly significant in cases where subsidiaries fall under QDMTT while their shareholders need to apply CFC legislation, see first column. Today, as QDMTT does not account for CFC, economic double taxation may occur in the sense that the group pays both the CFC tax charge and QDMTT, considering that not all member States allow for crediting the latter against the former. By contrast, top-up taxes under IIR do take CFC taxes into account. That is, companies pay either the CFC or the Pillar 2 top-up, whatever higher. Note, however, that US-headquartered groups are taxed only domestically (QDMTT), but not under IIR, in the EU.

Table 6: Impact on EU shareholding entities of today's situation and after applying two options

	Taxes paid…	CFC, QDMTT (with or without IIR)	CFC, IIR (no QDMTT) and Ultimate Parent is not located in the US
1	.. today	P2 topup + CFC-topup	max(P2-topup, CFC topup)
2	…under Opt A	P2-topup	P2-topup
3	…under Opt B	max(P2 topup, CFC topup)	max(P2 topup, CFC topup)
	Difference (=impact)		
4	… Opt A	CFC-topup	max(0, CFC topup - P2-topup)
5	… Opt B	P2 topup + CFC-topup - max(P2 topup, CFC topup)	0

Tax relief = positive

Two options are assessed accordingly, explained in detail as follows:

On carving out Pillar 2 companies from CFC rules (Option A): MNEs whose CFCs are subject to Pillar 2 are carved out from CFC rules. Accordingly, for US-headquartered MNEs, this carve-out is only granted to shareholders whose CFC is subject to QDMTT. In other words, only the Pillar 2 QDMTT will be paid by all MNEs subject to Pillar 2, see row 2. Companies would namely save the CFC tax charges in case they are subject to QDMTT, see row 4, column 2.

On including QDMTT in the CFC calculation (Option B): Rather than carving out Pillar 2 MNEs from CFC rules, Member States would take into account the QDMTT liability to determine whether

a foreign controlled subsidiary is low-taxed, therefore a CFC, and, consequently, CFC rules are triggered. In case that the CFC tax rate in a Member State is higher than 15% (which is achieved through the QDMTT), the CFC tax charge would apply, and credit would be provided for the QDMTT (see row 5 of the table above). The outcome indicates that tax charges saved by companies under this scenario are lower than under Option A.

4. Analysis of options: Interest Limitation Rule (ILR)

The basis for the economic analysis and outcomes explained in Section 6.2 are set out in the sub-sections below.

To recall, Article 4 of the ATAD introduces an Interest Limitation Rule in the EU, which restricts the deductibility of a company's interest expenses. Under the Interest Limitation Rule, businesses are generally entitled to deduct net borrowing costs, i.e., net interest expenses, up to 30% of their earnings before interest, tax, depreciation and amortisation (so-called 'EBITDA threshold'). Net borrowing costs below an optional threshold of EUR 3 million per year can still be deducted without limit (de minimis). The safe harbour aims to exempt SMEs from the scope of the Interest Limitation Rule. This is important because equity-funding is less of an option for small enterprises, and they are therefore heavily reliant on loans to fund their activities. These parameters are to be seen as the minimum protection against profit shifting and base erosion. Member States can implement stricter rules. This section will demonstrate that SMEs are currently protected very effectively from limitations in interest deduction. Yet the new measures will improve protection even more.

4.1 Carving out SMEs (mandatory de minimis of EUR 3 million)

Impact on companies

20 Member States have implemented a EUR 3 million de minimis or equivalent rule.[126] Six Member States have opted for a lower threshold of up to EUR 1 million so that the number of firms protected from the ILR may be lower. These include the Netherlands, Poland, Portugal, Romania, Spain and Sweden. Of those, some have other instruments in place, especially the possibility of an *indefinite* carry-forward of interest expenses not deductible in a given year due to ILR. Non-allowed deductions can thus be indefinitely deferred to future years. This is notably the case in the Netherlands and Spain. Italy has no de minimis threshold. Yet it also has significant protective tools in place that alleviate the impact of ILR for small businesses or exclude them from ILR altogether. Non-realised deductions and non-utilized deduction capacities[127] can be carried forward. Most importantly, sole traders and partnerships (*società di persone*) are explicitly excluded from the scope of the ILR (Art. 96 of the Italian Income Tax Code - TUIR). This would exclude almost 80% of all companies in Italy.[128]

We estimate the share of SMEs that today do not see any limitation from interest deduction limitation, and how this share would change after implementing a de minimis of 3 EUR million in all Member States taking as the hypothesis that this would become mandatory. We simulate the

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[126] Study prepared for the European Commission to support an evaluation of the Anti-tax Avoidance Directive (ATAD) - Final Report (2025).

