

Alert | EU Tax Omnibus Proposal



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European Commission Adopts Tax Simplification Package to Boost EU Tax Competitiveness, Reduce Administrative Burdens

Key Takeaways

- The European Commission adopted the Tax Simplification Package (TSP) on 24 June 2026, aiming to cut business compliance costs by approximately EUR 8 billion per year, including EUR 3.25 billion in recurring administrative costs.
- The core of the TSP is a proposed Omnibus Directive amending six EU tax directives: the Interest and Royalty Directive (IRD), the Parent-Subsidiary Directive (PSD), the Tax Merger Directive (TMD), the Anti-Tax Avoidance Directive (ATAD), the Dispute Resolution Mechanism Directive (DRM), and the FASTER Directive.
- Withholding tax relief would expand significantly: the minimum holding requirements under the IRD (25%) and PSD (10%) would be abolished, and a self-assessment regime would replace prior authorisation procedures.
- Interest limitation rules would be eased through a mandatory 30% of EBITDA deduction, a mandatory EUR 3 million safe harbour, and a temporary exclusion for defence-sector financing.
- A new EU-wide R&D allowance would permit full deductibility of eligible R&D expenses, and CFC rules would be simplified with an exemption for companies subject to Pillar Two minimum taxation.

- Negotiations begin in 2026 and are targeted to conclude in Q4 2027; subject to unanimous Council adoption, implementation is due by 31 December 2028, with entry into force on 1 January 2029, certain key measures deferred to 2032 and 2037.

Background

In an effort to harmonise tax law across the European Union, numerous directives have been adopted in recent years, resulting in an increasingly challenging regulatory framework. This complexity has led to legal uncertainties and administrative burdens that have become a growing concern for corporate groups and companies based or operating in the EU.

On 24 June 2026, the European Commission adopted the Tax Simplification Package (TSP) to address this trend. The TSP aims to simplify European taxation, reduce compliance burdens for businesses, and strengthen the EU internal market. The TSP is estimated to lower compliance costs for businesses by approximately EUR 8 billion annually, covering EUR 3.25 billion per year in recurring administrative costs.

One key element of the TSP is the draft Omnibus Directive which the European Commission has proposed to the Council of the European Union. If adopted, it would significantly modify the EU's direct tax framework.

The following proposed amendments are noteworthy:

Broadening of Withholding Tax Exemptions Under the Interest and Royalty Directive and Parent-Subsidiary Directive

The Interest and Royalty Directive (IRD | 2003/49/EC) as well as the Parent-Subsidiary Directive (PSD | 2011/96/EU) aim to eliminate double taxation through withholding taxes on interest and royalty payments between associated companies and their permanent establishments, as well as on profit distributions between associated companies.

Currently, both directives impose minimum holding requirements of 25% (IRD) or 10% (PSD). Under the Commission's proposal, these minimum holding requirements would be abolished. In the future, interest and royalty payments to unassociated EU companies would be covered by the IRD. To avoid double non-taxation where the recipient is effectively not taxed on interest or royalties in its jurisdiction of residence, withholding tax may need to be levied or tax deductibility of the interest or royalty payments may be precluded. Further, the PSD would apply to dividends paid to EU companies holding only a minor participation. Both changes would broaden the scope of both directives and improve the EU's status as a business investment destination.

In addition, the proposal limits the use of administrative or prior authorisation procedures to benefit from exemptions. Going forward, taxpayers may in general rely on a self-assessment subject to ex post controls and the application of anti-abuse rules. To the extent this eligibility may not be ensured or taxes may nonetheless withheld, fast-track procedures under the FASTER Directive shall be available (publicly traded securities) or EU Member States would be required to ensure that any excess tax is refunded through standard domestic refund procedures (in other scenarios). This approach may reduce the burden on companies that are presently required to obtain exemption certificates through administrative processes.

The proposal further extends the scope of the PSD to pension funds which would, regardless of legal form, be able to claim benefits under the PSD, representing a notable change for cross-border investing pension funds.

Extension of the Tax Merger Directive

The Tax Merger Directive (TMD | 2009/133/EC) grants cross-border reorganisations with a tax deferral on capital gains until the actual disposal of the underlying assets. However, its scope no longer reflects the current state of corporate law. Consequently, the proposal accommodates new forms of restructuring, including “simplified mergers” and “division by separation,” which were already covered by the Mobility Directive but not previously reflected in the TMD.

