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Proposal for a

COUNCIL DIRECTIVE

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

{SEC(2026) 560 final} - {SWD(2026) 560 final} - {SWD(2026) 561 final} - {SWD(2026) 562 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

This initiative was announced in the Commission Work Programme 2026 as part of the Commission's broader agenda to simplify Union legislation, reduce unnecessary administrative burdens and strengthen the competitiveness of the internal market.

In recent decades, the Union's framework on direct taxation has developed considerably in response to the growing impact of globalisation and the digital economy, the rise of aggressive tax planning strategies and practices and the need to strengthen the functioning of the internal market while safeguarding its integrity. In particular, the Union has adopted a broad range of directives aimed at ensuring fair taxation, preventing tax avoidance and facilitating cross-border activities within the internal market. Council Directive 2003/49/EU[1] (Interest and Royalties Directive – IRD), Council Directive 2011/96/EU[2] (Parent-Subsidiary Directive – PSD) and Council Directive 2009/133/EU[3] (Tax Merger Directive – TMD) established common rules for withholding taxes on certain intra-group payments and tax neutrality for cross border reorganisations. Council Directive (EU) 2016/1164[4] as amended by Council Directive (EU) 2017/952[5] (Anti-Tax Avoidance Directive – ATAD) laid down a coordinated minimum level of protection against aggressive tax planning practices. Council Directive (EU) 2017/1852[6] (Dispute Resolution Mechanisms Directive – DRM) provided mechanisms for the effective resolution of cross-border disputes in the Union that involve double taxation or arising from double taxation conventions.

Collectively, those instruments have played a significant role in strengthening the internal market by reducing obstacles affecting cross-border activities and investment, while reducing opportunities for tax avoidance, improving coordination between Member States and establishing a Union tax framework for cross-border activities within the internal market.

At the same time, the cumulative development of Union legislation in the field of direct taxation, combined with divergent national implementation and evolving international tax developments, has significantly increased the complexity of the Union corporate tax framework and therefore, compliance burdens for businesses operating cross-border as well as tax administrations in the Union. The directives were designed at different periods in time,

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1 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 (OJ L 157, 26.6.2003, p.49, ELI: http://data.europa.eu/eli/dir/2003/49/oj).

2 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 (OJ L 345, 29.12.2011, p. 8, ELI: http://data.europa.eu/eli/dir/2011/96/oj).

3 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 (OJ L 310, 25.11.2009, p. 34, ELI: http://data.europa.eu/eli/dir/2009/133/oj).

4 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 (OJ L 193, 19.7.2016, p. 1, ELI: http://data.europa.eu/eli/dir/2016/1164/oj).

5 Council Directive (EU) 2017/952 of 29 May 2017 amending Directive (EU) 2016/1164 as regards hybrid mistmatches with third countries (OJ L 144, 7.6.2017, p.1, ELI: http://data.europa.eu/eli/dir/2017/952/oj)

6 Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union (OJ L 265, 14.10.2017, p. 1, ELI: http://data.europa.eu/eli/dir/2017/1852/oj).

each reflecting distinct contexts. In addition, the implementation of the global minimum tax rules under Council Directive (EU) 2022/2523[7] (Pillar Two Directive) has altered the framework in which several existing Union anti-abuse measures operate. In particular, certain provisions of ATAD may lead to duplicative outcomes or disproportionate compliance burdens when applied alongside the Pillar Two rules. Furthermore, experience from the application of IRD and PSD has shown that procedural barriers and legal uncertainty arise from the practical operation of the withholding tax relief provided for under these directives. Concerns have also been raised regarding the application of certain provisions of ATAD that are no longer fully in line with current economic realities, create disproportionate compliance burdens or legal uncertainty, and do not sufficiently support investment and growth within the internal market. In particular, the absence of a common Union framework for the tax treatment of research and development ('R&D') expenditure contributes to fragmentation across Member States and may distort or discourage investment decisions and innovation within the internal market.

The proposal reflects the need to ensure that the Union direct tax framework remains coherent, proportionate and effective. It aims to simplify the existing Union framework in the field of direct taxation in order to reduce unnecessary compliance burdens, improve legal certainty and ensure the coherent functioning of the internal market. The proposal therefore introduces amendments to the PSD, IRD (as well as a related targeted amendment to Council Directive 2025/50[8], faster and safer relief of excess withholding taxes – FASTER), TMD, ATAD and the DRM.

- **Consistency with existing policy provisions in the policy area**

The Omnibus is consistent with existing EU direct tax policy. The proposal simplifies and modernises the Union direct tax acquis, while preserving the original objectives of the directives. It contributes to the Commission's broader objective of strengthening the competitiveness of the Union by reducing unnecessary compliance burdens, improving legal certainty and facilitating cross-border investment and business activity within the internal market.

In the area of withholding tax exemption on financial flows of interests, royalties and distribution of profits within the Union, the proposal builds on the progress initiated by FASTER, and addresses overlaps, fragmentation and outdated procedural or substantive requirements that generate disproportionate costs for businesses operating cross-border in the Union.

The proposal also supports the implementation of the Pillar Two Directive within the Union and aims to simplify and eliminate overlapping provisions within the ATAD, ensuring that the existing Union direct tax framework remains coherent in light of recent international tax developments. The proposal should also be considered alongside the DAC Recast proposal, which simplifies certain reporting obligations and procedures, also in relation to MNE groups in scope of the Pillar Two Directive.

Taken together, these initiatives establish a more coherent, modern and competitive tax framework for businesses operating within the internal market. In doing so, the proposal

[7] 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 (OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj).

[8] Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes (OJ L, 2025/50, 10.1.2025, ELI: http://data.europa.eu/eli/dir/2025/50/oj).

maintains the high level of protection against tax avoidance and abusive practices within the Union. The initiative does not weaken existing safeguards but rather ensures that anti-abuse rules remain proportionate, coherent and effective in light of more recent developments in international taxation and practical implementation experience, while removing unnecessary complexity, legal uncertainty and administrative burdens for taxpayers and tax administrations.

- **Consistency with other Union policies**

The proposal is consistent with the Commission's broader policy objectives concerning simplification, competitiveness and the proper functioning of the internal market. The proposal contributes to the objective of strengthening competitiveness in the Union by reducing obstacles affecting cross-border investment and economic activity within the internal market, in line with the Draghi Report on EU Competitiveness[9] and the broader objectives set out in the Competitiveness Compass for the EU[10].

In doing so, it meaningfully reduces administrative burdens. It will also contribute to furthering other Commission priorities, such as building a strong Savings and Investments Union[11], and delivering on the importance of immediate expensing for investment decisions in the field of Research and Development, as recommended in the Clean Industrial Deal of 2 July 2025[12]. More generally, the proposal will encourage cross-border commercial activity and business expansion in the internal market, and facilitate business restructurings in line with Directive 2017/1132[13] as amended by Directive 2019/2121 (Mobility Directive)[14].

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

This proposal falls within the scope of Article 115 of the Treaty on the Functioning of the European Union (TFEU). The rules of the proposal aim to approximate the laws, regulations and administrative practices of the Member States as directly affect the establishment or functioning of the internal market. It shall therefore be adopted under the special legislative procedure in accordance with this article and the initiative should take the form of a directive. The competence of the Union in this area is shared with the Member States.

- **Subsidiarity (for non-exclusive competence)**

Union 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 may be taken only when the envisaged objectives cannot be

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9 The Draghi report on EU competitiveness

10 European Commission, 'A competitiveness Compass for the EU', COM (2025) 30 Final

11 Among the key objectives of the Savings and Investment Union is the breaking down of barriers to integrated financial markets and supporting investments, as explained here: https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union_en#what

12 'Commission Recommandation of 2 July 2025 on tax incentives to support the Clean Industrial Deal and in light of the Clean Industrial Dearl State aid Framework', C(2025) 4319 final.

13 Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law (OJ L 169, 30.6.2017, p. 46, ELI: http://data.europa.eu/eli/dir/2017/1132/oj).

14 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 (OJ L 321, 12.12.2019, p. 1, ELI: http://data.europa.eu/eli/dir/2019/2121/oj).

achieved sufficiently by Member States acting alone and in addition, when, by reason of the scale or effects of the proposed action, such objectives can be better achieved by the EU.

On this basis, each Member States has its own domestic tax system, based on its individual economic priorities, budgetary requirements, and political choices. However, there are situations where EU-wide action is essential to maintain a fair and efficient internal market and to uphold fundamental freedoms. For instance, the IRD and the PSD were introduced to ensure equal treatment of dividends, interest or royalties when payments are made between taxpayers in different Member States. Similarly, the TMD establishes a common tax framework for certain cross-border reorganisations within the Union, ensuring that mergers, divisions, transfer of assets and exchange of shares can take place without immediate taxation thereby reducing tax obstacles to business restructurings which could affect business decisions. ATAD introduces a set of common anti-tax avoidance rules to address risks of base erosion and profit shifting, often caused or aggravated by mismatches or fragmentation between the national tax systems of Member States. The DRM establishes rules for resolving disputes that arise from the interpretation and application of double tax treaties among Member States.

While Member States remain responsible for simplification of domestic tax rules, only action at EU level can amend the existing EU direct tax acquis in accordance with the Treaties. This is required 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 if each Member State acts alone.

In addition, EU action in this area would bring clear EU added value to both businesses and tax administrations. The objective is to remove overlapping or superfluous rules, streamline procedures, further reduce double taxation and market distortions, clarify concepts, eliminate outdated provisions, and address the inconsistent or divergent application of rules across Member States. The proposal would make EU tax rules and procedures clearer and simpler and it would thus be less costly for businesses to operate across multiple Member States. This would enable a better use of the internal market's potential making it a more attractive place to establish businesses and invest. For tax administrations, clearer and more efficient rules would simplify compliance checks and tax audits, reducing disputes and lowering administrative burdens.

• **Proportionality**

The proposal is limited to targeted amendments necessary to simplify existing Union tax legislation and improve its coherence and effectiveness. It does not go beyond what is necessary to achieve these objectives. In particular, it preserves the core objectives and safeguards of the existing directives while updating, streamlining or simplifying specific provisions that have been identified as generating unnecessary complexity, administrative burdens, legal uncertainty or disproportionate compliance costs. It therefore strikes an appropriate balance between simplification, legal certainty and the preservation of the original objectives to ensure a high degree of protection against tax avoidance in the internal market.

• **Choice of the instrument**

The proposal is for a directive, which is the only permissible legal instrument under the legal basis (Article 115 TFEU).

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

• Ex-post evaluations/fitness checks of existing legislation

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' evaluates the implementation and impact of ATAD I and II, under Better Regulation criteria. The evaluation considers the efficiency, effectiveness, relevance, coherence and EU added value of the directives. The evaluation is primarily based on the findings of an external study which was undertaken by a contractor. The contractor conducted in-depth interviews of national tax authorities in 15 Member States and consulted the remaining 12 tax authorities through a survey. The contractor also conducted in-depth interviews with private sector stakeholders (including EU and national business associations, MNEs, tax advisors, academics and NGOs) in a sample of 10 Member States, as well as carried out a survey of tax advisors and a targeted survey of 20 MNEs in all 27 Member States.

The results of the evaluation inform the impact assessment report accompanying the initiative, by providing an evidence base. The impact assessment report further clarifies the connection between those findings and the issues addressed in the context of this initiative.

• Stakeholder consultations

The stakeholder consultation strategy for this initiative consisted of a call for evidence and targeted consultations. No public consultation was conducted as extensive targeted consultations were held with key stakeholders over the course of 15 months, in addition to the in-depth study undertaken on ATAD. The targeted consultations included a large representation of key stakeholders, and included the 27 national authorities. All contributions received were considered in the impact assessment report, which accompanies this proposal. It includes a synopsis report of the stakeholder consultation in Annex 2, which details the profiles of the respondents and the input received.

Throughout the process, Commission services, consulted the Member States through dedicated meetings of the Commission Working Party IV (direct taxation) and the Council High-Level Working Party (HLWP).

A call for evidence[15] was published on 16 February 2026, and remained open for consultation until 30 March 2026. The consultation sought feedback on the need for action, and collected evidence on issues such as administrative costs, burdensome procedures, outdated or overlapping rules, and lack of clarity or differences in how rules are interpreted. The call for evidence received 117 contributions, from business associations and companies, but also citizens, as well as academic institutions, non-governmental organisations, and trade unions.

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 varied on how exactly the simplification could be achieved.

Most stakeholders expressed the need for simplifying the existing directives, e.g., by rationalising and modernising them, reducing overlaps, inconsistencies, fragmented implementations, and administrative burdens, and by standardising and clarifying the terms,

15 Call for evidence for an impact assessment - Ares(2026)1712759.

rules and procedures following from the directives, including through the use of digital tools, and by limiting national discretion in implementing the directives. Some also pointed out to the importance of making the rules and procedures simpler for SMEs.

- **Collection and use of expertise**

The Commission has relied on the expertise of its Joint Research Centre, which used the CORTAX model to study the possible impacts of the initiative. The CORTAX model is a general equilibrium model designed to evaluate the effects of corporate tax reforms in 27 Member States, using detailed data from various sources. The Commission relied on external expertise in preparing this proposal. The initiative and the impact assessment report build on the results of the ATAD evaluation, which integrates the results from an external study on the ATAD by an outside contractor[16].

- **Impact assessment**

An impact assessment was carried out to prepare this initiative. The draft impact assessment report was submitted to the Commission's Regulatory Scrutiny Board (RSB) on 8 April 2026 and a meeting was held on 29 April 2026. Based on a Decision of the President of the Commission as regards the tasks of the Regulatory Scrutiny Board (RSB)[17], dated 28 April 2026, the RSB delivered an 'unqualified' Opinion with recommendations on 4 May. The Decision of 8 April thus prescribes that omnibus proposals are treated as targeted initiatives which are not subject to qualified opinions by the RSB. However, the RSB did provide some recommendations including suggestions for improvements on the connections between the problems, objectives, the intervention logic of the report; the range and the construction of the options; analysis of the general objective of maintaining high tax standards in the EU; and the analysis of the costs and benefits, including the robustness of the assumptions used. A revised impact assessment report addressing these recommendations was prepared.

The report assesses the impact on the basis of several policy options. Regarding **withholding taxes under the IRD and PSD**, the impact assessment report considers an option to exempt all intra-EU interest, royalty and dividend payments through an extension of these directives, coupled with the removal of upfront procedures for entitlement, while an alternative option considered in the report was to align the scope and procedures of the IRD and PSD. For **Controlled Foreign Company (CFCs) legislation under the ATAD**, the report considers a mandatory application of Model A and a carve-out for Pillar 2 companies (or, alternatively, taking account of Pillar 2 Qualified Domestic Minimum Top-up Taxes to determine whether a CFC tax charge is due and, if so,, credit the top-up tax against the CFC liability). Additionally, the analysis assesses a carveout for SMEs. For **investments in research and development (R&D)**, the immediate expensing of the cost for the acquisition of tangible R&D assets is explored against the status quo, whereby R&D expensing would continue to be delineated at national level. Several options were considered for the **interest limitation rule under the ATAD** with the primary goal to ensure fairness and mitigating its procyclical effects: a carveout for SMEs, mandatory application of the 30% EBITDA cap, mandatory application of certain currently optional variations, a carve-out for low-risk third-party loans, and full deductibility in case of downward shocks in profitability. The report also assesses modifications for removing the rules on **imported hybrid mismatches**; aligning **the Tax Merger Directive** with the Mobility Directive (cross-border mergers from a company law

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16 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.