[127] In a given year, interest expenses may stay below the 30% of EBITDA threshold, so that there is unused capacity for deduction (i.e., 30% of EBITDA – interest expense).

[128] ZEW (2023), Familienunternehmen in Deutschland und Italien Zur Bedeutung des Unternehmenstyps im Vergleich mit ausgewählten europäischen Staaten, Stiftung Familienunternehmen, München, 2023. See p. 38.

current ILR rules in EU Member States on an *Orbis* sample of 1.8 million unconsolidated accounts from 2024 with a positive taxable profit. The vast majority of these accounts are from SMEs.[129] The following information and assumptions about the implementation of the Interest Limitation Rule in Member States is taken on board for the simulation:

- The EBITDA-threshold is 30% for all EU Member States but Finland (25%) and the Netherlands (24.5%).
- The de minimis threshold is set at EUR 3 million in all Member States but the following seven: the Netherlands, Portugal, Romania, Spain (all EUR 1 million), Poland (EUR 0.7 million), Sweden (EUR 0.44 million) and Italy (nil).
- The stand-alone exemption of ATAD Article 4 (3) (b) is implemented in all Member States but Bulgaria, Czechia, Denmark, Greece, Italy, Latvia, the Netherlands, Poland, Portugal, Sweden and Croatia.
- A company is considered standalone if a consolidated account does not exist and the company is its own global ultimate owner. If there is no global owner given in the data for a company it is also considered standalone.
- The initiative will abolish the stand-alone exemption as it is deemed no longer necessary, given that standalone companies will be effectively protected through the carve-out of SMEs and of low-risk loans from the Interest Limitation Rule (Section 6.2.4.4).
- Not being able to deduct interest expenses due to the Interest Limitation Rule increases the amount of corporate taxes a company must pay. This effect is calculated by multiplying the non-deductible part of interest expenses by the national statutory Corporate Income Tax rate of the Member State where the respective company is resident.
- Our approach includes the group approach for taxpayer qualification following Art. 4(1) (b) of ATAD: Member States may allow to calculate interest expenses and EBITDA at the level of the group (i.e., for group members on their respective territory) rather than for each entity separately. This rule is currently implemented in all but the following nine Member States: Bulgaria, Croatia, Czechia, Cyprus, Finland, Greece, Latvia, Slovakia and Sweden.[130]
- Italy excludes sole traders and partnerships from the scope of the ILR. Those are taken out of the sample.
- Increasing the de minimis threshold will reduce the amount of corporate tax revenues as more companies will be exempt. However, this effect is significantly reduced by existing loss carry-forward mechanisms: Interest expense deduction may be limited in a given year. Yet those mechanisms would allow deduction in a later year so that these costs are not 'lost' for deduction. As a result, the effect of a higher de minimis on the deductible amount would be cushioned. Based on the Joint Research Centre's corporate microsimulation model DiRECT [131], the effect of implementing a mandatory de minimis threshold of EUR 3 million in all Member States on tax revenue losses could be reduced by about 30% if we allow in the model that losses can be carried forward.

[129] 95% of these accounts are small and medium sized in the sense that their net turnover has been below EUR 50 million that year.
[130] Deloitte (2023), Implementation of the EU Anti-Tax Avoidance Directive | Tax
[131] For an overview: Corporate tax microsimulation model (DiRECT) - Joint Research Centre.

With this information, for the EU as a whole, about 96% of the unconsolidated accounts in the sample do not see any limitation in interest deduction. In reality, that share is likely higher, given that small entities are underrepresented in *Orbis*. [132]

Implementing in all Member States a common and mandatory de minimis of EUR 3 million in the same model will increase that share of companies not impacted by the Interest Limitation Rule from 96% to above 99%. The number of unconsolidated accounts impacted by the rule in the sample will decline considerably, from 75,000 before to only about 12,000 after implementing the new de minimis. In other words, about 63,000 companies (mainly SMEs) so far dealing with interest deduction limitations will in the future be carved out. This information will be used to estimate compliance cost reductions for SMEs in Section 6.2.4.1.

