

THE DIRECT TAXATION OMNIBUS: SIMPLER TAX RULES FOR A MORE COMPETITIVE EUROPE

KEY MESSAGES

1 **Simpler tax rules are an important part of making Europe more competitive.** The Direct Taxation Omnibus offers an opportunity to remove unnecessary costs and obstacles to cross-border investment. The Council negotiations must now turn that opportunity into meaningful change for businesses.

2 **The main simplification measures need to be preserved.** Withholding tax reform could deliver an estimated €5.3 billion in annual savings. Reducing overlap between Pillar Two and CFC rules, improving the treatment of investment financing and encouraging R&D would also make a practical difference to businesses.

3 **Simplification should reduce complexity, not move it elsewhere.** Existing rules need to be reconsidered as the tax framework evolves. The benefits of the Omnibus should not be lost through new requirements introduced during the negotiations or through national implementation.

4 **The wider European interest must remain central to the negotiations.** Member States have legitimate concerns about tax revenues and safeguards against abuse. But these need to be weighed against the longer-term benefits for growth, investment and the Single Market. Agreement should be reached as early as possible.

EXECUTIVE SUMMARY

Europe needs investment to prosper. Investment supports innovation, creates good jobs and rising wages, and helps sustain public finances, pensions and public services. The tax system matters for investment. When tax rules are unnecessarily complex, fragmented or uncertain, they make it more costly to invest and do business in Europe.

European companies are ready to invest more in Europe. In the Copenhagen Pledge, 28 major European companies indicated that they are ready to significantly increase investment towards 2030 if Europe delivers reforms to strengthen its competitiveness and security. Reducing regulatory burdens and removing barriers in the Single Market are among the reforms businesses are calling for.

Tax rules have become increasingly complex as Europe has pursued legitimate policy objectives. The Council has recognised the need to reduce compliance burdens and remove outdated and overlapping rules. The Commission's Direct Taxation Omnibus Proposal addresses a number of concerns that European businesses have raised, including unnecessary overlap between existing rules and barriers to cross-border investment.

BusinessEurope strongly supports the direction of the proposal. The priority now is to secure its simplification benefits through the Council negotiations so that they translate into lower costs, less complexity and greater certainty for businesses.

The Omnibus offers an opportunity to remove longstanding obstacles to cross-border investment and financing. The proposed withholding tax reforms are particularly significant in financial terms, with the Commission estimating annual savings of around €5.3 billion from the proposed exemptions. The proposal also provides an opportunity to reduce overlap between existing anti-avoidance rules and Pillar Two, improve the treatment of genuine investment financing, encourage R&D investment and strengthen tax certainty. The Omnibus should also help deliver the Commission's commitment to reduce administrative burdens by at least 25% for all businesses and 35% for SMEs.

The Omnibus should be considered as a whole. Simplification in one area should not be offset by new complexity elsewhere, either during the Council negotiations or through gold-plating when the rules are implemented nationally. The final result should be a real reduction in the complexity businesses face.

This does not mean weaker protection of Member States' tax bases. Effective safeguards against abuse remain essential. But as the wider tax framework changes, existing rules should be reviewed to ensure they are still needed and proportionate. Removing unnecessary compliance costs, overlap and double taxation is not the same as eroding the tax base.

Timely agreement is also important. The One Europe, One Market Roadmap targets agreement on the taxation omnibus by the fourth quarter of 2027. BusinessEurope supports that commitment and calls for agreement as early as possible.

Member States have shown before that they can act with speed and determination on complex tax legislation. ATAD was proposed in January 2016 in response to international concerns over base erosion and profit shifting and was adopted by the Council in July of the same year. Today's challenge is different, but it also requires timely action.

Investment decisions being taken today will shape where businesses expand, where innovation takes place and where future jobs are created. The conditions Europe creates for investment now will therefore have long-term consequences for its competitiveness and prosperity.

Europe's competitiveness now deserves the same political urgency. BusinessEurope calls for a timely agreement that preserves the simplification benefits of the Omnibus and makes Europe a more attractive place to invest, innovate and grow.

1. TAX SIMPLIFICATION MATTERS FOR COMPETITIVENESS

Successive EU and international tax rules have created overlapping requirements, different national approaches and significant complexity for businesses operating across borders. Time and resources spent dealing with unnecessary complexity cannot be used for investment and growth.

The Commission has committed to reduce administrative burdens by at least 25% for all businesses and 35% for SMEs. The Tax Simplification Package should make a meaningful contribution to these targets.

Meaningful simplification is not only about fewer forms or shorter procedures. As the tax framework changes, existing rules and reporting requirements should also be reviewed to ensure that they are still needed and proportionate. This should include rules that create unnecessary overlap or make it harder for businesses to finance investment and carry out genuine economic activity. In some cases, simplification will require changes to the underlying rules themselves.

Council compromises should therefore be assessed by their net effect on the costs and complexity businesses face, while maintaining effective safeguards against abuse.

2. WITHHOLDING TAX: REMOVE A MAJOR BARRIER TO THE SINGLE MARKET

Withholding tax reform is the largest simplification opportunity in the package and should deliver meaningful benefits considerably earlier than 2037.