17 Decision of the President of the Commission amending Decision P(2020)2 as regards the tasks of the Regulatory Scrutiny Boar, 28.4.2026.

perspective), either through a dynamic reference or via adding new structuring transactions; and several targeted improvements to **the Dispute Resolution Mechanism Directive**, to clarify procedural rules and allow the use of Council implementing acts.

The impact assessment specifically examines three combinations of options.

(a) **Comprehensive Omnibus**: this combination includes all policy options and where relevant, elects for the most ambitious alternatives for the main measures of this initiative on the taxation of cross-border interest, royalty and dividend payments, and taxation of CFCs, to assess the most ambitious potential for simplification.

(b) **Medium Ambition Omnibus:** this approach encompassed all policy options except the action related to R&D spending, and included the less ambitious alternatives for withholding taxes under the IRD and the PSD, and CFC in ATAD.

(c) **Limited Ambition Omnibus:** this version targets existing measures in a simpler and more straightforward way, and maintained the status quo for the remaining policy options.

The impact assessment report concludes that the Comprehensive Omnibus is the preferred policy package. It does not only prove effective in achieving the specific objectives of the initiative but, in addition, performs best on effectiveness and efficiency, as explained in the impact assessment report.

The impact assessment includes a cost-benefit analysis of the initiative, which is expected to be positive. The **benefits** consist of the simplifications that the initiative would introduce which can significantly reduce tax compliance costs for EU taxpayers. The impact assessment report sets out the potential cost savings for businesses and the economy in the EU as a result of potential reductions of current tax compliance costs, as well as the broader, longer-term macro-economic impact. It results that the preferred option is the Comprehensive Omnibus. This option is roughly estimated to reduce compliance and related financial costs by about EUR 6.6 billion per year, out of which recurrent costs related to cutting down administrative burden is roughly EUR 2 billion per year (a breakdown of these numbers can be found in Annex 3 to the impact assessment report). Some of its individual measures are estimated to increase EU GDP by roughly 0.04% (exemption from withholding tax) and 0.2% (immediate expensing of certain R&D assets) in the long run.

The impact assessment report also attempts to articulate some of the **possible costs**. The purpose of the Tax Omnibus proposal is to reduce existing recurrent costs, by simplifying EU tax rules where possible. Accordingly, as outlined in Chapter 6 and Annex 3, the initiative is not expected to bring any significant costs for businesses and tax administrations, and these are thus estimated as none, marginal, or not relevant.

In addition, the impact assessment report does not expect any particular and direct environmental impact given that the proposal is a horizontal simplification measure in the field of direct taxation, nor any material direct social impacts as the proposal does not concern any labour, social or other directly related rights. Any environmental or social effects would therefore be indirect, depending on the use of the freed-up resources by EU businesses. Given the expected low impacts on the environment, the 'do no significant harm' principle assessment and climate consistency check were not conducted for the impact assessment accompanying this initiative.

- **Regulatory fitness and simplification**

The proposal seeks to reduce regulatory burdens for both taxpayers and tax administrations. Tax compliance costs are a burden for businesses, and a reduction will be a major benefit in the implementation of the initiative. Overall, as stated above, the Omnibus is roughly estimated to reduce compliance and related financial costs in the internal market by about EUR 6.6 billion per year, out of which about EUR 2 billion per year in recurrent costs related to administrative burdens. For instance, the total cost reduction for corporate taxpayers from the introduction of a full exemption of interest, royalties and dividends (amendments to the IRD and PSD) amount to an estimated EUR 5.34 billion per year. Deactivation of CFC rules for MNEs in scope of Pillar 2 (amendments to the ATAD) could save compliance costs of around EUR 160 million per year. The immediate expensing of assets related to R&D could save compliance costs of around EUR 265 million per year. Reduction in compliance costs will also benefit SMEs, in particular through: (i) the introduction of a specific carve-out from ATAD CFC rules, which could save compliance costs of about EUR 90 million per year; and (ii) the de facto exclusion of SMEs from the ATAD interest limitation rule, which could save compliance costs of EUR 69 million by making the EUR 3 million safe harbour mandatory within 3 years of the entry into force of the proposal. The carve-out of low-risk third-party loans could save compliance costs of around EUR 430 million per year. The detailed estimated reduction in compliance costs features in the impact assessment report.

To meet the objectives of simplifying EU tax rules with the aim to boost EU competitiveness, while maintaining high tax standards in the EU, in an effective and efficient manner, the proposal aims to simplify the EU tax environment, in conjunction with the DAC Recast, by making sure that the material tax rules are up-to-date and fit for purpose. This should reduce red tape and lower obstacles to cross-border operations. By amending the EU direct tax acquis with the aim of simplification, the proposal should make tax compliance in the EU clearer, easier and more efficient. Additionally, where the proposal introduces new harmonised rules, it 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), thus further limiting initial adjustment costs for companies.

- **Fundamental rights**

It is not expected that there will be any significant impact on fundamental rights. The proposed measures are compatible with the rights, freedoms and principles of the Charter of fundamental rights of the European Union.[18] Reducing fragmentation and unnecessary compliance requirements, improving predictability and facilitating cross-border business activity within the internal market may have a limited positive bearing on the freedom to conduct a business and on the effective exercise of the right of establishment. However, such potential impacts cannot be interpreted as meaning that the problems outlined in this Directive lead to any discrimination or unjustified restrictions. The initiative is therefore considered to be compatible with the Charter.

Where the implementation of the initiative entails the processing of personal data, such processing would have to comply fully with the applicable Union framework. Accordingly, data protection rights covered by the Charter and the General Data Protection Regulation (GDPR)[19] are safeguarded.

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[18] Charter of Fundamental Rights of the European Union, OJ C 326, 26.10.2012, p. 391.

[19] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of

4. BUDGETARY IMPLICATIONS

The initiative will not have budgetary implications for the EU budget.

5. OTHER ELEMENTS

• Implementation plans and monitoring, evaluation and reporting arrangements

For the purpose of monitoring and evaluating the implementation of the Tax Omnibus, the Commission will periodically monitor its implementation and application in close cooperation with the Member States, based on the following indicators: tax compliance costs; the number of cases where exceeding borrowing costs where not deductible; the amount of R&D investment in the EU; costs and cost savings for tax administrations; stakeholder views such as on interpretational, operational and technical issues, costs and benefits, and the practical effect of the Omnibus; the number of cases resolved using the DRM; the existence of tax gaps and overlaps; foreign direct investment flows within the EU; and outbound interest and royalty payments. This is set out in more detail in the impact assessment report accompanying this proposal.

The Commission will review the situation in the Member States regularly and publish a report. For this purpose, Member States should communicate to the Commission any relevant information that is necessary for the monitoring and evaluation of the Omnibus on Taxation proposal. 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 measures which will be adopted in Council as part of the Omnibus on Taxation. On this premise, the first evaluation should not take place earlier than five years after the new rules start to apply.

• Explanatory documents (for directives)

The proposal does not require Explanatory Documents on the transposition.

• Detailed explanation of the specific provisions of the proposal

Amendments to Council Directive 2003/46/EC (Interest and Royalty Directive - IRD)

According to the IRD, interest and royalty payments arising in a Member State are exempt from withholding taxes in that State, provided that the beneficial owner is an associated company of another Member State or a permanent establishment situated in another Member State. The Directive currently applies only where the minimum holding requirements laid down in the definition of "associated company" are fulfilled. In addition, Member States may currently apply administrative or prior authorisation/certification procedures to verify *a priori* whether access to the exemption from withholding tax should be granted.

The proposal amends the IRD to simplify the substantive and procedural conditions for accessing the withholding tax exemption.

First, **Article 1** of the proposal extends the material scope of the IRD, by removing the minimum holding requirement applicable under the concept of 'associated company'. As a result, interest and royalty payments between companies within the Union may benefit from the exemption irrespective of the level of participation held between them.

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such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (Text with EEA relevance) (OJ L 119, 4.5.2016, p. 1)

Second, the proposal introduces a safeguard to prevent situations of double non-taxation. Member States would be required either to levy withholding tax or deny the deductibility of interest and royalty payments at source, where the recipient of the payment is established in a jurisdiction that does not levy corporate income tax or applies a zero tax rate to income flows of interests and royalties, while the Member State of source does not levy withholding tax either. This safeguard would not apply where the recipient is subject to a qualified domestic top-up tax for the tax period and receive no refunds or direct or indirect financial benefits in this connection or is part of an MNE group which, for that tax period, falls within the scope of the rules laid down in the Pillar Two Directive, or as regards third-country jurisdictions, the OECD Model Rules.

Third, the proposal limits the use of administrative or prior authorisation procedures for accessing the exemption. As a general rule, Member States will no longer be able to require prior authorisation or administrative procedure for verifying whether the conditions for the exemption are fulfilled at the time of payment. Eligibility will be self-assessed by the taxpayer, subject to ex post controls and the application of anti-abuse rules, including rules on beneficial ownership by Member States. However, there are cases when the taxpayer will not be able to ensure eligibility at the time of payment. In such case, the proposal addresses the procedural rules in two different ways, depending on the situation:

- In the case of publicly traded securities, when the investor is unknown to the paying company, thus preventing the latter to determine in advance whether the conditions for the exemption are met, the proposal amends the FASTER Directive to ensure that the fast-track procedures are made available.
- In all other cases where the substantive conditions for the exemption are met but tax is nonetheless withheld, Member States should ensure that the excess tax is refunded through standard domestic refund procedures within a reasonable time.

Additionally, the proposal clarifies that the IRD applies to payments which are attributable to the activities of a permanent establishment, irrespective of whether those payments are tax-deductible in the Member States in which the permanent establishment is situated.

Finally, the proposal updates in the Annex the list of company forms that can benefit from the Directive, to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered. The Commission is also empowered to adopt delegated acts to further amend the Annex, to encompass future legal forms of companies introduced by Member States or EU law.

Amendments to Council Directive 2009/133/EC (Tax Merger Directive - TMD)

Under the TMD, Member States apply common rules providing for the deferral of taxation of capital gains resulting from certain cross-border business reorganisations, including mergers, divisions, transfer of assets and exchanges of shares involving companies of different Member States until the actual disposal of the underlying assets. The TMD aims to ensure that such restructuring operations can take place without immediate taxation which would create barriers to the functioning of the internal market.

However, the scope of the TMD no longer fully reflects more recent developments in Union company law. In particular, Directive 2017/1132 of the European Parliament and of the Council, as amended by Directive 2019/2121 of the European Parliament and of the Council, introduced new forms of cross-border reorganisations which are not covered by the current scope of the TMD.

To ensure that the TMD is still fit for purpose, **Article 2** of the proposal aligns definitions of the TMD with that of Directive 2017/1132, to include "simplified merger" and division by separation", which were not yet covered by the Directive.

Currently, the TMD only covers transfers of registered offices of a European Company or European Cooperative Society. **Article 2** introduces a new chapter in the TMD, regarding rules applicable to cross-border operations, which include at least transfer of office of a company, to guarantee that the principle of tax neutrality applies.

Finally, the list of company forms that can benefit from the Directive, included in the Annex to the TMD, is amended, to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered. The Commission is also empowered to adopt delegated acts to further amend the Annex, to encompass future legal forms of companies introduced by Member States or EU law.

Amendments to Council Directive 2011/96/EU (Parent-Subsidiary Directive - PSD)

The PSD 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). The Directive currently applies only where the minimum holding requirements laid down in the definition of 'parent company' are fulfilled. In addition, while the PSD does not harmonise procedures for accessing its benefits, Member States may currently apply upfront administrative procedures in order to verify *a priori* whether the conditions for the exemption are satisfied.

The proposal amends the PSD to simplify the substantive and procedural conditions for accessing the withholding tax exemption.

First, **Article 3** of the proposal extends the material scope of the PSD by removing the minimum holding requirement applicable under the concept of 'parent company'. As a result, dividends and other profit distributions between companies within the Union may benefit from the exemption irrespective of the level of participation held between them. In addition, and in light of the broadened scope of the Directive, the preexisting option for Member States to deny deduction of charges relating to the holding or losses connected with the distribution of profits is limited to cases where there is a relevant holding (10%), and therefore when management costs are actually incurred.

Second, the scope of the PSD is also further extended to pension funds, irrespective of their legal form. To that end, the proposal introduces a derogation from the subject-to-tax condition applicable under the Directive.

Third, and aligned with the proposed amendments for the IRD, Member States will no longer be able to require prior authorisation or administrative procedure for verifying whether the conditions for the exemption are fulfilled at the time of payment, subject to ex post controls and the application of anti-abuse rules by Member States. Similarly to the IRD, when the taxpayer will not be able to verify eligibility at the time of payment, either FASTER procedures or domestic refund procedures within a reasonable time will apply.

Finally, the proposal updates in the Annex the list of company forms that can benefit from the Directive, to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered. The Commission is also empowered to adopt delegated acts to further amend the Annex, to encompass future legal forms of companies introduced by Member States or EU law.

Amendments to Council Directive (EU) 2016/1164 (Anti-Tax Avoidance Directive – ATAD)

The ATAD established a common framework of anti-avoidance rules aimed at protecting Member States' corporate tax base against aggressive practices of base erosion and profit shifting. The ATAD sets out rules establishing a minimum level of protection on interest limitation, exit taxation, controlled foreign companies, hybrid mismatches and a general anti-abuse rule ('GAAR').

Since the adoption of the ATAD, there have been significant developments at international level, in particular following the adoption of the OECD/G20 Two-pillar solution and the Pillar Two Directive, which may overlap with certain ATAD rules. Experience with the practical application of ATAD has also shown that certain provisions are no longer up-to-date, or create disproportionate compliance burden, legal uncertainty and fragmentation.

Additionally, in the field of Research and Development (R&D) activities, the legal framework which Member States have put in place at national level creates a fragmented landscape across the EU where there is no common minimum level of support for R&D. This situation often places the European Union in a less advantageous position when it comes to competitiveness vis-à-vis its major trading partners internationally. The outcome is exacerbated when one considers that such measures receive a favourable treatment under the Pillar Two framework leading to no or limited additional top-up taxes. Similar to our key partner economies, we should ensure our EU businesses can benefit from this.

Against this background, ATAD is amended to extend its material scope and include the full expensing of certain R&D expenditure. The choice of ATAD as the legal instrument is deliberate, as both the existing measures against tax avoidance and the tax treatment of R&D constitute elements of the corporate tax base and pursue the common objective of contributing to the proper functioning of the internal market.

While the existing framework lays down minimum standards against tax avoidance, the new provisions address the competitiveness challenges that arise from the fragmentation of R&D tax regimes across the Union. The amendment of ATAD ensures consistency between these two regulatory frameworks and reflects their shared policy objectives.

Regarding **R&D**, **Article 4** of the proposal first amends the title of the Directive to reflect the inclusion of new provisions on R&D expenditure.

Second, a new Chapter is introduced in ATAD, to lay down an EU wide R&D allowance, as a minimum standard, in order to ensure full deductibility of R&D qualifying expenditure (i.e. capital expenditure on plant, machinery and tangible assets used directly for R&D or to support R&D facilities). Taxpayers can either immediately deduct qualifying expenditure in the tax period in which this is incurred, or over any of the four subsequent tax periods.

Third, the revisions include rules to ensure proper use of the new provision and prevent abuse. To this end, qualifying expenditure must be used for R&D for a minimum of three years.

Rules on the withdrawal of the allowance and balancing charges where the assets are disposed of, demolished or ceased to be owned are also introduced and any generated monetary value must be taken into account, so that the allowance accurately reflects actual R&D investments.