For the *Orbis* sample, EU corporate tax savings for SMEs could amount to EUR 900 million. These effects affect those Member States where the current de minimis threshold is lower than the current ATAD-ceiling of EUR 3 million or where no de minimis is implemented.

Orbis does not cover the entire firm population. That is, all estimates provided here are lower bound. This holds especially for the 63,000 companies that will no longer be limited in their interest deduction as the de minimis of EUR 3 million would become mandatory in all Member States. Given the underrepresentation, especially of small entities in Orbis, the 'true' effect is likely higher than expressed through this number. However, the estimated impact on corporate tax savings of EUR 900 million is likely less biased through coverage issues in Orbis. This is because small entities contribute very little to the aggregate volume of interest expenses and earnings. For example, excluding the smallest 50% of observations does not significantly alter the estimated effect on corporate tax savings.

Conclusion: While the current Interest Limitation Rules already protects EU SMEs very well from being impacted by the ILR, making the de minimis of EUR 3 million mandatory in all Member States will further improve the level of protection, while ensuring a level playing and consistent approach towards companies across all EU Member States.

Impact on public finances

The previous analysis showed that companies will save corporate tax expenditure of around EUR 900 million, which constitutes the impact on public finances. If the threshold were aligned across all Member States, that impact would be sustained in those Member States which do not currently implement the EUR 3 million de minimis.

4.2 Carving out low-risk third-party interest payments

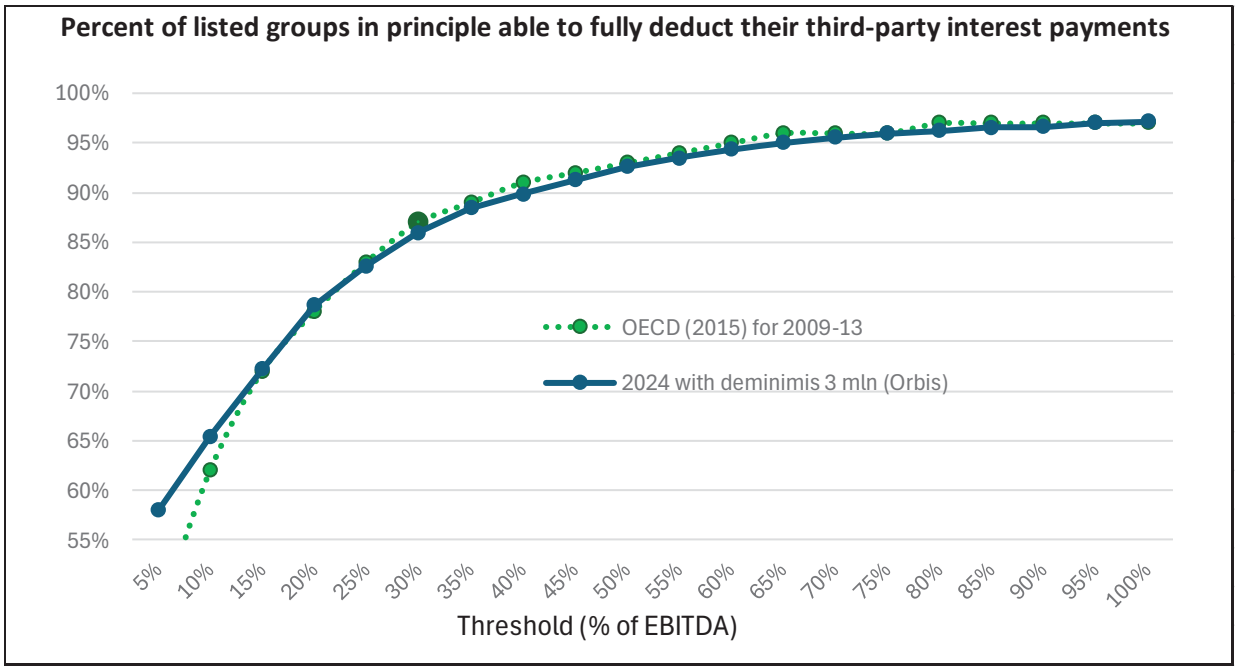
Impact on companies

The prime purpose of the ATAD Interest Limitation Rules is to prevent MNEs from exploiting interest payments as a means of shifting profits. While ensuring this, the rationale for setting the EBITDA threshold to 30% in Council Directive 2016/1164 was to ensure that most businesses would not be limited in deducting their *third-party* interest payments from their tax base. This is

