SAFEGUARDING EUROPE'S COMPETITIVENESS: STRATEGIC TAX MEASURES FOR A DISRUPTIVE GLOBAL LANDSCAPE

KEY MESSAGES

1 **Europe must not bear the global tax burden alone.**
Global acceptance and consistent implementation of the G7 Statement is an immediate priority to prevent Europe from locking in a long-term competitiveness disadvantage under the OECD/G20 Pillar Two rules. As negotiations advance, the EU should remain ready to reassess its Pillar Two framework to ensure it remains a reasonable and proportionate way forward for European businesses.

2 **Decisive action is needed to safeguard the competitiveness of European businesses.**
European businesses need concrete relief to offset the disadvantages of strict and early Pillar Two implementation, and to ease the heavy, complex tax framework weighing on them. This requires action across three complementary strands:

- **Extension and Development of Pillar Two Safe Harbours.**
  To restore a degree of workability and predictability under Pillar Two, the current transitional safe harbour based on Country-by-Country Reporting data requires extension until a permanent version is agreed. A permanent safe harbour should be developed with structured business input, applied retroactively, and aligned with the G7 Statement to ensure material simplifications and consistent global implementation.

- **Simplification that Delivers Genuine Relief.**
  Europe's tax framework is overly complex and fragmented. The EU must move from political pledges to tangible action, eliminating duplicative reporting, ensuring consistent implementation across Member States, and providing measurable, lasting compliance relief for businesses.

- **A Pro-Investment Tax Framework to Safeguard Competitiveness.**
  Europe must actively support investment to strengthen capital attractiveness, boost innovation, and foster sustainable growth through investment-friendly tax measures.

INTRODUCTORY REMARKS

European companies today face unprecedented uncertainty in international taxation. The absence of global consensus on the OECD/G20 Inclusive Framework's Pillar Two rules leaves businesses exposed to disproportionate compliance burdens and the risk of retaliatory measures.

The G7 Statement of June 2025, which confirmed that the U.S. tax system will operate on a side-by-side basis with Pillar Two rules, has temporarily reduced the immediate threat of U.S. retaliation. However, this reassurance will only last if the G7 Statement secures broad global acceptance and consistent implementation. Even if the original policy aims of the rules are diluted, **global acceptance of the G7 Statement remains an immediate priority** to avoid further fragmentation and to eliminate retaliatory threats.

BusinessEurope's support for the EU's adoption of the OECD/G20 Inclusive Framework's Two-Pillar Solution has always been conditional on two elements:

1. Global consensus, to avoid fragmentation and retaliatory measures, and
2. A workable administrative system, ensuring rules are proportionate and administrable.

With neither condition fully met, Europe risks becoming the only major region to fully internalise the costs of Pillar Two without securing offsetting benefits. This burden is compounded by the excessive reporting obligations and administrative complexity already created by existing EU tax requirements.

As negotiations progress towards the adoption of the G7 Statement later this year, the EU will need to monitor developments closely and **remain prepared to assess whether its current Pillar Two rules remain a reasonable and proportionate way forward.** This assessment should notably consider whether the international environment has sufficiently stabilised and whether meaningful simplifications have been achieved to make the rules administrable and workable in practice.

It will therefore be critical for Europe to act decisively to safeguard the competitiveness of European businesses, introducing **measures to offset the disadvantages of strict and early implementation, and to ease the heavy, complex tax framework weighing on companies.**

BUSINESSEUROPE'S PRIORITIES FOR SAFEGUARDING COMPETITIVENESS

The competitiveness of European businesses depends on a global level playing field.

The political difficulty of reaching common ground, globally as well as among Member States, on the future of the Pillar Two rules cannot be an excuse for inaction, and it must certainly not result in Europe imposing obligations on its companies that are not mirrored by global competitors.

European businesses must instead be provided with relief and a more manageable, business-friendly tax framework through the following complementary strands of action:

1. EXTEND AND DEVELOP PILLAR TWO SAFE HARBOURS

The Pillar Two computation rules impose extraordinary compliance challenges for businesses, requiring complex new data and systems. These burdens have been temporarily eased until 2027 by the transitional safe harbour based on Country-by-Country Reporting (CbCR) data. This measure

has significantly reduced the number of countries where companies must perform full Pillar Two computations, lowering the administrative burden for both businesses and tax administrations, without undermining the overall effectiveness of the rules.

European businesses now urgently need certainty of the following points, coordinated at a global level:

- That the CbCR Safe Harbour will be extended until a Permanent Safe Harbour is agreed by the Inclusive Framework.
- That the development of a Permanent Safe Harbour will involve structured input from the business community to ensure genuine simplification.
- That retroactive application of the Permanent Safe Harbour will be allowed for any period in which a Pillar Two return has not yet been filed.
- That material simplifications, in line with the G7 Statement, will be permanently implemented to ensure the rules are administrable and enforceable.

These steps represent **the minimum necessary to restore a degree of workability and predictability.** They should not, however, preclude a broader reflection on whether continuing along the current course of implementation remains justified, given the persistent global asymmetries and complexity.

Without these steps, Europe will remain exposed, subjecting its companies to stricter obligations than many global competitors and creating a structural competitiveness gap.