Finally, necessary adjustments are made to the calculation of the EBITDA under the Interest Limitation Rule, to ensure that the new R&D allowance, nor being treated as depreciation or amortisation, does not decrease the taxpayer's EBITDA and as a result, its entitlement to interest deductibility.

The proposal introduces a series of revisions to the anti-tax avoidance rules of the ATAD.

Regarding the **Interest Limitation Rule**, **Article 4** of the proposal first makes the 30% EBITDA amount mandatory, disallowing Member States from setting lower thresholds to reduce the deductibility of exceeding borrowing costs. In addition, as BEPS risks primarily arise from excessive interest payments between associated enterprise, the proposal excludes from the scope of the interest limitation rule loans that are granted by non-associated enterprises (i.e. third party-loans), under the condition that they are used to fund the borrowing taxpayer's own activities, thus excluding on-lending within the group.

Second, to reduce the burden of the interest limitation rule, especially for smaller taxpayers, and ensure that the safe harbour reflects at all times the current economic situation in the Union, **Article 4** makes the safe harbour of EUR 3 million mandatory within the first 3 years of entry into force of the Directive and introduces an automatic annual indexation based on inflation. Furthermore, the option to exclude standalone entities is removed, as the exclusion of low-risk third-party loans coupled with the mandatory safe harbour make it redundant. Additionally, the proposal introduces a safeguard to address the procyclical effect of the interest limitation rule, providing that no interest limitation will apply to a taxpayer when its EBITDA is reduced by 50% in a given tax year.

Third, the proposal clarifies the operation of the optional long-term public infrastructure project exclusion in line with common EU priorities, by referring to long-term public-benefit projects instead of infrastructure. In addition, a mandatory, temporary exclusion for the defence sector is introduced for investments initiated in the first 5 tax periods from the entry in to force of the initiative.

Finally, to simplify the functioning of the interest limitation rule, a number of options are made mandatory, namely the group escape rule, to address the concerns of capital-intensive sectors which are highly leveraged for legitimate reasons, and the carry-forward mechanism, to ensure that the rule accommodates fluctuations in taxpayer's profitability and offers support to startups.

Regarding the **GAAR**, **Article 4** updates the wording of the GAAR to ensure that its scope is broad enough to encompass all direct taxes that companies are subject to, in particular to ensure that it applies to withholding taxes or top-up taxes resulting from the Directive (EU) 2022/2523.

As for **Controlled Foreign Company (CFC) Rules**, first the proposal takes into account the fact that the objective and effects of these rules significantly overlap with the income inclusion rule laid down in Directive (EU) 2025/2523 (Pillar Two Framework). Therefore, **Article 4** introduces an exemption from CFC rule for taxpayers which fall within the scope of the Pillar Two Framework. All EU-located companies will benefit from this carve-out for their low-taxed subsidiaries, except where the group is headquartered in a jurisdiction which operates a qualified ‘side-by-side’ regime and the low-taxed controlled foreign subsidiary is not subject to qualified domestic top-up tax or, where it is subject to a qualified domestic top-up tax, a refund or direct or indirect financial benefit is granted in relation to that tax.

Second, **Article 4** introduces an exemption from CFC rule for small and medium-sized groups. Information collected from exchanges with several Member States indicates that administrations have had almost no CFC cases related to SMEs in the approximately ten years since ATAD started to apply. This indicates that these rules are rarely triggered for SMEs, possibly because these companies' operating structures involve no or little cross-border activity. Their exclusion would thus not hinder anti-avoidance and evasion or aggressive tax planning efforts. It would rather bring significant cost and resource savings, and thus benefits, to both companies and tax administrations. The exemption of such groups therefore aims to reduce disproportionate compliance costs and administrative burdens for smaller businesses operating across the internal market.

Third, in order to simplify and streamline the CFC framework across the Union, the proposal makes Model A the only possible approach, deleting the option to implement CFC rules by applying Model B.

Finally, **Hybrid Mismatch Rules** prevent companies from exploiting discrepancies amongst national rules, in order to avoid taxation. Yet, in some cases, such as when it comes to imported mismatches, application has proven particularly complex for both taxpayers and tax administrations. In order to simplify hybrid mismatch rules and ensure their proportionality, **Article 4** of the proposal removes rules related to imported mismatches from ATAD.

Amendments to Council Directive (EU) 2017/1852 (Dispute Resolution Mechanism – DRM)

The DRM lays down rules for swiftly and effectively resolving disputes related to the interpretation of tax treaties for both businesses and citizens and covers issues on double taxation. **Article 5** of the proposal introduces targeted amendments to the DRM with the aim to address interpretative divergences identified in practice, streamline procedures, and improve taxpayers’ access to dispute resolution mechanisms. The amendments are designed to preserve the overall architecture of the Directive while introducing clarifications and procedural simplifications.

The amendment to article 2 of the DRM clarifies that, where the taxation of more than one person is directly affected by the same question in dispute, each of these persons qualifies as “affected person” for the purposes of the Directive. This clarification is intended to remove uncertainty in multiple-entity cases and should be read together with the amendments to article 3 concerning the filing of complaints.

Article 3 of the DRM is subjected to several amendments which are meant to streamline and clarify the complaint stage of the procedure. First, it is clarified who should file the complaint where multiple affected persons are involved. Member States must allow either each affected person to submit a complaint individually to its State of residence or, alternatively, permit one affected person to file on behalf of all affected persons. This approach seeks to combine legal certainty with procedural flexibility. Second, the concept of “simultaneous submission” is replaced with a 30-calendar-day submission window. This amendment responds to divergent national interpretations of the term “simultaneously”, which in practice ranged from requiring filing on the same day to allowing broader timeframes.

In **Article 4** of the DRM, an amendment is introduced to clarify that, where competent authorities conclude that no agreement can be reached, they should inform the taxpayer without delay rather than waiting for the expiry of the two-year MAP period. The objective is to allow taxpayers to access the arbitration phase earlier and avoid unnecessary delays.

The amendments to **Article** 5 of the DRM clarify that failure to comply with procedural requirements — including failure to submit information within the new 30-day submission window, failure to use an accepted language, or failure to provide the same information to all competent authorities — may result in rejection of the complaint. At the same time, the amendments strengthen taxpayer protection by requiring competent authorities to give taxpayers the opportunity to remedy deficiencies within 30 days and by allowing taxpayers to resubmit a complaint, provided the overall time limit is respected. The purpose is to avoid disproportionate procedural rejections and facilitate access to the mechanism.

The amendment to article 8 clarifies the time limit for objections against independent persons of standing that participate in the advisory commission. Objections may only be raised until the final decision has been accepted by all competent authorities. This rule is intended to prevent late procedural challenges from undermining legal certainty and delaying the conclusion of the procedure.

In **Article 10** of the DRM, the amendment specifies that an alternative dispute resolution commission may also be set up for disputes relating to the admissibility of complaints and not only for the substantive resolution of double taxation disputes. The objective is to broaden procedural flexibility and facilitate the efficient settlement of disputes at an earlier stage.

The amendment to the rules of functioning in article 11 of the DRM clarifies that qualification requirements apply only to independent persons of standing and not to representatives of competent authorities. This clarification is intended to avoid unnecessary interpretative uncertainty.

The amendment to article 16 of the DRM addresses the interaction between the Directive and other dispute resolution procedures based on different legal frameworks. It provides that other ongoing procedures are suspended once a DRM complaint is submitted and are terminated only once the DRM complaint has been accepted by all competent authorities concerned. The purpose is to ensure that taxpayers are not left without protection against double taxation while at the same time avoiding overlaps between parallel procedures.

The amendment to article 17 of the DRM is meant to introduce additional clarifications for individuals and smaller undertakings making use of the simplified filing system. It aims to avoid unclear procedural situations and facilitate coordination between competent authorities where communications are submitted only to the competent authority of the taxpayer's State of residence.

The new article 19a of the DRM introduces a new provision empowering the Council to adopt implementing acts laying down binding technical and procedural rules necessary to ensure a uniform and effective application of the Directive. The proposal reflects the view that certain interpretative and procedural difficulties cannot be adequately addressed solely through targeted legislative amendments and may require more detailed implementing rules.

Finally, the amendment to article 21 of the DRM introduces a harmonised statistical reporting framework and empowers the Commission to adopt implementing acts concerning the format and conditions for the communication of statistical data. The purpose is to ensure consistency of reporting across Member States and alignment with the OECD statistical framework, thereby improving transparency and the evaluation of the functioning of the Directive.

Amendments to Council Directive EU 2025/50 (Directive on Faster and Safer Relief of Excess Withholding Taxes - FASTER)

FASTER makes withholding tax procedures in the EU more efficient and secure for investors, financial intermediaries and national tax administrations. In particular, FASTER provides for standardised fast-track procedures for relief at source or quick refund of withholding tax levied on dividends and interests from publicly traded securities.

As detailed above, the proposal extends the scope of the exemption from withholding tax of the IRD and PSD, while excluding upfront procedures before granting the benefit from the relevant withholding tax exemptions.

In practice, however, the application of these exemptions may create difficulties in the context of publicly traded securities held through financial intermediaries and nominee accounts. In such case, the paying company is often unable to determine at the time of payment whether the conditions for a withholding tax exemption are fulfilled, in particular where ownership information concerning portfolio investors is not available (usually below 5% of holding).

As a result, the paying company would not be able to assess whether the conditions of the PSD and IRD, as amended, are met by the investor, and therefore the exemption cannot be applied upfront. FASTER could bring significant simplification in such cases.

However, under the current FASTER provisions, Member States may deny access to the standardised fast-track procedures where a full exemption from withholding tax is claimed. This would *de facto* prevent the benefit of the FASTER procedures for refund from applying to payments which are eligible for exemption under the extended scope of the IRD and PSD. For this reason, **Article 6** of the proposal adjusts the scope of FASTER, to ensure that it covers refunds in the event of the IRD/PSD.

2026/0163 (CNS)

Proposal for a

COUNCIL DIRECTIVE

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

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to the proposal from the European Commission,

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

Having regard to the opinion of the European Parliament[1],

Having regard to the opinion of the European Economic and Social Committee[2],

Acting in accordance with a special legislative procedure,

Whereas:

(1) The proper functioning of the internal market requires that rules on direct taxation operate in a clear, consistent and efficient manner. In recent decades, the Union has adopted several directives in the field of direct taxation that aim to eliminate double taxation, ensure tax neutrality, facilitate dispute resolution and prevent tax avoidance in cross-border situations.

(2) The acquis in direct taxation represents a significant achievement for the Union. As part of this acquis, Council Directive 2003/49/EC[3], Council Directive 2009/133/EU[4] and Council Directive 2011/96/EU[5] have contributed to the functioning of the internal market by facilitating cross-border economic activities, in particular by removing withholding taxes on certain intra-group payments and ensuring tax neutrality for cross border reorganisations. Council Directive (EU) 2016/1164[6] has strengthened the protection of the internal market by laying down coordinated rules against tax avoidance practices that may distort competition and affect the allocation of taxing

[1] OJ C , , p. .

[2] OJ C , , p. .

[3] 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 (OJ L 157, 26.6.2003, p.49, ELI: http://data.europa.eu/eli/dir/2003/49/oj).

[4] 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 (OJ L 310, 25.11.2009, p. 34, ELI: http://data.europa.eu/eli/dir/2009/133/oj).

[5] 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 (OJ L 345, 29.12.2011, p. 8, ELI: http://data.europa.eu/eli/dir/2011/96/oj).

[6] 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 (OJ L 193, 19.7.2016, p. 1, ELI: http://data.europa.eu/eli/dir/2016/1164/oj).

rights, thereby addressing risks of base erosion and profit shifting. Council Directive (EU) 2017/1852[7] has further contributed to the proper functioning of the internal market by providing mechanisms for the effective resolution of cross-border disputes in the Union that involve double taxation or arise from double taxation conventions.

(3) While the objectives of those Directives remain valid, practical experience arising from their application has revealed structural shortcomings as well as increasing complexity. The coexistence of multiple sets of rules adopted over time has resulted in a multilayered tax framework. Furthermore, the interaction between those directives and more recent developments in the international tax landscape, in particular Council Directive (EU) 2022/2523[8] ensuring a global minimum level of taxation for multinational enterprise groups and large-scaled domestic groups, has in some cases led to overlaps, duplications and situations of layered regulation addressing similar objectives. In addition, the existence of numerous options for implementation and the use of concepts that are not uniformly defined have resulted in divergent approaches across Member States and contributed to a highly fragmented tax framework in the Union. Certain provisions of the Union tax framework are no longer in line with current economic and legal developments, resulting in outdated rules.

(4) Those factors contribute to legal uncertainty for taxpayers and tax administrations in the Union, increase the risk of disputes and unintended tax outcomes, and result in significant compliance costs and administrative burdens, in particular for cross-border activities, thereby undermining the effective functioning of the internal market and adversely affecting the competitiveness of businesses operating within the Union. Taxpayers operating across the internal market may be subject to divergent rules implementing the Union tax framework and face burdensome compliance requirements and procedural inefficiencies.

(5) In order to address those shortcomings, it is necessary to simplify and streamline the Union framework on direct taxation while maintaining the highest standard of protection for the internal market. That requires reducing complexity, eliminating overlaps and ensuring a more uniform application of tax rules across Member States. Given the cross-border nature of the issues identified, a coordinated approach at Union level is required to ensure consistent solutions and to avoid further fragmentation. This Directive should therefore introduce targeted amendments to Directives 2003/49/EC, 2009/133/EC, 2011/96/EU, (EU) 2016/1164 and (EU) 2017/1852. While it already represents a significant step forward in the simplification and streamlining of the Union tax framework, it is also necessary to amend Council Directive (EU) 2025/50[9] to ensure that the withholding tax exemption under Directives 2003/49/EC and 2011/96/EU can also be applied to income arising from publicly traded securities. Altogether, those amendments should reduce compliance costs and administrative burdens, improve legal certainty and ensure a more coherent interaction between the existing rules. They should also contribute to the proper functioning of the internal market and support the competitiveness of the businesses operating within the Union.

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[7] Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union (OJ L 265, 14.10.2017, p. 1, ELI: http://data.europa.eu/eli/dir/2017/1852/oj).

[8] 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 (OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj).

[9] Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes (OJ L, 2025/50, 10.1.2025, ELI: http://data.europa.eu/eli/dir/2025/50/oj).

(6) Small and medium sized enterprises ('SMEs') are particularly affected by the complexity and fragmentation of the Union direct tax framework, despite the fact that they generally present limited risks of base erosion and profit shifting. In order to ensure that compliance obligations remain proportionate, it is therefore important to provide for targeted simplification measures for SMEs.

(7) At the same time, large multinational enterprise groups ('MNE' groups) and large-scale domestic groups that fall within the scope of Directive (EU) 2022/2523 are subject to complex and globally coordinated rules aimed at ensuring a minimum level of taxation in each jurisdiction in which they operate. While those rules play a key role in addressing base erosion and profit shifting, they also entail significant compliance obligations and may give rise to overlapping requirements when interacting with existing tax rules at Union and national level. In order to preserve the competitiveness of businesses operating within the Union, while maintaining a high level of protection against tax avoidance, it is therefore important to provide for targeted simplification measures for entities within the scope of that Directive, in order to ensure coherence of the tax system and mitigate the compliance burden.