[132] See, for example, Kameli-Özcan et al (2024), How to Construct Nationally Representative Firm-Level Data from the Orbis Global Database: New Facts on SMEs and Aggregate Implications for Industry Concentration, American Economic Journal: Macroeconomics 2024, 16(2): 353–374; Bajgar et al (2020), Coverage and representativeness of Orbis data, OECD Science, Technology and Industry Working Papers 2020/06.

important in the context of MNE groups: these are payments from parties that have no association with the borrower, either as members of the same MNE group or because of common control (without being part of the same consolidated financial accounts). An OECD study of 2015[133] found that the share of publicly traded groups able to deduct all their net third-party interest expenses was 87% if the ratio to EBITDA were fixed at 30%. This is shown in the chart which displays the percentage of these groups who, as a matter of principle, are able to fully deduct their third-party interest payments for alternative EBITDA thresholds. This percentage obviously depends on the level of the EBITDA threshold. The green-dotted line is the original 2015 OECD estimate.

Figure 1: Alternative parameters. Impact on the share of groups able to deduct their third-party interest payments



Taxud calculations based on Orbis; Consolidated accounts with positive EBITDA

The OECD analysis at the time used publicly traded multinational groups' consolidated financial accounts from years 2009-2013; the analysis has now been updated for the purposes of this Omnibus on Taxation for the year 2024, using the firm database *Orbis*. To replicate the OECD analysis, the current analysis draws on a sample of about 3,500 consolidated accounts for listed groups for year 2024. These accounts contain information about EBITDA and the level of interest payments which – given that the analysis is based on consolidated accounts – should net out group-internal interest payments and, in this way**,** include third-party payments only. Only accounts with positive EBITDA are considered.

For an EBITDA-threshold of 15% or higher, findings closely match the original OECD estimate as can be seen in the Chart. The line shows the share of groups which today should be able to fully deduct their third-party interest expenses, assuming the de minimis at EUR 3 million (as in ATAD). It shows that at the ATAD-threshold of 30% of EBITDA, the share of groups who, as a matter of principal, are able to deduct their third-party interest payments without limitation is 86%.

[133] Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2015 Final Report | OECD.

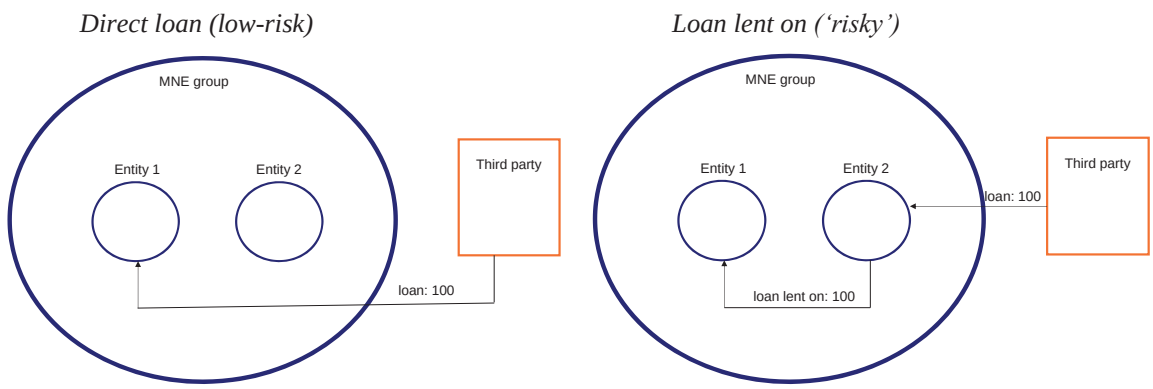
The reality is, however, that both the EUR 3 million de minimis threshold and the 30% EBITDA threshold are currently a minimum standard in the ATAD. The thresholds have been implemented more stringently in some Member States (see previous section). Taking into account how the respective de minimis and EBITDA thresholds are effectively applied in Member States, the analysis shows that currently only about 83% of groups in the *Orbis* sample end up having their interest fully deductible. This represents an important difference from the 86% that was originally targeted in the OECD analysis or the 86% if thresholds were applied as in ATAD across the EU-27.