2. DELIVER GENUINE SIMPLIFICATION OF EU TAX RULES

The Commission's commitment to reducing reporting requirements and tabling an omnibus simplification package on taxation is welcome. But **genuine simplification must move beyond political rhetoric and deliver structural, measurable improvements that companies can experience in practice.**

To achieve this, the Commission should adopt a systemic approach anchored in the principles of **practicality, consistency, and proportionality.** Key actions should include:

- Establishing a dedicated simplification task force with continuous business input before proposals are tabled. This would ensure that reforms in this area reflect real operational experience rather than administrative theory.
- Adopting a horizontal approach to eliminate duplication across tax and non-tax rules, particularly in cases where businesses face multiple reporting obligations for the same or similar information.
- Phasing out requirements that no longer add value. This should take into account the outcome of negotiations on the G7 Statement and allow EU tax regimes to be adapted accordingly. A careful approach here could substantially reduce compliance burdens and free up resources for innovation and growth.
- Ensuring structured implementation guidance. Simplification must go hand-in-hand with stronger governance to ensure that EU tax rules are implemented consistently and are predictable across Member States. Similar transactions are often treated differently across Member States simply because there is no common administrative guidance or uniform implementation tools. The Commission should therefore establish a structured process for issuing practical implementation guidelines, based on questions raised by Member States or businesses. Such guidance would promote consistent interpretation, particularly in emerging sectors where new business models raise novel tax questions.

- Expanding common safe harbours to encourage uniform, simplified compliance where divergence exists. In addition, all new EU tax directives should be accompanied by a standardised tax return template for Member States, to enhance coherence and reduce administrative fragmentation.
- Strengthening dispute prevention and resolution. Prolonged tax disputes undermine business confidence and tie up resources. Europe needs effective prevention mechanisms – clearer guidance, consistent rule application, and cooperative compliance frameworks – to stop conflicts before they start. When disputes arise, businesses must have access to efficient, reliable and binding resolution channels. The Commission should encourage baseball arbitration procedures in transfer pricing and other bilateral cases to ensure balanced, timely, and fair outcomes.

Simplification cannot be a token exercise or a political *quid pro quo*. It must deliver tangible and lasting relief, reduce hidden compliance costs and improve legal certainty. Only then can Europe ensure that its tax framework supports, rather than hinders, growth, innovation, and global competitiveness.

3. PROMOTE BETTER BUSINESS TAXATION RULES AT EU LEVEL

The current period of instability also offers an opportunity. Europe can, and must, use this moment to reshape its business taxation framework to support investment, innovation, and competitiveness.

To do so, the EU should show ambitious leadership by pursuing the following policies that directly improve the investment climate:

- Accelerate capital cost recovery. Drawing on successful reforms outside Europe, economically competitive measures such as accelerated depreciation rules and immediate expensing should be promoted across Member States. Capital cost recovery measures are among the most effective tools to stimulate investment, as they directly improve project viability, strengthen cash-flow positions, and reduce the payback time for businesses making long-term commitments. Other major economies have used these instruments to drive industrial investment and innovation; Europe cannot afford to fall behind. The Commission's recent tax recommendations in the Clean Industrial Deal are a step in the right direction, but they must be backed by clear Commission guidance on their consistency with EU rules to ensure workability.
- Boost R&D Incentives. Well-designed, expenditure-based R&D credits can anchor innovation in Europe, supporting both industrial leadership and strategic autonomy.
- Eliminate intra-EU withholding taxes on dividends, interest and capital gains that hinder the free movement of capital across Member States. To unlock the single market for capital, Europe should move towards automatic, digital relief at source. This would end the costly patchwork of certificates and manual procedures that deter cross-border investment. Modernising withholding tax rules is not only about technical simplification but about enabling Europe's companies to access deeper pools of capital and compete on an equal footing with global peers.
- Address tax issues for cross-border mobile workers. As remote work becomes increasingly common and individuals are increasingly mobile, there is a need for a European-wide solution to facilitate the cross-border workforce mobility within the EU. This solution should address tax concerns and administrative obligations for both employers and employees, thereby fostering an environment that attracts highly skilled talent.
- Extend safe harbour mechanisms. The same pragmatic approach that has the effect of reducing compliance burdens under the Pillar Two rules should be applied more broadly. Simplified and proportionate safe harbours could apply, for instance, to transfer pricing of intra-group services or permanent establishment assessments, providing clear thresholds and legal certainty while reducing unnecessary disputes.

These measures are not marginal adjustments; they are core competitiveness and pro-investment policies to help mobilise capital and drive growth. They must be recognized as essential policies to restore Europe's attractiveness for capital investment, to offset the disproportionate burdens of the global minimum tax rules, giving taxpayers the confidence needed to invest and grow in Europe rather than elsewhere.

CONCLUDING REMARKS

Europe cannot afford to be the region that shoulders the full costs of Pillar Two without the safeguards, compensatory measures and resilient tax framework needed to support growth, strengthen competitiveness and advance Europe's key priorities – from climate change to digitalisation, strategic autonomy, and global competition.

If Europe fails to act, it risks becoming the region with one of the most complex tax frameworks, creating a lasting competitiveness disadvantage that accelerates the outflow of investment, innovation and jobs. The Draghi Report of September 2024 has already underlined the urgency of strengthening competitiveness. That urgency has only increased in light of recent U.S. policy shifts, which risk leaving Europe isolated and overburdened.

BusinessEurope therefore calls on the Commission to show ambitious leadership: **to secure global consensus, while also safeguarding European businesses through concrete measures – extended safe harbours, genuine simplification of the tax framework, and investment-friendly business tax rules. Only with such steps can Europe restore competitiveness and remain an attractive place to invest, innovate and create jobs.**

BusinessEurope remains committed to engaging in a constructive dialogue with the European Commission to deliver an efficient taxation framework that safeguards the competitiveness of European companies.

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BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for enterprises of all sizes in 36 European countries whose national business federations are our direct members.

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