(8) Directives 2003/49/EC and 2011/96/EU lay down exemptions from withholding taxes on certain cross-border payments of interest, royalties, dividends and other profit distributions and thereby contribute to the elimination of double taxation within the Union. However, differences in their design and the limited material scope of those directives, in particular as regards minimum shareholding requirements, have led to inconsistent implementation across Member States and increased compliance costs, which may distort investment decisions for businesses operating across the internal market. Residual withholding taxation in the Union creates barriers and reduces tax neutrality for cross-border investments.

(9) With a view to simplifying the functioning of the internal market and strengthen its competitiveness, it is appropriate to broaden the material scope of both directives. To that end, the requirements for a minimum percentage and a minimum duration of the shareholding as conditions for granting relief from withholding tax and, in the case of dividends or other profit distributions, for granting the participation exemption should be removed. In light of this broader scope, the option for Member States to replace the criterion of a participation in the capital by that of a participation in the voting rights should also be eliminated, so as to ensure a more uniform and predictable application of those directives. Moreover, in order to remove tax obstacles to cross-border investment by pension institutions, distributions of dividends to such entities should be exempt from withholding tax, irrespective of their legal form and by way of derogation from the subject-to-tax condition. Furthermore, to ensure that the rules allowing Member States to provide that charges relating to a participation and losses resulting from the distribution of profits of the subsidiary are not deducted from the taxable profits of the parent company remain proportionate in the light of the broadened scope of Directive 2011/96/EU, the application of that option should be allowed where the participation is of a sufficient size to justify incurring management costs. For this purpose, a minimum participation of 10% in the capital of the subsidiary should be required.

(10) In order to prevent situations of double non-taxation, it is appropriate to ensure that interest and royalty payments are subject to taxation at least once, either through a withholding tax or by denying deductibility of those payments at source. While Directive 2003/49/EC already includes a subject to tax requirement within the Union, an additional measure is necessary to address situations where income flows of interest

and royalties leaving the Union remain untaxed in their country of destination. As a general rule, Member States should continue to apply their national rules, including those resulting from applicable tax treaties, to interest and royalty payments. The specific protective measure should apply where the third-country jurisdiction in which the recipient of the payment is established does not levy corporate income tax on interest and royalty income or applies a zero corporate income tax rate to such income and no withholding tax is levied in the Member State of source. The protective measure would target the specific flow of income and consider the tax situation of the direct recipient of the payment only. In this way, the rule would alleviate the payer from the need to trace intermediary structures. This should be without prejudice to the application of national and treaty-based anti-abuse provisions and Union principles relating to beneficial ownership. However, that protective measure should not apply where, for the tax period, the recipient of the payment is subject to a qualified domestic top-up tax and does not receive any refund or direct or indirect financial benefits in relation to that tax or is part of an MNE group which, for that tax period, falls within the scope of the rules laid down in Directive (EU) 2022/2523 or, as regards third-country jurisdictions, to the OECD Model Rules[10]. In this context, the protective measure may still apply if the ultimate parent entity of the MNE group is located in a jurisdiction with a qualified side-by-side regime for the tax period.

(11) No similar measure is necessary to address risks of double non-taxation of profit distributions (dividends), since such distributions are already taxed within the Union, either at the level of the distributing company or at the level of the recipient.

(12) Extensive and diverse procedural requirements applied by some Member States as conditions for the application of the exemptions from withholding tax laid down in Directives 2003/49/EC and 2011/96/EU have, in practice, created significant administrative burdens for taxpayers and tax authorities in the Union and have hindered the effective functioning of those exemptions. In order to reduce those burdens, enhance legal certainty and support the competitiveness of the internal market, it is appropriate to simplify and streamline those procedural requirements. This Directive should therefore provide that Member States do not require prior authorisation or administrative procedures for verifying whether the conditions for the exemptions are fulfilled at the time of payment of the interest or royalties or the distribution of profits. This should not affect the powers of Member States to carry out *ex post controls* and to apply national anti-abuse rules, including rules on beneficial ownership.

(13) In the case of publicly traded securities, portfolio investors whose holding in the paying company remains below a certain threshold are frequently unknown to that company, as such securities are often held in nominee-registered accounts. As a result, the paying company may not be able to determine in advance whether the conditions for the exemptions from withholding tax provided for in Directives 2003/49/EC and 2011/96/EU are fulfilled, which may impede effective access to those exemptions. Directive (EU) 2025/50 established standardised relief-at-source and quick refund procedures for excess withholding tax on income from publicly traded securities. In order to avoid inefficient and burdensome national procedures and to ensure that taxpayers who are entitled to the exemptions provided for in Directives 2003/49/EC and 2011/96/EU can also make use of the common procedures laid down

[10] OECD (2021), *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/782bac33-en.

in Directive (EU) 2025/50, that Directive should be amended so that income from publicly traded securities which qualifies for those exemptions is not excluded from the relief-at-source or quick refund procedures.

(14) Where payments falling within the scope of Directives 2003/49/EC and 2011/96/EU satisfy the substantive conditions for exemption from withholding tax, but tax is nonetheless withheld, for instance, because the paying company cannot determine in advance whether those conditions are met, Member States should ensure that the excess tax is refunded through standard refund procedures within a reasonable time. To that end, Directive 2011/96/EU should be aligned with Directive 2003/49/EC as regards the time limits for submitting refund claims and for processing them.

(15) Directive 2003/49/EC provides that a permanent establishment is to be treated as the payer of interest or royalties where the payment constitutes a tax-deductible expense for that permanent establishment. In order to avoid legal uncertainty and to ensure that that rule applies in a manner consistent with the objective of the Directive, it is appropriate to clarify that Directive 2003/49/EC applies to payments which are attributable to the activities of a permanent establishment, irrespective of whether those payments are tax-deductible in the Member State in which the permanent establishment is situated.

(16) Directive 2009/133/EC provides for common rules to reduce tax obstacles and ensure tax neutrality in reorganisations concerning companies of different Member States, including mergers, divisions, partial divisions, transfers of assets, exchanges of shares and the transfer of the registered office of a Societas Europaea (SE) or Societas Cooperativa Europaea (SCE). Developments in Union company law, in particular those introduced by Directive (EU) 2017/1132 of the European Parliament and of the Council[11], as amended by Directive (EU) 2019/2121 of the European Parliament and of the Council[12], have led to a misalignment between the scope of tax rules and company law provisions. This results in legal uncertainty for the businesses and compromises competitiveness in the internal market. In order to ensure coherence between the tax framework and company law, the definitions of Directive 2009/133/EC should be aligned with Directive (EU) 2017/1132 to include an additional subtype of a merger and “division by separation”.

(17) Directive 2009/133/EC also applies to the transfer of the registered office of an SE or SCE. In light of the neutrality principle, it is necessary that the same tax treatment be granted to the cross-border conversions, which include at least the transfer of the registered office of the converting company from the departure Member State to the destination Member State. Therefore, a new chapter should be introduced to Directive 2009/133/EC on rules applicable to cross-border conversions, whereby, in line with the rest of the Directive, taxation of capital gains that arise on assets of a company undergoing a cross-border conversion should be deferred until the actual disposal of such assets, to the extent that the company remains a tax resident in the departure Member State or maintains in that Member State a permanent establishment with which such assets remain connected.

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11 Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law (OJ L 169, 30.6.2017, p. 46, ELI: http://data.europa.eu/eli/dir/2017/1132/oj).

12 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 (OJ L 321, 12.12.2019, p. 1, ELI: http://data.europa.eu/eli/dir/2019/2121/oj).

(18) In the light of the judgment of the Court of Justice of 1 October 2009 in Case C-247/08[13], it is appropriate to revise the list of company forms included in the Annex to Directive 2003/49/EC, Annex I, Part A, to Directive 2009/133/EC and Annex I, Part A, to Directive 2011/96/EU in order to ensure that all entities, which by their nature should fall within the scope of those directives, are explicitly covered.

(19) Directive (EU) 2016/1164 lays down rules against tax avoidance practices that directly affect the functioning of the internal market, including specific rules on interest limitation, controlled foreign companies, exit taxation, hybrid mismatches and a general anti-abuse rule. Those rules set a common framework to ensure a minimum level of protection against base erosion and profit shifting within the Union.

(20) In order to strengthen the Union's competitiveness, support innovation and facilitate the green and digital transition, it is important to promote investment in research and development across the internal market. Considering, in particular, the changing international tax environment, tax systems should continue to provide effective and targeted support for genuine research and development activities. To that end, a common framework for the tax treatment of certain research and development expenditure should be established in Directive (EU) 2016/1164, ensuring simplicity, legal certainty and consistency with the objective of maintaining a level-playing field in view of enhancing international competitiveness.

(21) Capital expenditure on plant, machinery and other tangible assets used by taxpayers for research and development, or to provide facilities for conducting such activities, should be fully deductible from taxable income to foster innovation, strengthen the internal market, and encourage investment in new technologies. Establishing a framework to set a level playing field for the deductibility of such expenditure would reduce barriers faced by businesses operating across borders within the Union. To this effect, taxpayers should be allowed to deduct the qualifying expenditure from their taxable base either in the tax period in which it is incurred, or at their choice, in any of the four subsequent tax periods.

(22) In order to ensure legal certainty, simplify the application of the rules and prevent abuse, conditions should be laid down to determine the minimum time during which qualifying expenditure must be used for research and development, the withdrawal of the allowance, and the treatment of balancing charges upon disposal. Taxpayers benefiting from the allowance should therefore be required to use the qualifying expenditure wholly and exclusively for research and development for a minimum period of three years. Where the taxpayer ceases to own, demolishes, or otherwise disposes of an asset to which that qualifying expenditure relates and generates any monetary value, that value should be taken into account to ensure that the allowance accurately reflects the actual investment in research and development.

(23) In conformity with the principles of subsidiarity and proportionality, the prescription of a minimum level of harmonisation within the Union as regards the tax deductibility of capital expenditure used for research and development is sufficient to ensure that research and development remain central to the Union's competitiveness and contributes to a more level playing field within the internal market. Accordingly, without prejudice to the application of the State aid rules, Member States should be entitled to apply domestic provisions that allow for more favourable tax deductibility in respect of qualifying expenditure.

[13] Judgment of the Court of Justice of 1 October 2009, Gaz de France - Berliner Investissement SA v. Bundeszentralamt für Steuern, C-247/08, ECLI:EU:C:2009:600.

(24) The Commission's evaluation of Directive (EU) 2016/1164[14] concluded that the rules of that directive are complex and rely on alternative approaches, multiple optional exceptions and thresholds. In particular, discrepancies in key concepts and definitions, as well as the coexistence of different models for the taxation of controlled foreign companies and options in the interest limitation rule have resulted in fragmentation of the Union legal framework for taxation, legal uncertainty for taxpayers and increased compliance burdens, in particular for businesses operating cross-border. That is the case also where the risk of base erosion and profit shifting is limited, notably for SMEs. It follows that the applicable legal framework may result in a disproportionate burden compared to the actual risk that it addresses. In addition, in light of the recent introduction of a global minimum level of taxation through Directive (EU) 2022/2523, Directive (EU) 2016/1164 should be adjusted to avoid overlaps and redundancies in scope, objectives and effects, including situations of double taxation and duplicative reporting obligations, resulting from the coexistence of the two frameworks.

(25) The interest limitation rule set out in Article 4 of Directive (EU) 2016/1164 is intended to discourage aggressive tax planning through the use by taxpayers of artificially inflated interest payments by placing excessive debt in high-tax jurisdictions. While the rule fulfils an important function in preventing tax avoidance, the coexistence of different thresholds, optional carve-outs and escape clauses, which have been implemented differently by Member States, often risks not targeting base erosion and profit shifting risks in a proportionate manner. That flexibility has contributed to significant fragmentation, increased compliance costs and legal uncertainty within the internal market. The interest limitation rule may also negatively affect companies' ability to finance investment and growth, as it fails to adapt to changes in the economic environment, particularly in a context of increasing interest rates and inflation. Furthermore, the rule may disproportionately affect capital-intensive sectors, such as real estate, infrastructures and innovative start-ups that rely on long-term debt financing. Finally, the current interest limitation rule also risks placing unnecessary burdens on SMEs, despite those companies having fewer resources and opportunities to engage in aggressive tax planning using interest payments.

(26) Amendments to Article 4 of Directive (EU) 2016/1164 are therefore necessary to simplify its application, better align it with its objective and ensure that the rule remains fit for purpose while supporting genuine investments in the Union. In particular, it is important to reduce the number of options available to Member States, update the rule's structure, clarify its scope and take into account the new common framework for the tax treatment of certain research and development expenditure.

(27) The interest limitation rule is designed to ensure that most third-party borrowing costs remain deductible for tax purposes, as such financing generally presents limited risks of base erosion and profit shifting. However, the possibility for Member States to apply lower deductibility thresholds when transposing that rule has resulted in divergent approaches across the Union, increased complexity and reduced legal certainty for taxpayers. In order to ensure a consistent application of the rule and equal treatment within the internal market, the level of deductibility for tax purposes should be fixed at 30% of EBITDA across all Member States.

(28) In order to preserve the effectiveness of the new common framework for the tax treatment of certain research and development expenditure introduced into Directive

[14] 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.

(EU) 2016/1164, the calculation of EBITDA for the purposes of the interest limitation rule should include add-backs for tax-adjusted amounts relating to research and development expenditure deducted under that framework, in the same manner as exceeding borrowing costs, depreciation and amortisation are taken into account.

(29) Base erosion and profit shifting risks addressed by the interest limitation rule primarily arise from excessive interest payments between associated enterprises. By contrast, borrowing from non-associated enterprises, including through bonds issuances subject to specific regulatory oversight, generally present limited risks of such practices. In order to better align this rule with its objective and ensure a consistent and proportionate application, borrowing costs arising from loans granted by non-associated enterprises should be excluded from the scope of the limitation, provided that such financing is used to fund the borrowing taxpayer's own activities and therefore, any on-lending within the group should not be covered by the exclusion.

(30) To reduce the administrative and compliance burden of the interest limitation rule, especially for small taxpayers, Member States may currently provide a safe harbour rule according to which net interest expenses are always deductible for tax purposes up to a fixed monetary amount. However, the optional nature of this provision and its transposition flexibility have resulted in divergent implementation across the Union, limiting its effectiveness. It is therefore appropriate to make that safe harbour mandatory, and provide for a periodic indexation, to ensure that it remains effective and relevant over time.

(31) The two targeted exclusions from the interest limitation rule concerning loans granted by non-associated enterprises and the mandatory increased safe harbour would render the optional exclusion in favour of standalone entities redundant. Therefore, that optional exclusion should be deleted in order to simplify and streamline the interest limitation rule.

(32) The interest limitation rule links the deductibility of borrowing costs to earnings, which may decline during economic downturns. As a result, taxpayers may face stricter limitations precisely when access to external financing becomes more needed. In order to mitigate such procyclical effect and ensure that the rule does not unduly constrain economic activity in periods of financial stress, Directive (EU) 2016/1164 should be amended to alleviate the application of the interest limitation rule where a significant drop of the EBITDA occurs in a given year.

(33) In order to ensure that the interest limitation rule does not hinder investments that are essential for the Union's economic development and public welfare, Directive (EU) 2016/1164 allows Member States to exclude certain long-term public infrastructure projects from its scope. Since such projects generally present limited risk of base erosion and profit shifting and without prejudice to State aid rules including Commission Decision (EU) 2025/2630 on the application of Article 106(2) TFEU to State aid in the form of public service compensation[15], the scope of that exclusion should be extended to cover a broader range of public-benefit projects, including those contributing to the Union's common priorities in particular in relation to climate, digitalisation, social and economic resilience, energy security and social and

15 Commission Decision (EU) 2025/2630 of 16 December 2025 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest and repealing Decision 2012/21/EU, C/2025/8820, OJ L, 2025/2630, 19.12.2025.

affordable housing, including the construction, transformation and renovation of buildings for social and affordable housing purposes.