For the purposes of this analysis, we assume that 83% is the share of groups whose third-party interest payments remain fully deductible today (as explained in the previous section), this means that 17% of groups in the sample are not able to (fully) deduct their interest expenses. However, not all of these 17% of groups are being carved out under the proposed measure because not all of the corresponding third-party interest expenses stem from low-risk loans.

There is strong empirical evidence that group members often take third-party loans and then lend on to other group members. More generally, group members may engage in structured arrangements whereby the group in its entirety would gain an advantage, often in the form of tax savings.[134] An inter-company loan could, for example, consist of "inflated" interest payments to other members of the same group in low-tax jurisdictions, with the effect of shifting part of the group's tax base thereto. Indeed, it was found that inter-company loans actually react to tax-rate differences within the MNE.[135] To prevent this practice, a restrictive definition of third-party loans would be introduced under this option, to make sure that the entity taking out the loan will use the debt to finance its own activities, with no possibility of on-lending within the group (see Section 5.2.4.4).

Interest payments shown in the consolidated accounts from *Orbis* used to analyse the effect of this carve-out contain external loans from a third party, but would not accurately capture any on-lending to other group members. The consolidated account of the group illustrated in Figure 2 will show the interest payments from a third-party loan, irrespective of whether this loan is lent on into the group by Entity 2 (right chart) or directly channelled to the ultimate borrower, Entity 1 (left chart).

Figure 2: Direct and on-lent third-party loans from an MNE perspective



Taxud illustration

[134] Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4 - 2015 Final Report | OECD (p. 74).
[135] For example: Buettner and Wamser (2007), Intercompany loans and profit shifting: evidence from company-level data; Desai et al (2003), A Multinational Perspective on Capital Structure Choice and Internal Capital Markets | NBER.

Only the ('risky') on-lending scenario is problematic and would therefore be excluded in the future. The carve-out would affect only low-risk loans. In the absence of accurate statistics about the exact extent of on-lending relative to the entire stock of third-party loans, the analysis assumes an on-lending probability of 50% (i.e., a 50% share of 'risky' loans on average).

The main motivation for MNEs to on-lend loans into the group may be to avoid taxes. In that case it is fair to assume that loans so far lent on via Entity 2 will, after the exclusion of on-lending, not be taken any longer in the future as the group would not be able to avoid taxes via on-lending any more. The other 50% of (low-risk) loans will be carved out through the initiative. We thus assume that the share of groups which see limitations in their interest deduction due to the ILR – today 17% – will be half that share (8.5%) in the future due to the carve-out of low-risk loans. This information will be used to calculate compliance cost savings in Section 6.2.4.4.

Impact on public finances

We apply the assumption of a 50% on-lending probability for third party loans. 50% of loans taken by MNEs today could therefore be classified as 'risky' as they may be used for tax avoidance purposes through on-lending into the group. It was further assumed that, due to the exclusion of on-lending in the future, firms would not have an incentive to lend these 'risky' loans from third parties and would thus not take the corresponding loans anymore.

Under these assumptions the budgetary effect could be neutral: interest expenses stemming from half of MNEs' third-party loans would no longer be deducted from the tax base, and no longer used for tax avoidance, generating additional tax revenue. The other (low risk) half, however, will be carved out from ILR and will therefore become immediately deductible from the tax base.

5. Simulating the long-term economic impacts of the measures with CORTAX

5.1 Modelling tax exemption for interest, royalty and dividend payments and lowering of compliance costs

The tax exemption is approximated by translating the estimated foregone tax revenue from intra-EU withholding taxes into an equivalent reduction in the tax rates that exist in the model. Since the model does not explicitly include withholding taxes on cross-border payments between companies, the policy reform is approximated by lowering the tax rates applied to interest and dividend income.

To do this, first the amount of tax revenue currently associated with interest and dividend flows received by corporations is approximated. National accounts data on these income flows are used, and it is assumed that most inter-corporate dividends are already exempt, so only a small share of dividends remains taxable (10%). Applying corporate income tax rates to interest and the remaining dividend income provides an estimate of the revenue generated from these capital income flows.