BusinessEurope strongly supports the proposed withholding-tax exemptions and simpler relief procedures. The Commission estimates the savings associated with the proposed exemptions at around €5.3 billion a year, making them the largest individual simplification benefit in the package.

Where taxpayers are already entitled to relief, obtaining it should not involve disproportionate costs, lengthy procedures or capital being tied up unnecessarily. Tax that a taxpayer is legally entitled to recover should not effectively become a cost simply because obtaining the relief is excessively burdensome. Making that relief easier to obtain is not a loss of tax revenue to which Member States are entitled; it is a matter of ensuring that the rules work as intended.

The proposed removal of thresholds and minimum holding requirements raises a different issue, as these conditions affect the allocation of taxing rights between Member States. These implications should be weighed against the wider European interest in removing barriers to cross-border investment and deepening the Single Market. Reducing these barriers would make cross-border investment easier and support a more integrated European capital market.

Timing is equally important. As proposed, the key changes to the Parent Subsidiary and Interest and Royalties Directives would only apply from 1 January 2037. For the reform to contribute meaningfully to Europe's current competitiveness agenda, businesses should be able to benefit considerably earlier than 2037, while allowing Member States proportionate transitional arrangements. Any transition needed by Member States should provide budgetary and administrative predictability without postponing the economic benefits of the reform for more than a decade.

Withholding tax reform would also support the Savings and Investments Union by making it easier for capital to move across borders and be invested where it is most needed.

3. PILLAR TWO AND CFC: REDUCE UNNECESSARY OVERLAP

The international corporate tax framework has changed substantially since the Anti-Tax Avoidance Directive was adopted. Pillar Two has introduced a global minimum-tax framework for large multinational groups, with extensive calculation, reporting and compliance requirements.

CFC rules and Pillar Two are distinct regimes, but their application can overlap. Groups may therefore be required to maintain parallel calculations and compliance processes under different systems, with complex interactions that can also result in economic double taxation. The introduction of Pillar Two provides a clear basis for reassessing whether all existing CFC requirements remain justified for groups within its scope.

The final agreement should preserve the proposed CFC carve-out for Pillar Two groups and ensure that it applies as early as possible. It should not be replaced by a tax credit mechanism that would require businesses to continue performing parallel calculations under both regimes. Any safeguards should address clearly identified risks without recreating the CFC calculation and reporting requirements that the carve-out is intended to remove.

Questions concerning QDMTTs, third-country systems and different national CFC models will need workable technical solutions, but they should not obscure the aim of avoiding unnecessary parallel requirements.

The proposal would also remove the Model B option for CFC rules. This could require significant changes in Member States that currently use this approach and will need careful consideration in the Council negotiations. The aim should be to reduce overlap without creating new complexity or requiring changes to national arrangements that already work effectively.

The broader evaluation of Pillar Two is also important. For businesses, it needs to deliver real simplification, including workable safe harbours, and the debate cannot remain confined to the OECD. Companies have already invested significant resources in implementing and complying with Pillar Two. The complexity of that framework should not now become a reason for keeping parallel requirements indefinitely. The Council itself has identified the elimination of outdated and overlapping tax rules as a principle of tax simplification. That principle should be applied as the international tax framework evolves. Existing EU rules and reporting requirements should be reviewed to ensure that they remain necessary and proportionate.

Member States will need to consider the immediate implications of changing national rules, including transition, IT and compliance costs for businesses and tax administrations. These costs should be weighed against the longer-term benefits of a simpler and more coherent tax framework. Short-term implementation concerns should not, however, prevent the removal of unnecessary complexity for years to come.

4. INTEREST LIMITATION: MAKE IT EASIER TO FINANCE INVESTMENT

Europe's investment ambitions require financing. Interest limitation rules should protect against base-erosion risks while recognising genuine commercial financing used to fund productive economic activity.

Greater consistency in the application of the Interest Limitation Rule across the Single Market would simplify the rules for businesses operating across the Single Market. A common 30% EBITDA limitation and safe harbour would provide greater predictability. The €3 million threshold, established over more than a decade ago, should also be updated to reflect the changing economic conditions and reduce unnecessary restrictions on the financing of mid-sized companies.

Greater consistency should also extend to the safeguards and exceptions available under the rules. In particular, the group escape provisions and the exclusion for qualifying long-term public infrastructure projects can help ensure that interest limitation rules do not unnecessarily restrict genuine investment financing. Businesses should be able to benefit from these provisions on a consistent basis across Member States.

The treatment of third-party financing is equally important. European groups commonly raise external capital centrally and distribute it across their operations through treasury functions, cash pooling and other internal financing arrangements. This allows groups to borrow on the basis of their overall financial strength and creditworthiness, rather than requiring each subsidiary to obtain financing independently. It can reduce borrowing costs and give subsidiaries access to financing on better terms. Centralised treasury and cash-pooling arrangements also allow groups to use their available cash more efficiently, directing surplus liquidity to where it is needed and reducing the need for additional external borrowing.