(34) In light of the evolving geopolitical landscape and, in particular, Russia's war of aggression against Ukraine, the Union is to strengthen its overall defence readiness and facilitate the mobilisation of private investment in defence capabilities. To that end and in order to address the capability gaps identified by the Commission and the High Representative of the Union for Foreign Affairs and Security Policy in the joint White Paper for European Defence Readiness 2030[16], and support the objectives set out in Council Regulation (EU) 2025/1106[17], establishing the Security Action for Europe, it is appropriate to introduce a temporary exclusion from the interest limitation rule for exceeding borrowing costs incurred on loans used to finance defence products in critical capability areas. In order to ensure that the exclusion remains proportionate to that objective and does not unduly affect the application of the interest limitation rule beyond what is necessary, the exclusion should be strictly targeted and apply only to critical defence capabilities identified as priority areas by Council Regulation (EU) 2025/1106. In order to ensure that the exclusion remains proportionate and effectively supports the rapid scaling-up of production capacity, the exclusion should be limited in time and apply only to loans concluded within the first five tax years after the entry into force of this Directive. That temporary application is also consistent with the European Council conclusions of 20 March 2025[18], which call for accelerating efforts to enhance the Union's defence readiness within the next five years.

(35) The interest limitation rule may have a disproportionate impact on certain groups that are highly leveraged for genuine commercial reasons. Directive (EU) 2016/1164 therefore provides Member States with the option to allow taxpayers to apply a group escape rule, enabling them to deduct exceeding borrowing costs above the general limitation, where they can demonstrate that their level of leverage is in line with that of their group. However, the optional nature of this provision has resulted in divergent application across the Union. In order to achieve a consistent and proportionate application of the rule, while preserving its objective of addressing base erosion and profit shifting risks, the group escape rule should be made mandatory, while allowing Member States to retain the choice between the two existing mechanisms for the implementation of the group escape rule as set out in Article 4(5), points (a) and (b) of Directive (EU) 2016/1164.

(36) The possibility to carry-forward exceeding borrowing costs and unused interest capacity is essential to avoid disproportionate outcomes for taxpayers with volatile earnings or long-term investment cycles, such as capital-intensive industries and start-ups. While Directive (EU) 2016/1164 provides for such carry-forward rules, their optional nature has led to divergent approaches across Member States. Such a landscape compromises efforts to establish a level playing field within the internal market, enhance legal certainty and support the economic resilience of capital-intensive industries. For this purpose, the carry-forward of exceeding borrowing costs and unused interest capacity should be made mandatory while allowing Member

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[16] Commission and High Representative of the Union for Foreign Affairs and Security Policy, Joint White Paper for European Defence Readiness 2030 (19.3.2025 JOIN(2025) 120 final).

[17] Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of the European Defence Industry Instrument (OJ L 025/1106, 28.5.2025), ELI: http://data.europa.eu/eli/reg/2025/1106/oj).

[18] European Council Conclusions, 20 March 2025, EUCO 1/25.

States to retain the choice between the different mechanisms for implementing such carry-forward as set out in Article 4(6), points (a) and (c) of that Directive, thereby recognising that the timing of interest expenses and taxable income may not always align within a single tax year.

(37) Financial undertakings are subject to specific regulatory frameworks under Union law. Directive (EU) 2016/1164 therefore allows Member States to exclude such undertakings from the scope of the interest limitation rule. In order to ensure that this exclusion remains fit for purpose and reflects developments in Union financial regulation since the adoption of that Directive, the definition of financial undertakings should be updated accordingly.

(38) The purpose of the general anti-abuse rules (GAAR) set out in Article 6 of Directive (EU) 2016/1164 is to tackle abusive tax practices of companies that are not addressed by specific provisions. Nevertheless, the reference to corporate tax has created uncertainty as to the scope of application of the GAAR, in particular as to whether it applies to withholding taxes or top-up taxes resulting from the application of Directive (EU) 2022/2523. In order to enhance clarity and ensure consistent application across the Union, the wording should be amended to confirm that the GAAR applies to all taxes to which companies are subject.

(39) The rules on controlled foreign company (CFC) in Articles 7 and 8 of Directive (EU) 2016/1164 re-attribute the income of low taxed subsidiaries or permanent establishments to the parent company, in order to prevent base erosion and profit shifting. However, the objective and effects of those rules overlap to a significant extent with the income inclusion rule laid down in Directive (EU) 2022/2523 (the Pillar Two framework), which ensures a minimum level of taxation at an effective rate of 15% on a broader tax base comprising passive and active income. The parallel application of CFC rules and the Pillar Two 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 order to avoid such unintended outcomes while preserving the CFC rules' objective of preventing tax-avoidance, an exemption should be granted to taxpayers subject to the Pillar Two framework. Furthermore, where the ultimate parent entity (UPE) of an MNE is located in a jurisdiction with a qualified 'side-by-side' regime[19], the income inclusion rule is not to apply. However, the combination of CFC rules and a domestic top-up tax in the state of the low-taxed controlled company may still lead to double taxation and comparable overlapping compliance burdens. For this reason, a targeted exemption from CFC taxation should still be given to MNEs with UPEs in states that operate qualified side-by-side regimes in respect of the income of their low-taxed controlled foreign companies which are subject to a qualified domestic top-up tax and receive no refunds or relevant direct or indirect financial benefits.

(40) Article 7(2) of Directive (EU) 2016/1164 allows Member States to choose between two methods for determining the income of a CFC which is included in the tax base of the parent company. This optionality has led to divergent implementation across the Union, resulting in fragmentation, increased compliance costs and reduced legal

[19] OECD (2026), Tax Challenges Arising from the Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two), Side-by-Side Package: Inclusive Framework on BEPS, OECD, https://www.oecd.org/content/dam/oecd/en/topics/policysub-issues/global-minimum-tax/side-by-side-package.pdf.

certainty for taxpayers. Evidence from the application of those rules indicate that the model based on specific categories of passive income ('Model A') provides a more effective and administrable approach than the model targeting non-genuine arrangements ('Model B'). The latter overlaps significantly with transfer pricing rules and offers limited additional value in practice. In order to simplify the CFC framework, enhance legal certainty and ensure the consistent application of CFC rules across the Union, Member States should apply a single approach based on Model A. Consequently, the option to apply Model B and the related de minimis rule which has become redundant given that it is solely applicable under Model B, should be deleted.

(41) In the Union, 99.8% of businesses are SMEs. However, only 10% of them have cross-border activities, and 2% have subsidiaries outside of the Union. In addition, 42% of SMEs are standalone entities, and therefore not part of a group and without associated enterprises.[20] Information collected from exchanges with several Member States indicates that administrations have had almost no CFC cases related to SMEs in the approximately 10 years since Directive (EU) 2016/1164 started to apply. This indicates that the rules on CFC are rarely applied to SMEs, possibly because those companies' operating structures involve no or little cross-border activity. The exclusion of SMEs from the scope of these rules would thus not impact on the efforts to counter tax avoidance and evasion or aggressive tax planning but rather bring benefits in the form of cost and resource savings to both companies and tax administrations. It therefore follows that in line with similar exemptions in favour of SMEs in this initiative and in other areas of taxation and Union law, it is appropriate to also introduce an exemption for SMEs from the scope of CFC rules. This will ensure the proportionate application of CFC rules and mitigate the compliance and administrative burden for taxpayers and tax authorities respectively. The exemption should apply to all small and medium-sized groups as defined in Directive (EU) 2013/34 of the European Parliament and of the Council[21], regardless of whether the ultimate parent undertaking is located in the Union or in third countries. The scope of the SME exemption ensures that groups may only benefit from the SME exemption if the group in its entirety meets the definition of a small or medium-sized group. The exemption should also be granted to standalone entities, with a permanent establishment abroad, which qualify as a micro, small or medium-sized undertaking as defined in that Directive.

(42) The CFC rules grant Member States the option to exclude from their scope entities or permanent establishments whose level of passive income remains limited since the risks of tax avoidance in those cases are considered low. The option also covers specific situations involving financial undertakings, for which a higher proportion of passive income may arise as part of their ordinary business activities. In order to reduce the administrative and compliance burden for taxpayers, Article 7(3) of Directive (EU) 2016/1164 should be amended so as to require Member States to introduce such exemption.

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

21 Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19, ELI: http://data.europa.eu/eli/dir/2013/34/oj).

(43) The rules on imported mismatches in Article 9(3) of Directive (EU) 2016/1164 have proven excessively complex, primarily due to their elaborate definitions and multi-layered compliance obligations. That complexity not only hinders their practical implementation but also generates significant administrative burdens for both taxpayers and tax authorities, without achieving their intended results. Considering the difficulties in applying the rules on imported mismatches and in deriving any positive outcome, it is appropriate and in conformity with the principle of proportionality to delete those rules.

(44) In order to reduce fragmentation within the internal market and ensure that the simplification objectives of this Directive are achieved consistently across the Union, the rules laid down in Article 4(5) and 4(7)(d) should apply in a uniform manner in all Member States. For this purpose, Member States should not maintain or introduce provisions diverging from the uniform rules laid down in this Directive.

(45) The effective resolution of disputes on double taxation within the Union remains a priority for the proper functioning of the internal market. Unresolved situations of double taxation create obstacles to cross-border economic activity, undermine legal certainty and result in excessive tax burden for taxpayers. While Directive (EU) 2017/1852 has significantly improved the framework for resolving such disputes, experience has shown that certain concepts should be clarified and divergent interpretations should be addressed, in order to enhance effectiveness and ensure a more consistent and accessible dispute resolution procedure across the Union to the benefit of both taxpayers and tax administrations.

(46) To facilitate the use of the procedures for tax dispute resolution laid down in Directive (EU) 2017/1852 and ensure their wider use, it is necessary to clarify the notion of "affected person", including in disputes involving more than one person, and to specify who is entitled to submit a complaint in such cases.

(47) While ensuring that all competent authorities receive the same information remains essential, it is equally important to enhance flexibility and ease of access to the dispute resolution procedure. To that end, it should be clarified in Article 3 of Directive (EU) 2017/1852 that, in cases involving more than one affected person, each affected person may submit the complaint only to the competent authority of its Member State of residence, thereby avoiding unnecessary multiple filings and reducing the administrative burden. For example, where a transfer pricing adjustment affects two or more associated enterprises, each enterprise should be entitled to submit a complaint only to the competent authority of its Member State of residence. However, that does not prevent one affected person from submitting a complaint on behalf of another affected person in accordance with national law.

(48) To enhance legal certainty, while continuing to ensure that all competent authorities concerned receive the same information at the same time, the requirements in Article 3 of Directive (EU) 2017/1852 for simultaneous submission of complaints, which has proven difficult to interpret, should be replaced by a clear time limit for submission.

(49) In order to ensure that competent authorities engage constructively and focus on eliminating double taxation effectively, the grounds for rejecting a complaint set out in Article 5 of Directive (EU) 2017/1852 should be reduced to a minimum and restricted to cases where the complaint lacks the essential information required. In addition, affected persons should be given the possibility to remedy deficiencies in the complaint, where appropriate, and, in the event of rejection, to resubmit the complaint, provided that the applicable time limits are respected.

(50) In order to expedite the dispute resolution procedure, communication between competent authorities and with affected persons should be clear and timely. Where the competent authorities agree that no agreement can be reached on the resolution of the dispute, for example because a precedent already exists, they should inform the affected person without delay, rather than awaiting the expiry of the period provided for in the mutual agreement procedure under Article 4 of Directive (EU) 2017/1852.

(51) To ensure that an affected person who intends to make use of the procedures laid down in Directive (EU) 2017/1852 is not left without protection against double taxation while at the same time avoiding overlaps between procedures based on different legal frameworks, it is necessary to provide that other procedures initiated under legal frameworks other than Directive (EU) 2017/1852 are suspended upon the submission of a complaint and are terminated only once the complaint has been accepted by all competent authorities concerned.

(52) In order to create a more transparent and efficient procedure in resolving disputes, it is essential to establish further common procedural rules by way of implementing acts. Those implementing acts should provide taxpayers and the competent authorities with detailed and clear rules, with the aim to bring down the compliance burden and achieve swift resolution of disputes. Such measures are expected to have an impact on Member States' executive and enforcement powers in the field of direct taxation and more specifically, on the exercise of their taxing rights under bilateral or multilateral tax conventions as well as on Member States' tax bases. For that reason, it is necessary to confer powers on the Council, acting on a proposal from the Commission, to adopt implementing acts under Directive (EU) 2017/1852.

(53) In order to evaluate the effectiveness of the new rules introduced to Directive (EU) 2017/1852, the Commission should prepare an evaluation on the basis of the information provided by Member States and other available data. The data should be aligned as much as possible with the data provided to the OECD on the same matter as to prevent an unnecessary additional burden for the Member States. In order to ensure uniform conditions for the implementation of this Directive, in particular regarding what kind of data is to be provided on a yearly basis for statistical purposes, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council[22].

(54) In order to allow Member States and taxpayers to adapt their systems and structures to the new rules laid down in Article 1 points 2(b) to (h), (3)(c), and (5), in Article 3 points (2) and (5) to (10) and in Article 4 point (5)(d) of this Directive, the application of those provisions should be deferred. Member States should therefore be allowed to apply the national measures necessary to comply with those provisions from a later date than the other provisions of this Directive. In order to ensure that the derogation set out in Article 4 point (5)(g) applies only within a limited investment window, it is appropriate to confine its application to loans concluded in the first five tax periods following the date from which that rule starts to apply.

(55) In order to take account of future changes in the company legal forms that may be constituted under national law or EU law, the power to adopt acts in accordance with Article 290 of the Treaty on the Functioning of the European Union should be

[22] Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

delegated to the Commission in respect of updating the lists of forms set out in the annexes to Directives 2003/49/EC, 2009/133/EC and 2011/96/EU. It is of particular importance that the Commission carry out appropriate consultations during its preparatory work, including at expert level, and that those consultations be conducted in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making. The European Parliament should be informed of the adoption of delegated acts, of any objection expressed in respect of them and of any revocation of the delegation of powers.

(56) Any processing of personal data carried out for the purposes of this Directive should be carried out in accordance with Regulation (EU) 2016/679 of the European Parliament and of the Council[23]. Any exchange or other transmission of information by competent authorities under this Directive should be limited to what is necessary and proportionate for the purposes of this Directive. Where such exchanges or transmission involve personal data, the rights of data subjects and the corresponding obligations of controllers and processors under Regulation (EU) 2016/679, as well as any additional safeguards laid down in Union or national law, should be respected.

(57) Since the objectives of this Directive, namely to ensure a coherent and consistent application of Union rules in the field of direct taxation, to reduce fragmentation and compliance burdens and to support the growth and competitiveness of the internal market, cannot be sufficiently achieved by the Member States acting alone but can rather, by reason of their scale, cross-border dimension and effects on the internal market, be better achieved at Union level, the Union may adopt measures, in accordance with the principle of subsidiarity as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Directive does not go beyond what is necessary in order to achieve those objectives,

HAS ADOPTED THIS DIRECTIVE:

Article 1
Amendments to Directive 2003/49/EC

Directive 2003/49/EC is amended as follows:

(1) the title is replaced by the following:

‘Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between companies of different Member States’;

(2) Article 1 is amended as follows:

(a) paragraph 3 is replaced by the following:

‘3. A permanent establishment shall be treated as the payer of interest or royalties only insofar as those payments represent an expense incurred for the purposes of the activity of the permanent establishment in the Member State in which it is situated.’;

(b) paragraph 7 is deleted;

23 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (OJ L 119, 4.5.2016, p. 1, ELI: http://data.europa.eu/eli/reg/2016/679/oj).