This revenue is then compared with the estimated foregone tax revenue resulting from the abolishment of intra-EU withholding taxes. Expressing the foregone withholding tax revenue as a share of the broader revenue from interest and dividend taxation yields a percentage that reflects the relative importance of withholding taxes within capital income taxation.

Finally, the reform is approximated as a proportional cut in the tax rates applied to interest and dividend income equal to this percentage, so that the reduction in tax revenue in the model corresponds approximately to the revenue loss that would occur if withholding taxes were abolished. In the calibration, this corresponds to a reduction of 0.83% in the tax rate on interest income and 6.48% in the tax rate on dividend income.

The reduction of compliance costs is introduced via targeted savings for cross-border businesses (from MNE headquarters to subsidiaries).

5.2 Modelling of immediate expensing of acquired tangible R&D assets

The reform introduces direct expensing for R&D-related tangible assets such as plant, machinery, and buildings used for R&D activities. Since CORTAX does not explicitly model R&D investment separately or allow a distinct depreciation regime for such assets, the reform is approximated by modifying the depreciation parameters applied to the corresponding share of the capital stock.

First, the share of total assets corresponding to R&D-related tangible assets is estimated. This share is constructed by combining three components: the proportion of R&D expenditure on tangible assets relative to total capitalisable R&D expenditure (based on the JRC Dashboard of Innovative Companies), the ratio of R&D capital assets to total fixed assets (from Eurostat capital stock data), and the ratio of fixed assets to total assets used in the model calibration. Multiplying these three elements yields an estimate of the share of total assets that corresponds to tangible assets used for R&D.

In the model, the tax treatment of investment is represented through two depreciation components: an immediate deduction in the first year and the net present value (NPV) of deductions in subsequent years. To approximate direct expensing for the estimated share of R&D tangible assets, the depreciation structure is adjusted by shifting part of the depreciation allowances from future years to the first year. Specifically, the NPV of depreciation allowances in later years is reduced in proportion to the estimated share of R&D assets, while the immediate expensing component is increased accordingly.

This adjustment preserves the overall magnitude of depreciation allowances while bringing forward part of the deductions to the first year, thereby generating accelerated depreciation for the relevant share of capital. The resulting country-specific depreciation parameters constitute the policy shock introduced into the model.

ANNEX 5: COMPETITIVENESS CHECK

Overview of the impacts on competitiveness

Dimensions of Competitiveness	Impact of the initiative (++ / + / 0 / - / -- / n.a.)	References to sub-sections of the main report or annexes
Cost and price competitiveness	++	Chapters 5, 6, 7
International competitiveness	+	Chapters 5, 6, 7
Capacity to innovate	+	Chapters 5, 6, 7
SME competitiveness	++	Chapters 5, 6, 7

Synthetic assessment

The preferred option is expected to have an overall positive effect on competitiveness. By reducing unnecessary tax compliance and reporting burdens, clarifying concepts and terminology, and replacing overlapping or divergent national approaches with a more coherent EU framework while maintaining high tax standards, the initiative should lower compliance and administrative costs, improve legal certainty and remove some continued tax barriers for cross-border business activity in the internal market. These effects are expected to strengthen cost competitiveness, support investment decisions, and foster a more innovation-friendly and resilient business environment in the Union.

Competitive position of the most affected sectors

In principle, the Omnibus on Taxation is not sector-specific in nature but horizontal, as it seeks to streamline and clarify the EU framework for direct taxation across the internal market. The most directly affected sectors are likely to be those with the greatest exposure to cross-border group structures and transactions covered by the Directives in scope, notably sectors featuring significant intra-group financing, royalty payments, reorganisations or frequency in tax disputes. Furthermore, large MNEs which are subject to the additional compliance burden and requirements related to the EU Pillar 2 Directive, will benefit in particular under the preferred options, e.g., the carveout from CFC rules in light of Pillar 2. In addition, some sectors benefit from targeted measures: the defence sector, for example, will be alleviated from the interest limitation rule, as well as, optionally, other sectors, such as social housing.