Furthermore, the proposal introduces a new chapter to the TMD setting out rules for cross-border conversions, including the transfer of a company’s registered office, to extend the principle of tax neutrality to these scenarios.

Finally, the list of company forms covered by the TMD shall be updated.

Modernisation of the ATAD

The Anti-Tax Avoidance Directive (ATAD | (EU)2016/1164) harmonises measures against base erosion and profit shifting (BEPS).

Relief regarding interest limitation rules

The proposal eases the interest barrier rules through several measures, including:

- A mandatory deductibility of interest expenses of 30% of EBITDA, prohibiting stricter thresholds by member states.
- An exemption for interest on loans granted by third parties, provided the loan serves the borrower's business activity (on-lending within the group may be harmful).
- Full deductibility of interest expenses where the taxpayer's EBITDA has fallen by at least 50% year-on-year, providing relief during periods of economic downturn.

The currently optional safe harbour of EUR 3 million — which allows an unlimited deduction of interest expenses — shall be made mandatory within the first three years of entry into force and would be indexed annually for inflation.

Furthermore, the proposal introduces a mandatory temporary exclusion for the defence sector, applying to debt financing of defence investments initiated within the first five tax periods following entry into force.

Lastly, several options shall be made mandatory, including the group escape rule, which allows the deduction of a higher amount of interest expenses where the taxpayer can demonstrate that its leverage is in line with that of its corporate group.

R&D Allowance

Currently, no common minimum standard exists for the tax treatment of R&D across the EU. The proposal aims to establish consistent rules on the deductibility of R&D expenses across the EU member states.

The proposal provides for full deductibility of eligible R&D expenses, such as capital expenditure on plant, machinery, and tangible assets used directly for R&D or to support R&D facilities. Such expenses may be deducted immediately or over one of the four subsequent tax periods. The relevant assets must be used for R&D purposes for at least three years; otherwise, the tax benefit may be withdrawn or compensatory payments may be required. To ensure that any R&D allowance does not decrease the ability to deduct interest expenses, the EBITDA calculation shall be adjusted accordingly.

Simplification of CFC Rules

The proposal suggests an exemption from CFC rules for taxpayers subject to Pillar Two (minimum taxation). This shall generally apply to all EU-based companies for their low-taxed subsidiaries. A fallback exception to this is provided where the group is headquartered in a jurisdiction that applies a qualified “side-by-side” regime and the low-taxed foreign subsidiary is not subject to a top-up tax or, if it is, receives financial compensation.

In addition, small and medium-sized groups shall be exempt from CFC rules.

Amendments to the Dispute Resolution Mechanism Directive

The proposal suggests amendments to the Dispute Resolution Mechanism Directive (DRM | (EU) 2017/1852), which lays down mechanisms to resolve disputes on the application or interpretation of double tax treaties. These amendments aim to address divergences in the interpretation of treaties in practice, streamline procedures, and improve taxpayer access to dispute resolution mechanisms.

Amendments to the FASTER Directive (EU 2025/50)

As summarized above, the proposal aims to extend the exemption from withholding tax for interest payments, royalties, and dividends, with taxpayers generally entitled to rely on self-assessment. In individual cases — such as for publicly traded securities — self-assessment is not practical as the paying company may be unable to determine whether the conditions for exemption are met.

In such cases, taxpayers would be entitled to benefit from the FASTER Directive and the corresponding fast-track procedures. As this is not yet reflected in the FASTER Directive, its provisions would be amended accordingly.

Impact

Representing a major step forward, the Tax Simplification Package promises a more streamlined, bureaucratically efficient, and tax-competitive EU. For European enterprises and inbound investors alike, the proposed tax changes by the Omnibus Directive would yield substantial relief. Such measures are particularly vital in navigating today's challenging economic environment. This is especially true regarding the extensive relief concerning withholding taxes on interest, royalties, and dividends, the highly anticipated easing of interest barrier rules, as well as the newly proposed R&D allowance.

Next Steps and Timeline

- Negotiations begin in 2026 and are targeted to conclude in Q4 2027.
- As a direct-taxation matter, the directive requires unanimous Council adoption, after which member states must transpose it into national law.
- If the timeline holds, implementation is due by 31 December 2028, with general entry into force on 1 January 2029.
- The revised EUR 3 million safe harbour for the interest barrier rule applies from 1 January 2032, and some key amendments to the PSD and IRD — in particular the abolishment of the minimum participation quotas — are deferred to 1 January 2037.

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