(c) paragraph 10 is deleted;

(d) paragraph 11 is replaced by the following:

‘11. For the purposes of paragraph 1, Member States shall not require any prior authorisation or administrative procedure verifying the fulfilment of the requirements laid down in this Article or in Article 3 at the time of payment.’;

(e) paragraphs 12 and 13 are deleted;

(f) paragraph 14 is replaced by the following:

‘14. If the requirements for exemption cease to be fulfilled, the receiving company or permanent establishment shall immediately inform the paying company or permanent establishment.;

(g) in paragraph 15, the second sentence is deleted;

(h) the following paragraph 17 is added:

‘17. For the purposes of this Article and by way of derogation from paragraphs 15 and 16, Member States shall ensure that relief from withholding tax is granted in accordance with the procedures laid down in Council Directive (EU) 2025/50* for cases falling within the scope of that Directive.

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*Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes (OJ L, 2025/50, 10.1.2025, ELI: http://data.europa.eu/eli/dir/2025/50/oj)’;

(3) Article 3 is amended as follows:

(a) the heading is replaced by the following:

‘Definition of company and permanent establishment’;

(b) point (a) is amended as follows:

(1) in point (iii), the indent ‘- corporation tax in the United Kingdom,’ is deleted;

(2) the following subparagraph is added:

‘The Commission is empowered to adopt delegated acts in accordance with Article 3a to amend the Annex to this Directive in order to update the list of forms referred to in the first subparagraph, point (i), as a result of a notification by a Member State of a new company form that may be constituted under its national law, or to include a new company form introduced under Union law.’;

(c) point (b) is deleted;

(4) the following Articles 3a and 3b are inserted:

‘Article 3a

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 3 shall be conferred on the Commission for an indeterminate period of time from [*the date of entry into force of this Directive*].

3. The delegation of power referred to in Article 3 may be revoked at any time by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

5. As soon as it adopts a delegated act, the Commission shall notify it to the Council.

6. A delegated act adopted pursuant to Article 3 shall enter into force only if no objection has been expressed by the Council within a period of two months of notification of that act to the Council or if, before the expiry of that period, the Council has informed the Commission that it will not object. That period shall be extended by two months at the initiative of the Council.

Article 3b

Information to the European Parliament

The European Parliament shall be informed by the Commission of the adoption of delegated acts, of any objections expressed in respect of those acts, and of any revocation by the Council of the delegation of power.';

(5) in Article 5, the following paragraph 3 is added:

'3. Where an interest or royalty payment arising in a Member State is paid to a recipient established in a third country jurisdiction where no corporate tax is levied or where a nominal corporate tax at zero rate applies to interest and royalty income, the source State shall ensure that either of the following measures applies:

(a) the levying of a withholding tax on the payment;

(b) the denial of the deductibility, for tax purposes, of the corresponding payment for the payer.

This paragraph shall not apply where the recipient of the payment:

(a) is subject to a qualified domestic top-up tax for the tax period and no refund or direct or indirect financial benefit is granted in relation to that tax; or

(b) is part of an MNE group which, for the tax period, falls within the scope of the rules laid down in Council Directive (EU) 2022/2523* or, as regards third-country jurisdictions, the OECD Model Rules, unless the ultimate parent entity of that MNE group is located in a jurisdiction with a qualified side-by-side regime for the tax period.

For the purposes of this paragraph:

(a) the recipient of the payment shall be regarded as established in a jurisdiction where it is incorporated or constituted under the laws of that jurisdiction or has its place of effective management there or is otherwise treated as resident for tax purposes under the laws of that jurisdiction and is not treated as resident for tax purposes in another jurisdiction;

(b) 'qualified domestic top-up tax' means a tax as defined in Article 3, point (28), of Directive (EU) 2022/2523;

(c) 'MNE Group' means a group as defined in Article 3, point (4), of Directive (EU) 2022/2523;

(d) 'a jurisdiction with a qualified side-by-side regime' means a jurisdiction that is reported as having such status on the OECD Central Record for purposes of the Global Minimum Tax in accordance with the agreement of the OECD/G20 Inclusive Framework on a Side-by-Side Package of 5 January 2026;

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* 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 (OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj)';

(6) Article 6 is deleted;

(7) the Annex to Directive to 2003/49/EC is replaced by the text in Annex I to this Directive.

Article 2

Amendments to Directive 2009/133/EC

Directive 2009/133/EC is amended as follows:

(1) Article 2 is amended as follows:

(a) in point (a), the following point (iv) is added:

'(iv) one or more companies, on being dissolved without going into liquidation, transfer all their assets and liabilities to another existing company, the acquiring company, without the issue of any new shares by the acquiring company, provided that one person holds directly or indirectly all the shares in the merging companies or the members of the merging companies hold their securities and shares in the same proportion in all merging companies;';

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

'(b) 'division' means an operation whereby:

(i) a company, on being dissolved without going into liquidation, transfers all its assets and liabilities to two or more existing or new companies, in exchange for the pro rata issue to its shareholders of securities representing the capital of the companies receiving the assets and liabilities, and, if applicable, a cash payment not exceeding 10 % of the nominal value or, in the absence of a nominal value, of the accounting par value of those securities;

(ii) a company being divided transfers part of its assets and liabilities to one or more recipient companies, in exchange for the issue to the company being divided of securities or shares in the recipient companies ('division by separation');';

(c) the following points (l), (m) and (n) are added:

‘(l) ‘cross-border conversion’ means an operation whereby a company, without being dissolved, wound up or going into liquidation, converts the legal form under which it is registered in a departure Member State into a legal form of the destination Member State, as listed in Annex I, and transfers at least its registered office to the destination Member State, while retaining its legal personality;

(m) ‘departure Member State’ means a Member State in which a company is registered prior to a cross-border conversion;

(n) ‘destination Member State’ means a Member State in which a converted company is registered as a result of a cross-border conversion;’;

(2) in Article 3, the following subparagraph is added:

‘The Commission is empowered to adopt delegated acts in accordance with Article 3a, to amend Annex I, Part A, to this Directive in order to update the list of forms referred to in point (a) as a result of a notification by a Member State of a new company form that may be constituted under its national law, or to include a new company form introduced under Union law.’;

(3) the following Articles 3a and 3b are inserted:

‘Article 3a

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 3 shall be conferred on the Commission for an indeterminate period of time from [*the date of entry into force of this Directive*].

3. The delegation of power referred to in Article 3 may be revoked at any time by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

5. As soon as it adopts a delegated act, the Commission shall notify it to the Council.

6. A delegated act adopted pursuant to Article 3 shall enter into force only if no objection has been expressed by the Council within a period of two months of notification of that act to the Council or if, before the expiry of that period, the Council has informed the Commission that it will not object. That period shall be extended by two months at the initiative of the Council.

Article 3b

Information to the European Parliament

The European Parliament shall be informed by the Commission of the adoption of delegated acts, of any objections expressed in respect of those acts, and of any revocation by the Council of the delegation of power.';

(4) the following Chapter Va is inserted:

'CHAPTER Va
RULES APPLICABLE TO CROSS-BORDER CONVERSIONS

Article 14a

1. A cross-border conversion shall not give rise to any taxation of capital gains calculated in accordance with Article 4(1), in the departure Member State, provided that one of the following conditions are met:

(a) the company undergoing the cross-border conversion remains a tax resident in the departure Member State;

(b) such capital gains are derived from assets and liabilities which remain effectively connected with a permanent establishment of the company undergoing cross-border conversion in the departure Member State and play a part in generating the profits or losses taken into account for tax purposes.

2. Paragraph 1 shall only apply if the company computes any new depreciation and any gains or losses in respect of the assets and liabilities that remain in the departure Member State or are effectively connected with a permanent establishment in that Member State, as though the cross-border conversion had not taken place.

3. Where, under the laws of the departure Member State, the company is entitled to have any new depreciation or any gains or losses in respect of the assets and liabilities remaining in that Member State computed on a basis different from that set out in paragraph 2, paragraph 1 shall not apply to the assets and liabilities in respect of which that option is exercised.

Article 14b

1. Where a company undergoes a cross-border conversion, the Member States shall take the necessary measures to ensure that provisions or reserves properly constituted by the company before the cross-border conversion, that are partly or wholly exempt from tax and not derived from permanent establishments abroad, may be carried over with the same tax exemption, by a permanent establishment of the company undergoing the cross-border conversion, which is situated within the territory of the departure Member State.

2. To the extent that a company undergoing a cross-border conversion within the territory of a Member State would be allowed to carry forward or carry back losses which had not been exhausted for tax purposes, that Member State shall allow the permanent establishment, situated within its territory, of the company undergoing cross-border conversion, to take over those losses of that company which have not been exhausted for tax purposes, provided that the loss carry forward or carry back would have been available in comparable circumstances to a company which continued to be tax resident in that Member State.

Article 14c

1. A cross-border conversion shall not in itself give rise to any taxation of the income, profits or capital gains of the shareholders of the company undergoing that cross-border conversion.

2. Paragraph 1 shall not prevent the Member States from taxing the gain arising out of the subsequent transfer of the securities representing the capital of the company undergoing cross-border conversion.';

(5) Annex I to Directive 2009/133/EC is amended in accordance with Annex II to this Directive.

Article 3

Amendments to Directive 2011/96/EU

Directive 2011/96/EU is amended as follows:

(1) the title is replaced by the following:

'Council Directive 2011/96/EU of 30 November 2011 on a common system of taxation applicable to dividends and other profit distributions between companies of different Member States';

(2) in Article 1, paragraph 1 is replaced by the following:

'1. Each Member State shall apply this Directive:

(a) to distributions of profits received by companies of that Member State which come from distributing companies of other Member States;

(b) to distributions of profits by companies of that Member State to companies of other Member States of which they are distributing companies;

(c) to distributions of profits received by permanent establishments situated in that Member State of companies of other Member States which come from distributing companies of a Member State other than that where the permanent establishment is situated;

(d) to distributions of profits by companies of that Member State to permanent establishments situated in another Member State of companies of the same Member State of which they are distributing companies.';

(3) in Article 2, point (a), the following subparagraph is added:

'The Commission is empowered to adopt delegated acts in accordance with Article 2a to amend Annex I to this Directive in order to update the list of forms referred to in the first subparagraph, point (i), as a result of a notification by a Member State of a new company form that may be constituted under its national law, or to include a new company form introduced under Union law.';

(4) the following Articles 2a and 2b are inserted:

'Article 2a

Exercise of the delegation

1. The power to adopt delegated acts is conferred on the Commission subject to the conditions laid down in this Article.

2. The power to adopt delegated acts referred to in Article 2 shall be conferred on the Commission for an indeterminate period of time from [*the date of entry into force of this Directive*].

3. The delegation of power referred to in Article 2 may be revoked at any time by the Council. A decision to revoke shall put an end to the delegation of the power specified in that decision. It shall take effect the day following the publication of the decision in the *Official Journal of the European Union* or at a later date specified therein. It shall not affect the validity of any delegated acts already in force.

4. Before adopting a delegated act, the Commission shall consult experts designated by each Member State in accordance with the principles laid down in the Interinstitutional Agreement of 13 April 2016 on Better Law-Making.

5. As soon as it adopts a delegated act, the Commission shall notify it to the Council.

6. A delegated act adopted pursuant to Article 2 shall enter into force only if no objection has been expressed by the Council within a period of two months of notification of that act to the Council or if, before the expiry of that period, the Council has informed the Commission that it will not object. That period shall be extended by two months at the initiative of the Council.

Article 2b

Information to the European Parliament

The European Parliament shall be informed by the Commission of the adoption of delegated acts, of any objections expressed in respect of those acts, and of any revocation by the Council of the delegation of power.';

(5) Article 3 is deleted;

(6) in Article 4, paragraphs 1, 2 and 3 are replaced by the following:

'1. Where a receiving company or its permanent establishment, by virtue of the association of the receiving company with the distributing company, receives distributed profits, the Member State of the receiving company and the Member State of its permanent establishment shall, except when the distributing company is liquidated, either:

(a) refrain from taxing such profits to the extent that such profits are not deductible by the distributing company, and tax such profits to the extent that such profits are deductible by the distributing company; or

(b) tax such profits while authorising the receiving company and the permanent establishment to deduct from the amount of tax due that fraction of the corporation tax related to those profits and paid by the distributing company and any lower-tier distributing company, subject to the condition that at each tier a company and its lower-tier distributing company fall within the definitions laid down in Article 2 and meet the requirements provided for in Article 3, up to the limit of the amount of the corresponding tax due.

This paragraph shall be without prejudice to national anti-abuse measures aimed at preventing the avoidance of wealth or income tax liabilities through the use of holding companies.

2. Nothing in this Directive shall prevent the Member State of the receiving company from considering a distributing company to be fiscally transparent on the basis of that

Member State's assessment of the legal characteristics of that distributing company arising from the law under which it is constituted and therefore from taxing the receiving company on its share of the profits of its the distributing company as and when those profits arise. In this case the Member State of the receiving company shall refrain from taxing the distributed profits of the distributing company.

When assessing the receiving company's share of the profits of its the distributing company as they arise the Member State of the receiving company shall either exempt those profits or authorise the receiving company to deduct from the amount of tax due that fraction of the corporation tax related to the receiving company's share of profits and paid by the distributing company and any lower-tier distributing company, subject to the condition that at each tier a company and its lower-tier distributing company fall within the definitions laid down in Article 2 and meet the requirements provided for in Article 3, up to the limit of the amount of the corresponding tax due.

3. Where a receiving company holds a minimum participation of 10% in the capital of, or voting rights in, a company of another Member State, each Member State shall retain the option of providing that any charges relating to the holding participation and any losses resulting from the distribution of the profits of the distributing company may not be deducted from the taxable profits of the receiving company.

Where the management costs relating to the holding participation in such a case are fixed as a flat rate, the fixed amount may not exceed 5 % of the profits distributed by the distributing company.';

(7) Article 5 is replaced by the following:

'Article 5

1. Profits which a distributing company distributes to its receiving company shall be exempt from withholding tax.

2. By derogation from Article 2(a), points (i) and (iii), paragraph 1 shall also apply where the receiving company is a pension institution.

For the purposes of the first subparagraph, 'pension institution' means any of the following:

(a) an institution for occupational retirement provision as defined in Article 6, point (1) of Directive (EU) 2016/2341 of the European Parliament and of the Council*;

(b) an institution operating pension schemes which are considered to be social security schemes covered by Regulation (EC) No 883/2004 of the European Parliament and of the Council** and Regulation (EC) No 987/2009 of the European Parliament and of the Council***, as well as any legal entity set up for the purpose of investment of such schemes.

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* Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (OJ L 354 23.12.2016, p. 37, ELI: http://data.europa.eu/eli/dir/2016/2341/oj).

** Regulation (EC) No 883/2004 of the European Parliament and of the Council of 29 April 2004 on the coordination of social security systems (OJ L 166, 30.4.2004, p. 1, ELI: http://data.europa.eu/eli/reg/2004/883/oj).