The third-party financing exclusion should therefore also cover genuine external financing channelled through centralised treasury and other intra-group financing arrangements. The rules should remain focused on preventing base-erosion without unnecessarily restricting commercial financing structures that allow businesses to invest across the Single Market.

5. R&D: ENCOURAGE INVESTMENT ACROSS EUROPE

Europe needs more business investment in research, technology and innovation. Tax policy can help by reducing the cost of R&D investment and making Europe a more attractive place to carry it out.

An EU framework for R&D allowances can encourage more Member States to use tax policy to support R&D investment. Immediate expensing can improve cash flow and reduce the effective cost of investment by allowing qualifying expenditure to be deducted when it is incurred.

The EU framework should complement existing national R&D regimes without requiring Member States to change approaches that already work well. Member States should remain free to maintain or introduce more favourable incentives, including through arrangements that differ from those set out in the EU framework. The aim should be to encourage greater support for R&D investment across Europe, not to impose a single model on national tax systems.

Over time, the framework should evolve to reflect more fully how businesses invest in R&D. Modern R&D increasingly depends on software, intellectual property, digital tools and highly

skilled researchers, engineers and other personnel alongside tangible assets. The scope of eligible expenditure should therefore be broadened to include these costs. The framework should also recognise the importance of applying new knowledge and technologies in practice, including in production and industrial processes.

Any conditions attached to the allowance should remain simple and workable. In particular, the proposed three-year minimum holding period should be reconsidered, as equipment used in technology-intensive R&D may need to be replaced much sooner. Such requirements should not discourage businesses from investing in newer technologies.

The allowance should also become available without unnecessary delay. A lengthy implementation period would reduce its value for businesses making R&D investment decisions today.

6. TAX CERTAINTY: PREVENT DISPUTES AS WELL AS RESOLVE THEM

Europe should aim for a tax framework in which cross-border disputes are resolved effectively, but also prevented wherever possible. As international tax rules become more complex, greater certainty over how they will be interpreted and applied is increasingly important for investment.

The improvements to the Dispute Resolution Mechanisms Directive should make the existing framework more accessible and effective, including through a more workable filing window, clearer treatment of multi-entity cases, fewer procedural grounds for rejecting complaints and greater scope to remedy deficiencies.

Effective dispute resolution is only part of the answer. Greater use of advance certainty and closer cooperation between tax administrations can give businesses more clarity before investment decisions are made and prevent disagreements from becoming disputes.

This is particularly important as businesses and tax administrations navigate the new questions created by Pillar Two and its interaction with existing rules. Europe can build on its experience with joint audits and multilateral risk assessment to provide greater certainty around this increasingly complex framework.

In an uncertain international tax environment, predictability is itself a competitive advantage. Europe has led in implementing the new international tax framework. It should now aim to lead on tax certainty.

7. EUROPE'S COMPETITIVENESS AGENDA NOW NEEDS DELIVERY

The Council negotiations now need to turn the Tax Simplification Package into concrete results for businesses.

The One Europe, One Market Roadmap targets agreement on the taxation omnibus by the fourth quarter of 2027. BusinessEurope supports that commitment and calls for agreement as early as possible. The Direct Taxation Omnibus and DAC Recast differ in nature and may progress at different speeds, but both should reduce unnecessary complexity for businesses.

National tax systems, administrative practices and budgetary positions will inevitably shape the negotiations. But Member States should also consider the wider European interest. The impact of changing individual national rules or revenue streams needs to be weighed against the longer-term benefits of a simpler and more integrated Single Market. Any new requirements introduced during the negotiations should address clearly identified risks and be necessary and proportionate.

The budgetary impact of simplification should also be seen in this wider context. Much of the estimated benefit of the package comes from reducing administrative and compliance costs for businesses, rather than reducing tax revenues. Over the longer term, sustainable tax revenues depend on businesses choosing to invest, produce, innovate and employ people in Europe.

Simplification and effective taxation are not competing objectives. Strong safeguards against abuse and the protection of legitimate tax bases remain essential. But tax rules can be robust without being unnecessarily complex. Burdens removed in one area should not simply be replaced by new restrictions or reporting requirements elsewhere.

The EU's wider tax policy agenda must also be consistent with its commitment to simplification and competitiveness. In this respect, the proposed Corporate Resource for Europe (CORE) raises concerns. Introducing an additional charge on companies would increase the cost of doing business in Europe at a time when the EU is seeking to attract more investment. It would also add a further layer of obligations to an already complex tax framework. The EU cannot credibly pursue tax simplification as a means of strengthening competitiveness while introducing new measures that increase the cumulative costs of investing and operating in Europe.

The benefits of simplification must also survive implementation. As Commission President von der Leyen underlined in her 2026 State of the Union address, simplification cannot be a one-way street, calling for a pact against gold-plating. The Council has similarly called for unnecessary regulatory burdens to be avoided when EU tax legislation is negotiated and implemented. For businesses, what matters is not only what is agreed at EU level, but what they ultimately have to comply with in each Member State.

Technical questions will need to be resolved during the negotiations but they should not delay agreement unnecessarily. The priority should remain a final package that preserves the proposed simplification benefits, avoids creating new complexity and gives businesses greater certainty when investing and operating across the Single Market.

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