

Position on simplifying the EU corporate tax framework



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The European Commission's initiative to subject existing EU tax law to a stress test is an important step towards the administrative simplification of EU corporate tax law.

The current regulatory framework generates high compliance costs for up to 33 million EU companies, from small and medium-sized enterprises (SMEs) to large corporations. The proposed revision should substantially reduce these costs. Eurochambres therefore fully supports the Commission's initiative and outlines four key priorities for tax decluttering.

1. Executive summary

Over the past decade, a succession of regulatory measures has significantly complicated the corporate tax landscape, eroding the benefits of the single market. These include successive amendments to the Directive on Administrative Cooperation (DAC), (Public) Country-by-Country Reporting (CbCR), the Anti-Tax Avoidance Directive (ATAD), and the Minimum Taxation Directive (OECD Pillar 2). Such a set of overlapping and complex regulation – often pursuing similar objectives – risks impeding cross-border activities and weakening Europe's global competitiveness.

Recent developments, such as the side-by-side agreement concluded within the OECD/G20 Inclusive Framework, do not in themselves provide relief: coexistence does not guarantee smooth compatibility in day-to-day practice.

Against this backdrop, the EU must act decisively to safeguard the interests of European businesses. Eurochambres' proposals for a substantive decluttering of EU tax law are structured around four priorities:

- Eliminating duplication and overlap in existing directives;
- Harmonising cross-border definitions and calculation methods;
- Aligning reporting requirements with the purpose of legislation;
- Introducing simplified procedures for clearly low-risk activities.

The Commission should examine whether the restrictions imposed by the ATAD (EU 2016/1164, 12.7.2016) remain necessary to achieve their stated aims, focusing enforcement on genuinely aggressive or abusive tax planning. The Commission should also assess whether existing cross-border facilitation instruments, such as the Parent-Subsidiary Directive, can be further expanded and streamlined to reduce or eliminate unnecessary bureaucratic obligations.

To ensure that this review delivers lasting results rather than one-off relief, all future initiatives to harmonise or shape tax law must be subject to a rigorous cost-benefit analysis, with compliance costs at the centre. Simplification and modernisation of the EU tax

framework will promote cross-border investment and strengthen the EU's global competitiveness.

On Global Minimum Tax (Pillar 2), the Commission should critically assess whether the administrative burden associated with Pillar 2 is proportionate to the objective of establishing a global minimum tax rate. Companies from other major economies, such as the United States, China and India, are not required to administer these complex rules and thus enjoy a competitive advantage. A reform of the corporate tax law of this magnitude can only be justified with broad international support; otherwise, the EU risks a structural competitive disadvantage. The EU should review its complex minimum taxation framework (including CFC rules) with a view to introducing whitelists of tax jurisdictions or permanent and easy-to-administer safe-harbour arrangements and should consider suspending further implementation of the Global Minimum Tax Directive pending thorough assessment.

Eventually, the Tax Dispute Resolution Mechanisms Directive should be reviewed for the benefit of taxpayers engaging on the EU Market (see below, point 6.).

2. Eliminate duplication and overlap in existing directives

The global minimum tax rules create redundancies because they have been layered onto an existing framework already containing anti-abuse measures. A structured time-out to align existing rules with the provisions of Pillar 2 would allow for reducing duplication and removing unnecessary burdens on businesses.

2.1. Controlled Foreign Company (CFC) rules and interest limitation

The CFC rules and the interest limitation rules under the Anti-Tax Avoidance Directive (ATAD) should be more clearly distinguished from one another – both within the ATAD framework and in relation to minimum taxation. A recent German corporate tax reform commission called for the abolition of CFC rules on the grounds that both the CFC rules and the EU minimum tax independently ensure a tax burden of at least 15%, making their coexistence duplicative and unnecessary.

The parallel application of ATAD measures to the EU minimum tax Pillar 2 exposes companies to administrative burdens and the risk of double taxation, contrary to the Inclusive Framework's stated objective of the OECD of avoiding such outcomes. Consequently, in the context of the Omnibus on Taxation, the right course of action would be to modify the existing ATAD rules to clarify that in cases where every entity of a group falls within the scope of the Pillar 2, then the ATAD rules should not apply.