*** Regulation (EC) No 987/2009 of the European Parliament and of the Council of 16 September 2009 laying down the procedure for implementing Regulation (EC) No 883/2004 on the coordination of social security systems (OJ L 284, 30.10.2009, p. 1, ELI: http://data.europa.eu/eli/reg/2009/987/oj).';

(8) the following Articles 5a, 5b and 5c are inserted:

'Article 5a

For the purposes of Article 5, Member States shall not require any prior authorisation or administrative procedure for verifying the fulfilment of the requirements laid down in Articles 2 and 3 at the time of the distribution of profits.

Article 5b

1. If the distributing company has withheld tax at source to be exempted under Article 5, a claim may be made at source for repayment of that tax. The application for repayment must be submitted within the period laid down. That period shall last for at least two years from date of the distribution of profits.

2. The Member State of the distributing company shall repay the excess tax withheld at source within one year following due receipt of the application and such supporting information as it may reasonably ask for. If the tax withheld at source has not been refunded within that period, the receiving company shall be entitled on expiry of the year in question to interest on the tax which is refunded at a rate corresponding to the national interest rate to be applied in comparable cases under the domestic law of the Member State of the distributing company.

Article 5c

For the purpose of Article 5 and by way of derogation from Article 5a and 5b, Member States shall ensure that relief from withholding tax is granted in accordance with the procedures laid down in Council Directive (EU) 2025/50* for cases falling within the scope of that Directive.

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*Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes (OJ L, 2025/50, 10.1.2025, ELI: http://data.europa.eu/eli/dir/2025/50/oj).';

(9) Article 6 is replaced by the following:

'The Member State of a receiving company may not charge withholding tax on the profits which such a company receives from a distributing company.';

(10) in Article 7, paragraph 1 is replaced by the following:

'1. The term 'withholding tax' as used in this Directive shall not cover an advance payment or prepayment (*précompte*) of corporation tax to the Member State of the distributing company which is made in connection with a distribution of profits to its receiving company.';

(11) Annex I to Directive 2011/96/EU is amended in accordance with Annex III to this Directive.

Article 4

Amendments to Directive (EU) 2016/1164

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

(1) the title is replaced by the following:

‘Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules on the tax treatment of research and development expenditure and against tax avoidance practices that directly affect the functioning of the internal market’;

(2) Article 2 is amended as follows:

(a) the following points (-1), (-1a) and (-1b) are inserted before point (1):

‘(-1) ‘qualifying expenditure’ means capital expenditure on plant, machinery and other tangible assets, net of deductible value added tax, incurred by or on behalf of the taxpayer and used in the direct business interest of the taxpayer for any of the following purposes:

(a) carrying out research and development;

(b) providing facilities for carrying out research and development;

(-1a) ‘research and development’ means any of the following:

(a) *basic research*: experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any particular application or use in view;

(b) *applied research*: original investigation undertaken in order to acquire new knowledge but directed primarily towards a specific, practical aim or objective;

(c) *experimental development*: systematic work, drawing on knowledge gained from research and practical experience and producing additional knowledge, which is directed to producing new products or processes or to improving existing products or processes;

(-1b) ‘disposal value’ means:

(a) in the case of a sale, at no less than market value, of assets in respect of which qualifying expenditure has been incurred, the net proceeds of the sale;

(b) in the case of demolition or destruction of such assets, the net amount received for the remains together with any insurance or capital compensation;

(c) in all other cases where the taxpayer ceases to own such assets, the market value;’

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

‘(a) where the mismatch outcome arises under point (9), first subparagraph, points (b), (c), (d), (e) or (g), or where an adjustment is required under Article

9a, the definition of associated enterprise is modified so that the 25 per cent requirement is replaced by a 50 per cent requirement;';

(c) point (5) is amended as follows:

(1) the introductory wording is replaced by the following:

''financial undertaking' means any of the following entities or permanent establishments of such entities in one or more Member States:';

(2) point (a) is replaced by the following:

'(a) a credit institution as defined in point (1) of Article 4(1) of Regulation (EU) No 575/2013 of the European Parliament and of the Council*

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*Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1, ELI: http://data.europa.eu/eli/reg/2013/575/oj). ';

(3) the following points (aa), (ab) and (ac) are inserted:

'(aa) an investment firm as defined in point (1) of Article 4(1) of Directive 2014/65/EU the European Parliament and of the Council*;

(ab) an alternative investment fund manager (AIFM) as defined in point (b) of Article 4(1) of Directive 2011/61/EU of the European Parliament and of the Council**;

(ac) a management company of an undertaking for collective investment in transferable securities as defined in point (b) of Article 2(1) Directive 2009/65/EC of the European Parliament and of the Council***;

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*Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349, ELI: http://data.europa.eu/eli/dir/2014/65/oj)

**Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 (OJ L 174, 1.7.2011, p. 1, ELI: http://data.europa.eu/eli/dir/2011/61/oj).

***Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (OJ L 302, 17.11.2009, p. 32, ELI: http://data.europa.eu/eli/dir/2009/65/oj).;

(4) point (d) is replaced by the following:

'(d) an institution for occupational retirement provision as defined in point (1) of Article 6 of Directive 2016/2341 of the European Parliament and of the Council*;

*Directive (EU) 2016/2341 of the European Parliament and of the Council of 14 December 2016 on the activities and supervision of institutions for occupational retirement provision (IORPs) (OJ L 354, 23.12.2016, p. 37, ELI: http://data.europa.eu/eli/dir/2016/2341/oj). ';

(5) point (f) is deleted;

(6) points (g), (h) and (i) are replaced by the following:

'(g) an undertaking for collective investment in transferable securities within the meaning of Article 1(2) of Directive 2009/65/EC;

(h) a central counterparty or 'CPP' as defined in Article 2, point (1) of Regulation (EU) No 648/2012 of the European Parliament and of the Council*;

(i) a central securities depository or 'CSD' as defined in Article 2(1), point (1) of Regulation (EU) No 909/2014 of the European Parliament and of the Council**;

*Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (OJ L 201, 27.7.2012, p. 1, ELI: http://data.europa.eu/eli/reg/2012/648/oj).

**Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (OJ L 257, 28.8.2014, p. 1, ELI: http://data.europa.eu/eli/reg/2014/909/oj). ';

(7) the following points (j) to (o) are added:

'(j) an insurance or reinsurance special purpose vehicle authorised in accordance with Article 211 of Directive 2009/138/EC;

(k) a financial holding company as defined in point (20) of Article 4(1) of Regulation (EU) No 575/2013 and an insurance holding company as defined in point (f) of Article 212(1) of Directive 2009/138/EC or a mixed financial holding company as defined in point (15) of Article 2 of Directive 2002/87/EC of the European Parliament and of the Council*, which is part of an insurance group that is subject to supervision at the level of the group pursuant to Article 213 of Directive 2009/138/EC and which is not exempted from group supervision pursuant to Article 214(2) of that Directive;

(l) a payment institution as defined in point (4) of Article 4 of Directive (EU) 2015/2366 of the European Parliament and of the Council**;

(m) an electronic money institution as defined in point (1) of Article 2 of Directive 2009/110/EC of the European Parliament and of the Council***;

(n) a crowdfunding service provider as defined in point (e) of Article 2(1) of Regulation (EU) 2020/1503 of the European Parliament and of the Council****;

(o) a crypto-asset service provider as defined in point (15) of Article 3(1) of Regulation (EU) 2023/1114 of the European Parliament and of the Council*****.

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*Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1, ELI: http://data.europa.eu/eli/dir/2002/87/oj).

**Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC (OJ L 337, 23.12.2015, p. 35, ELI: http://data.europa.eu/eli/dir/2015/2366/oj).

***Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC (OJ L 267, 10.10.2009, p. 7, ELI: http://data.europa.eu/eli/dir/2009/110/oj).

****Regulation (EU) 2020/1503 of the European Parliament and of the Council of 7 October 2020 on European crowdfunding service providers for business, and amending Regulation (EU) 2017/1129 and Directive (EU) 2019/1937 (OJ L 347, 20.10.2020, p. 1, ELI: http://data.europa.eu/eli/reg/2020/1503/oj).

*****Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets, and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937 (OJ L 150, 9.6.2023, p. 40, ELI: http://data.europa.eu/eli/reg/2023/1114/oj). ';

(3) Article 3 is replaced by the following:

'Article 3

Minimum level of harmonisation and minimum level of protection

1. Member States may decide to maintain or adopt alternative domestic measures instead of introducing those laid down in Chapter Ia if they establish that such domestic measures treat qualifying expenditure more favourably than the rules of Chapter Ia.

2. Chapter II shall not preclude the application of domestic provisions or agreement-based provisions aimed at safeguarding a higher level of protection for domestic corporate tax bases.’;

(4) the following Chapter Ia is inserted:

‘CHAPTER Ia
RESEARCH AND DEVELOPMENT

Article 3a

Research and development allowance

1. Taxpayers shall be entitled to a research and development allowance (the ‘allowance’) for qualifying expenditure. That allowance shall be deductible from their taxable base.

2. The amount of the allowance shall be equal to the amount of the qualifying expenditure.

3. By way of derogation from paragraph 2, where a disposal value arises in respect of that expenditure, the amount of the allowance shall be limited to the amount by which that expenditure exceeds the disposal value.

4. The allowance shall be claimed in the tax period in which the qualifying expenditure is incurred, or in any of the four subsequent tax periods.

5. No claim for the allowance may be made after expiry of the fourth tax period following the tax period in which the qualifying expenditure was incurred.

Article 3b

Exclusions from qualifying expenditure

1. Qualifying expenditure shall not include expenditure incurred for the acquisition of:

(a) land or rights over land, except where the expenditure relates to:

(i) a building or structure already constructed on the land;

(ii) rights over such a building or structure; or

(iii) plant or machinery which forms part of such a building or structure;

(b) a dwelling.

2. By way of derogation from paragraph 1, point (b), expenditure relating to a building that includes a dwelling shall be treated as qualifying expenditure where both of the following conditions are fulfilled:

(a) the parts of the building other than the dwelling are used for research and development;

(b) no more than 20% of the expenditure relating to the building is attributable to the dwelling.

Where the conditions laid down in the first subparagraph are fulfilled, the expenditure relating to the entire building shall be treated as qualifying expenditure.

Where the condition in the first subparagraph, point (a), is fulfilled but the condition in point (b) of that subparagraph is not, only the proportion of the expenditure corresponding to the part of the building used for research and development shall be treated as qualifying expenditure.

Article 3c

Minimum use of qualifying expenditure and balancing charge

1. Qualifying expenditure for which the allowance is claimed shall be used wholly and exclusively for research and development for a continuous period of at least three years. That three-year period shall start no later than one year after the end of the tax period for which the allowance is first claimed.

2. If the condition laid down in paragraph 1 is not fulfilled, the allowance shall not be granted or, if it has already been granted, it shall be withdrawn, and the amount of the allowance shall be included in the taxable base of the tax period in which that condition ceases to be met.

The first subparagraph shall not apply where the failure to satisfy that condition results either from force majeure or from circumstances beyond the reasonable control of the taxpayer.

3. Where a taxpayer ceases to own, demolishes or otherwise disposes of an asset linked to qualifying expenditure in respect of which that taxpayer has claimed the allowance, the disposal value of that asset shall be brought into account for tax purposes.

If the disposal value exceeds any unclaimed allowance, a balancing charge shall arise.

The amount of the balancing charge, which shall be included in the taxable income of the taxpayer for the tax period in which the disposal occurs, shall be the lower of the following amounts:

(a) the amount by which the disposal value exceeds any unclaimed allowance;

(b) the allowance claimed.';

(5) Article 4 is amended as follows:

(a) in paragraph 1, the first subparagraph is replaced by the following:

'Exceeding borrowing costs shall be deductible in the tax period in which they are incurred only in an amount equal to 30 percent of the taxpayer's earnings before interest, tax, depreciation and amortisation (EBITDA).';

(b) paragraph 2 is replaced by the following:

'The EBITDA shall be calculated by adding back to the income subject to corporate tax in the Member State of the taxpayer the tax-adjusted amounts for exceeding borrowing costs, the tax-adjusted amounts for depreciation and amortization as well as the amount of qualifying expenditure deducted from the taxable base pursuant to the rules laid down in Chapter Ia or domestic provisions that provide for higher tax deductibility of such qualifying expenditure. Tax-exempt income shall be excluded from the EBITDA of the taxpayer.';

(c) the following paragraph 2a is inserted:

‘2a. Member States shall exclude from the scope of paragraph 1 exceeding borrowing costs incurred on low-risk third-party loans.

For the purpose of the first subparagraph, a low-risk third-party loan means a loan that meets the following conditions:

(a) it is not provided by an associated enterprise or permanent establishment or by an entity of the same consolidated group for financial accounting purposes; and

(b) it is used to finance exclusively the own activities of the borrowing entity itself, and no financing goes to an associated enterprise or permanent establishment or to an entity of the same consolidated group for financial accounting purposes.

For the purposes of the condition set out in point (b), a loan shall not be used, directly or indirectly, to fund capital contributions or other equity contributions resulting in financing an associated enterprise or permanent establishment or an entity of the same consolidated group for financial accounting purposes.

Where the first subparagraph applies, any income arising from low-risk third-party loans shall be excluded from the EBITDA of the taxpayer, and any excluded exceeding borrowing cost shall not be included in the exceeding borrowing costs of the group vis-à-vis third parties referred to in paragraph 5, point (b).’;

(d) paragraph 3 is replaced by the following:

‘By derogation from paragraph 1, the taxpayer shall be given the right to deduct exceeding borrowing costs in an amount equal to EUR 3 000 000.

The amount referred to in the first subparagraph shall be adjusted every year in accordance with the following formula:

$$I_y = I_{y-1}\ x\ \frac{HICP_{y-1}}{HICP_{y-2}}$$

Where:

I_y is the indexed amount applicable from 1 July of calendar year y until 30 June of calendar year y+1.

I_{y-1} is the indexed amount applicable from 1 July of calendar year y-1 until 30 June of calendar year y.

$HICP_{y-1}$ is the annual average Harmonised Index of Consumer Prices for the Union (EU27) for calendar year y-1, as published by Eurostat.

$HICP_{y-2}$ is the annual average Harmonised Index of Consumer Prices for the Union for calendar year y-2, as published by Eurostat.

The resulting amount shall be rounded to the nearest EUR 10 000.

For the purposes of paragraph 1, second subparagraph, the amount of EUR 3 000 000 shall be considered for the entire group.’;

(e) the following paragraph 3a is inserted:

‘3a. By derogation from paragraph 1, a taxpayer shall be given the right to fully deduct exceeding borrowing costs incurred in a tax period where the taxpayer demonstrates that its EBITDA for that tax period has decreased by at least 50 per cent compared to the EBITDA of the immediately preceding tax period.

The derogation provided for in the first subparagraph shall only apply to the tax period in which the decrease in EBITDA occurs.’;

(f) paragraph 4 is replaced by the following:

‘4. Member States may exclude from the scope of paragraph 1 exceeding borrowing costs incurred on:

(a) loans which were concluded before 17 June 2016, but the exclusion shall not extend to any subsequent modification of such loans;

(b) loans used to fund a long-term public-benefit project where the project operator, borrowing costs, assets and income are all in the Union.