ANNEX 6: SME CHECK

Overview of impacts on SMEs

Relevance for SMEs
The initiative is relevant for SMEs because tax-compliance burdens fall proportionately more heavily on smaller businesses and this Omnibus on Taxation aims to specifically exempt SMEs from some EU tax obligations in a targeted manner. Also more generally, greater clarity, fewer overlaps, and more coherent EU rules can materially reduce legal, advisory, and administrative costs, which often represent a significant for SMEs to engage in cross-border activity. The direct effects are expected to be the strongest for small and medium-sized enterprises with foreign subsidiaries or high reliance on debt financing The Omnibus on Taxation is designed so that simplification is real for SMEs in practice, especially by providing full carveouts where possible, but also through clearer EU tax terminology and mechanisms, and the elimination of national processes for some cross-border payments.

(1) IDENTIFICATION OF AFFECTED BUSINESSES AND ASSESSMENT OF RELEVANCE
Are SMEs directly affected? *(Yes/No)* **In which sectors?**
Yes, all sectors.
Estimated number of directly affected SMEs
In the Orbis company database, the number of SMEs affected by the EU direct tax acquis under this Omnibus on Taxation (SMEs with cross-border subsidiaries) is estimated at 55 000.
Estimated number of employees in directly affected SMEs
n/a
Are SMEs indirectly affected? *(Yes/No)* **In which sectors? What is the estimated number of indirectly affected SMEs and employees?**
SMEs are directly affected.

(2) CONSULTATION OF SME STAKEHOLDERS
How has the input from the SME community been taken into consideration?
SME interests were considered mainly through engagement with representative business associations, which aggregate and articulate the views of their SME constituencies. This channel provided a pragmatic and proportionate means of integrating SME-relevant concerns and practical insights into the assessment, complemented by other available evidence.
Are SMEs' views different from those of large businesses? *(Yes/No)*

Yes. As regards SMEs, business associations argue that tax compliance costs are a significant hurdle for smaller businesses to enter cross-border markets, while in any case they are less concerned by the EU tax protections, as they often do not even have sufficient size or the type of structure or cross-border footprint, to use the tax planning strategies, compared to larger enterprises which are more internationally active.

(3) ASSESSMENT OF IMPACTS ON SMEs[136]
What are the estimated direct costs for SMEs of the preferred policy option?
Qualitative assessment
The initiative should bring no or very limited direct costs for SMEs. Like all companies, SMEs may need to acquaint with some of the simplified rules and clarifications, but the Omnibus on Taxation mainly brings exemptions regarding SMEs. Thanks to the explicit carve-out in favour of SMEs from the CFC rules and de facto exclusion from the interest limitation rule, SMEs will not be concerned by the mandatory application (and therefore legislative change with a one-off cost) of Model A under CFC, nor by the mandatory application of the existing options for the interest limitation rule.
Quantitative assessment
What are the estimated direct benefits/cost savings for SMEs of the preferred policy option[137]?
Qualitative assessment
In principle, any impact of the policy options will not differ between large companies and SMEs. In addition, the Omnibus on Taxation includes measures in favour of SMEs: a targeted carveout from the CFC rules and a de facto exclusion from the interest limitation rule of the ATAD.
Quantitative assessment
SMEs in line with the Commission objective to prioritise burden reduction for SMEs (35%, compared to 25% generally), the specific exemption of SMEs from CFC rules and the de facto carve-out from the interest limitation rule are estimated to bring additional cost savings of around EUR 90 million per year respectively EUR 33 million per year, on top of the general cost savings from the other simplification measures, which will benefit both SMEs and larger businesses.
What are the indirect impacts of this initiative on SMEs? *(Fill in only if step 1 flags indirect impacts)*
n/a

(4) MINIMISING NEGATIVE IMPACTS ON SMEs
Are SMEs disproportionately affected compared to large companies? (*Yes/No)*

[136] The costs and benefits data in this annex are consistent with the data in annex 3. The preferred option includes the mitigating measures listed in Section 4.
[137] The direct benefits for SMEs can also be cost savings.

If yes, are there any specific subgroups of SMEs more exposed than others?
SMEs are disproportionately affected compared to large companies under the baseline scenario because SMEs currently bear higher tax compliance costs in proportion to their size. To address this issue in the area of EU direct tax legislation, the Omnibus on Taxation proposes explicit and de facto exclusions in favour of SMEs. The Omnibus on Taxation should consequently particularly benefit SMEs, thereby minimising any negative impacts thereon.
Have mitigating measures been included in the preferred option/proposal? (Yes/No)
As mentioned, the proposal includes measures specifically to alleviate compliance burdens for SMEs.