For the purposes of the first subparagraph, point (b), a long-term public-benefit project means a project to provide, upgrade, operate or maintain a large-scale asset that is considered in the general public interest by a Member State

Where the first subparagraph, point (b), applies, any income arising from a long-term public-benefit project shall be excluded from the EBITDA of the taxpayer, and any excluded exceeding borrowing cost shall not be included in the exceeding borrowing costs of the group vis-à-vis third parties referred to in paragraph 5, point (b).’;

(g) the following paragraph 4a is inserted:

‘4a. Member States shall exclude from paragraph 1 exceeding borrowing costs incurred on loans used to fund defence products or other products for defence purposes belonging to any of the categories set out in Article 1, points (a) and (b) of Council Regulation (EU) 2025/1106*, where the taxpayer, borrowing costs, assets and income are all in the Union.

For the purpose of the first subparagraph:

(a) ‘defence products’ means goods, services, and works that fall within the scope of Directive 2009/81/EC** of the European Parliament and of the Council, as set out in Article 2 thereof;

(b) ‘other products for defence purposes’ means any good, service and work other than those falling within the scope of Directive 2009/81/EC, as set out in Article 2 thereof, which are necessary for or aimed at defence purposes and intended specifically for military purposes.

Where the first subparagraph applies, any income arising from defence products or other products for defence purposes in critical capability areas shall be excluded from the EBITDA of the taxpayer, and any excluded exceeding borrowing cost shall not be included in the exceeding borrowing costs of the group vis-à-vis third parties referred to in paragraph 5, point (b).

The first subparagraph shall apply only to loans concluded during the first five tax periods following 1 January 2029.

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*Council Regulation (EU) 2025/1106 of 27 May 2025 establishing the Security Action for Europe (SAFE) through the Reinforcement of the European Defence Industry Instrument (OJ L, 2025/1106, 28.5.2025, ELI: http://data.europa.eu/eli/reg/2025/1106/oj).

**Directive 2009/81/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of procedures for the award of certain works contracts, supply contracts and service contracts by contracting authorities or entities in the fields of defence and security, and amending Directives 2004/17/EC and 2004/18/EC (OJ L 216, 20.8.2009, p. 76, ELI: http://data.europa.eu/eli/dir/2009/81/oj). ';

(h) in paragraph 5, the introductory wording is replaced by the following:

'Where the taxpayer is a member of a consolidated group for financial accounting purposes, the taxpayer shall be given the right to either:';

(i) paragraph 6 is amended as follows:

(1) the introductory wording is replaced by the following:

'The Member State of the taxpayer shall provide for rules either:';

(2) point (a) is replaced by the following:

'(a) to carry forward, without time limitation, exceeding borrowing costs which cannot be deducted in the current tax period under paragraphs 1 to 5; or';

(3) point (b) is deleted;

(4) the following subparagraph is added:

'The Member State of the taxpayer may also provide for rules to carry back, for a maximum of three years, exceeding borrowing costs which cannot be deducted in the current tax period under paragraphs 1 to 5.'

(j) the following paragraph 9 is added:

'9. For the purposes of this Article, Member States shall not maintain or introduce, in their national law, any provisions with a subject-matter that falls within the scope of this Article if they lay down rules that diverge from those laid down in this Article.';

(6) in Article 6, paragraph 1 is replaced by the following:

'1. For the purposes of calculating the tax liability, a Member State shall ignore an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of the applicable tax law, are not genuine having regard to all relevant facts and circumstances. An arrangement may comprise more than one step or part.';

(7) Article 7 is amended as follows:

(a) paragraph 2 is amended as follows:

(1) point (a) is replaced by the following:

'(a) the non-distributed income of the entity or the income of the permanent establishment which is derived from the following categories:

(i) interest or any other income generated by financial assets;

(ii) royalties or any other income generated from intellectual property;

(iii) dividends and income from the disposal of shares;

(iv) income from financial leasing;

(v) income from insurance, banking and other financial activities;

(vi) income from invoicing companies that earn sales and services income from goods and services purchased from and sold to associated enterprises, and add no or little economic value;

This point shall not apply where the controlled foreign company carries on a substantive economic activity supported by staff, equipment, assets and premises, as evidenced by relevant facts and circumstances.

Where the controlled foreign company is resident or situated in a third country that is not party to the EEA Agreement, Member States may decide to refrain from applying the preceding second subparagraph.';

(2) point (b) is deleted;

(b) paragraph 3 is replaced by the following:

'3. A Member State shall not treat an entity or permanent establishment as a controlled foreign company under paragraph 1 if:

(a) one third or less of the income accruing to the entity or permanent establishment falls within the categories under paragraph 2, point (a); or

(b) the entity is a financial undertaking and one third or less of the entity's income from the categories under paragraph 2, point (a) comes from transactions with the taxpayer or its associated enterprises.';

(c) paragraph 4 is deleted;

(d) the following paragraphs 5, 6,7 and 8 are added:

'5. For the purposes of this Article, the following definitions apply:

– 'MNE group' means a group as defined in Article 3, point (4), of Directive (EU) 2022/2523;

– 'large-scale domestic group' means a group as defined in Article 3, point (5), of Directive (EU) 2022/2523;

– 'ultimate parent entity' means an entity as defined in Article 3, point (14), of Directive (EU) 2022/2523;

– 'a jurisdiction with a qualified side-by-side regime' means a jurisdiction that is reported as having such status on the OECD Central Record for purposes of the Global Minimum Tax in accordance with the agreement of the OECD/G20 Inclusive Framework on a Side-by-Side Package of 5 January 2026;

– 'qualified domestic top-up tax' means a tax as defined in Article 3, point (28), of Directive (EU) 2022/2523.'

6. Member States shall ensure that paragraphs 1, 2 and 3 do not apply if the taxpayer:

(a) is part of a small or medium-sized group in accordance with Article 3(5) and (6) of Directive (EU) 2013/34 of the European Parliament and of the Council*;

(b) is not part of a group and is a micro, small or medium-sized undertaking in accordance with Article 3(1), (2) and (3) of Directive (EU) 2013/34; or

(c) is part of an MNE group or a large-scale domestic group, which for the tax period falls within the scope of the rules laid down in Council Directive 2022/2523** or, as regards third-country jurisdictions, the OECD Model Rules, unless the ultimate parent entity of that MNE group is located in a jurisdiction with a qualified side-by-side regime for the tax period.

7. Notwithstanding paragraph 6, point (c), a Member State shall not treat an entity or a permanent establishment as a controlled foreign company where the taxpayer is directly or indirectly held by an ultimate parent entity that is located in a jurisdiction with a side-by-side regime for the tax period, if both of the following conditions are met:

(a) the entity or permanent establishment is subject to a qualified domestic top-up tax for the tax period;

(b) no refund or direct or indirect financial benefit is granted in relation to that tax.

8. For the purposes of this Article, Member States shall not maintain or introduce, in their national law, any provisions with a subject-matter that falls within the scope of paragraphs 5, 6 and 7 if they lay down rules that diverge from those laid down in this Article.

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*Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19, ELI: http://data.europa.eu/eli/dir/2013/34/oj).

**Council Directive (EU) 2022/2523 of 15 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union OJ L 328, 22.12.2022, p. 1, ELI: http://data.europa.eu/eli/dir/2022/2523/oj).';

(8) in Article 8, paragraph 2 is deleted;

(9) in Article 9, paragraph 3 is deleted.

Article 5

Amendments to Directive (EU) 2017/1852

Directive (EU) 2017/1852 is amended as follows:

(1) in Article 2(1), point (d) is replaced by the following:

‘(d) ‘affected person’ means any person, including an individual, that is a resident of a Member State for tax purposes, and whose taxation is directly affected by a question in dispute. Where the taxation of more than one person is directly affected, each such person shall be regarded as an affected person.’;

(2) Article 3 is amended as follows:

(a) paragraph 1 is replaced by the following:

‘1. Any affected person shall be entitled to submit a complaint on a question in dispute requesting the resolution thereof. The complaint shall be submitted within 3 years from the receipt of the first notification of the action resulting in, or that will result in, the question in dispute, regardless of whether the affected person has recourse to the remedies available under the national law of any of the Member States concerned. The affected person shall submit the complaint with the same information to each of the competent authorities of the Member States concerned and shall indicate in the complaint which other Member States are concerned. The affected person shall ensure that each Member State concerned receives the complaint in at least one of the following languages:

(a) one of that Member State's official languages in accordance with national law; or

(b) any other language that such a Member State accepts for this purpose.’;

By way of derogation from the first subparagraph, where the question in dispute involves more than one affected person, each affected person shall be allowed to submit the complaint only to the competent authority of its Member State of residence.

In any event, the complaint shall be submitted to each of the competent authorities of the Member States concerned within 30 calendar days from the first submission. The last submission shall be made no later than 3 years from the first notification as referred to in the first subparagraph.’;

(b) in paragraph 4, the last subparagraph is replaced by the following:

‘An affected person that receives a request in accordance with point (f) of paragraph 3 shall reply within 3 months of receiving the request. A copy of this reply shall also be sent to the competent authorities of the other Member States concerned no later than 3 months of receiving the request.’;

(c) in paragraph 5, the following second subparagraph is inserted:

‘Before taking a decision on the admissibility of the complaint, the competent authorities of the Member States concerned may consult each other with a view to better understanding their respective positions.’;

(3) in Article 4(3), the following subparagraph is added:

‘Where all competent authorities of the Member States concerned agree that no agreement can be reached, they shall, without delay and without awaiting the expiry of the period provided for in paragraph 1, inform the affected person and provide the general reasons for the failure to reach such agreement.’;

(4) in Article 5, paragraph 1 is replaced by the following:

‘1. Each competent authority of a Member State concerned may decide to reject a complaint in any of the following cases:

(a) the complaint lacks information required under Article 3(3) (including any information requested under Article 3(3)(f) that was not submitted within the deadline specified in Article 3(4));

(b) there is no question in dispute;

(c) the complaint was not submitted within the 3-year period set out in Article 3(1);

(d) the complaint was not submitted within the 30-calendar days set out in Article 3(1);

(e) the complaint was not submitted in a required language as referred to Article 3(1) in at least one Member State;

(f) the complaint was not submitted with the same information to each of the competent authorities of the Member States concerned as set out in Article 3(1).

The competent authority shall give the affected person the possibility to remedy any deficiencies and supplement the complaint within a 30-day period of receipt of the request, failing which the complaint may be rejected. Where a complaint has been rejected, the affected person may resubmit the complaint, provided that the resubmitted complaint is lodged within the 3-year period referred to in Article 3(1). When informing the affected person of the rejection in accordance with Article 3(5), the competent authority shall provide the general reasons for its rejection.’

(5) in Article 8(5), the following third subparagraph is added:

‘The competent authorities shall raise any objection relating to an independent person of standing at the latest before a final decision pursuant to Article 15(1) is agreed by all competent authorities. Any objection raised after that moment shall have no effect on the final decision so agreed.’;

(6) in Article 10, paragraph 1 is replaced by the following:

‘1. The competent authorities of the Member States concerned may agree to set up an alternative dispute resolution commission (an ‘Alternative Dispute Resolution Commission’) instead of an Advisory Commission to adopt a decision on the acceptance of the complaint in accordance with Article 6 or to deliver an opinion on how to resolve the question in dispute in accordance with Article 14. The competent authorities of the Member States may also agree to set up an Alternative Dispute Resolution Commission in the form of a committee that is of a permanent nature (a ‘Standing Committee’).’;

(7) in Article 11(2), second subparagraph, point (e) is replaced by the following:

‘(e) the composition of the Advisory Commission or Alternative Dispute Resolution Commission (including the number and names of the members, and for independent persons of standing details of their competence and qualifications, and any conflicts of interest of the members);’;

(8) in Article 16, paragraph 5 is replaced by the following:

‘5. The submission of a complaint as provided under Article 3 shall suspend any other ongoing proceedings under the mutual agreement procedure or dispute resolution procedure under an agreement or convention that is being interpreted or applied in relation to the relevant question in dispute as of the date of the first receipt of the complaint by any of the competent authorities of the Member States concerned. The suspension ends on the day when the complaint is rejected by all the competent authorities or the Advisory Commission or when the affected person decides to withdraw the complaint. Where the complaint is accepted by all competent authorities of the Member States concerned, those other proceedings shall be terminated with immediate effect.';

(9) Article 17 is amended as follows:

(a) in the first paragraph, the second sentence is replaced by the following:

The competent authority of that Member State shall notify the competent authorities of all the other Member States concerned at the same time and within 2 months of receipt of such communications and shall transmit a copy of the complaint and of the relevant information received from the affected person.

(b) the following third paragraph is added:

'An affected person referred to in the first paragraph, point (b), who makes use of the derogation laid down in that paragraph shall clearly state this in the complaint';

(10) the following Article 19a is inserted:

'Article 19a

Council Implementing acts

1. On the basis of a proposal from the Commission, the Council may adopt implementing acts laying down any other technical or procedural rules necessary to ensure a streamlined and consistent application of the procedures provided for in this Directive, in particular as regards:

(a) the complaint stage referred to in Articles 3 and 5;

(b) the mutual agreement procedure referred to in Article 4;

(c) the dispute resolution stage referred to in Article 6, including the rules on the functioning of the Advisory Commission and Alternative Dispute Resolution Commission referred to in Article 10.

(d) the interaction between procedures under this Directive and proceedings before national courts.

(11) Article 21 is replaced by the following:

'Article 21

Review

1. The Commission shall, by 31 December 2030 and every five years thereafter, examine and evaluate the functioning of this Directive, including the potential need to amend specific provisions, and submit a report to the European Parliament and the Council.

2. Member States shall communicate to the Commission relevant yearly statistical data, as referred to in paragraph 3, for the evaluation of this Directive, for the

purpose of improving the mutual agreement procedures referred to in Article 4 to resolve a question in dispute.

3. The Commission shall, in accordance with the procedure referred to in Article 20(2), adopt an implementing act establishing a list of statistical data to be provided yearly by the Member States for the purposes of the evaluation of this Directive, as well as the format and the conditions of communication of that information. The statistical data collected pursuant to this Article shall be published on the Commission's website in anonymised form.'.

Article 6

Amendments to Directive (EU) 2025/50

Article 11 of Directive (EU) 2025/50 is amended as follows:

(1) in paragraph 2, point (d) is replaced by the following:

'(d) an exemption of the withholding tax is claimed, except where such exemption results from Council Directive 2003/49/EC* or Council Directive 2011/96/EU**

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* 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 (OJ L 157, 26.6.2003, p. 49, ELI: http://data.europa.eu/eli/dir/2003/49/oj).

** 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 (OJ L 345, 29.12.2011, p. 8, ELI: http://data.europa.eu/eli/dir/2011/96/oj);'

(2) in paragraph 7, the second sentence is replaced by the following:

'Member States may also maintain and apply an existing national relief-at-source system to the cases referred to in paragraph 2, point (e), of this Article in which verifications are performed in order to ensure equal treatment between domestic and cross-border situations to comply with Chapters 2 and 4 of Title IV of the Treaty on the Functioning of the European Union.'

Article 7

Transposition

(1) Member States shall adopt and publish, by 31 December 2028, the laws, regulations and administrative provisions necessary to comply with this Directive. They shall immediately inform the Commission thereof.

They shall apply those provisions from 1 January 2029.

However, Member States shall apply the provisions necessary to comply with Article 1, point (2)(b) to (h), (3)(c), and (5), Article 3, points (2) and (5) to (10), from 1 January 2037 and the provisions necessary to comply with Article 4, point (5)(d) from 1 January 2032.

When Member States adopt those measures, they shall include a reference to this Directive or shall be accompanied by such reference on the occasion of their official publication. The methods of making such reference shall be laid down by Member States.

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

Article 8

Entry into force

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

Article 9

Addressees

This Directive is addressed to the Member States.

Done at Brussels,

For the Council
The President