CONTRIBUTION TO THE 35% BURDEN REDUCTION TARGET FOR SMES
Are there any administrative cost savings relevant for the 35% burden reduction target for SMEs?
The proposal includes specific exemptions for SMEs in two areas, estimated to bring additional cost savings for SMEs of around EUR 90 million per year respectively EUR 33 million per year. This will contribute to the 35% burden reduction target for SMEs.

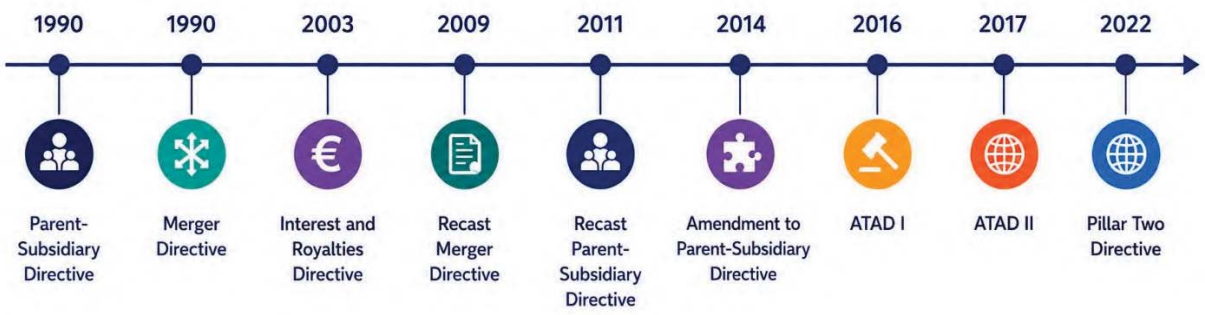
ANNEX 7: TIMELINE OF EU DIRECTIVES IN DIRECT TAXATION

Over the last 35 years, the EU has adopted a relatively limited but highly influential body of legislation in the field of direct taxation, mainly targeting:

- corporate taxation,
- cross-border restructuring,
- anti-tax avoidance,
- administrative cooperation, and
- dispute resolution.

Below is a chronological timeline of the principal directives (excluding administrative corporation) that has been adopted within the area of direct taxation.

Figure 11: Timeline of EU direct taxation directives



1990 — First Generation of Corporate Tax Directives

Parent-Subsidiary Directive

- **Directive 90/435/EEC**
- Eliminated withholding taxes and double taxation on profit distributions between associated companies in different Member States.
- Later recast as **Directive 2011/96/EU**.

Merger Directive

- **Directive 90/434/EEC**
- Introduced tax neutrality for cross-border mergers, divisions, transfers of assets, and exchanges of shares.
- Later recast as **Directive 2009/133/EC**.

2003 — Taxation of Savings and Interest

Interest and Royalties Directive

- **Directive 2003/49/EC**
- Abolished withholding taxes on cross-border interest and royalty payments between associated companies.

2011 — Recast

Recast Parent-Subsidiary Directive

- **Directive 2011/96/EU**
- Consolidated and modernized the 1990 directive.

2014–2015 — Anti-Abuse Measures

Amendment to Parent-Subsidiary Directive

- **Directive 2014/86/EU**
- Addressed hybrid loan mismatches.
- **Directive 2015/121/EU**
- Added a mandatory anti-abuse rule to the Parent-Subsidiary Directive.

2016 — Anti-Tax Avoidance Package

Anti-Tax Avoidance Directive (ATAD I)

- **Directive (EU) 2016/1164**
- Introduced:
    - interest limitation rules,
    - exit taxation,
    - GAAR,
    - controlled foreign company (CFC) rules,
    - hybrid mismatch rules.

ATAD II

- **Directive (EU) 2017/952**
- Extended hybrid mismatch rules to third countries.

2017 — Tax Dispute Resolution

Tax Dispute Resolution Directive

- **Directive (EU) 2017/1852**
- Improved mechanisms for resolving double taxation disputes within the EU.

2022 — Global Minimum Tax

Pillar 2 / Minimum Tax Directive

- **Directive (EU) 2022/2523**
- Implemented the OECD global minimum effective tax rate of 15% for large multinational groups.