Alternatively, Eurochambres' minimum proposals are the following:

- CFC rules should be abolished, at minimum, for companies already subject to the global minimum tax. For companies within the scope of Pillar 2, there must be no CFC taxation. For all others, the rules should be substantially simplified, for example, through minor adjustments to existing financial statements supplemented by the calculation of the effective tax rate of controlled foreign companies (as with the global minimum tax).
- Interest deduction restrictions should be abolished for companies subject to the minimum tax. Furthermore, a more flexible approach should be considered, including

EBITDA smoothing and sector-specific exemptions to better reflect profit fluctuations and sector-specific characteristics.

2.2. Hybrid mismatch rules (ATAD Articles 9, 9a, and 9b)

Regarding the rules on hybrid mismatches (Articles 9, 9a, and 9b), an amendment to the ATAD is urgently required. To justify the continued existence of anti-hybrid rules in addition to the CFC rules, a continuing potential for abuse would need to be demonstrated (Articles 7 and 8 of the ATAD). Since the EU Minimum Tax Directive itself guarantees a tax burden of at least 15% even in cases of tax mismatches, specific anti-hybrid rules appear unnecessary.

As a minimum:

- The application of imported mismatch rules should be removed;
- The extension of anti-hybrid rules to structured arrangements with third parties should be repealed;
- Anti-hybrid rules should be limited to intra-group companies linked by a controlling interest.
- Anti-hybrid rules should not lead to either legal or economic double taxation
- The existing definitions of “double inclusion” and “deduction without inclusion” should be clarified

In its current form, the provision causes excessive compliance costs, as it requires examining the tax treatment not only of the counterparty involved in the transaction but also of other parties in the transaction chain to ensure that no hybrid mismatches exist. If it cannot be removed entirely, it should be limited to cases where a controlling interest exists. 'Structured arrangements' as defined in Article 2(11) should be excluded from the scope of these rules.

2.3. Demarcation and evidence standards

Eurochambres highlights the need for clear rules on priority and demarcation that explicitly define when the Parent-Subsidiary Directive (EU 2015/121, 27.1.2015) and the anti-hybrid rule take precedence, and how they are to be distinguished from ATAD II and the General Anti-Avoidance Rule (GAAR). In addition, the territorial scope of the GAAR should be clarified in the context of OECD Pillar 2 in-scope companies.

Furthermore, users require practical rules of evidence (safe harbours, standard evidence). This could take the form of accepted standard confirmations, de minimis thresholds, or graduated cooperation obligations when information cannot be obtained abroad.

2.4. Council conclusions on non-cooperative jurisdictions

The Council's 2021 conclusions on the EU list of non-cooperative jurisdictions require revision in light of the subsequently adopted minimum tax rules. Sanctions for non-cooperative countries and territories can be integrated into the minimum tax framework by denying safe-harbour provisions (see below). Additional adverse tax consequences for companies with business relationships in listed countries are disproportionate and unnecessary.

3. Harmonisation of cross-border definitions and calculation methods

EU-driven tax definitions and calculation methods are currently interpreted inconsistently by member states, creating divergences among themselves and with international frameworks. The Commission should work consistently towards uniform implementation and systematic enforcement of existing directives.

3.1. ATAD:

Introduction of a standardised method for determining market value in exit taxation (Article 5), as well as a tax deferral

The scope of Article 5 requires clarification, particularly regarding intra-group transfers of functions. A common standard for determining the market value of assets in cross-border transfers would ensure greater consistency and legal certainty, thereby simplifying taxation. Currently, while the country of departure is required to levy an exit tax based on an assessed market value, the country of arrival is not required to adopt that value, resulting in genuine double taxation. An alignment rule should therefore be introduced requiring the country of arrival to adopt the value assessed by the country of departure. A *de minimis* threshold should also be introduced to avoid excessive bureaucracy in lower-value transactions.

Also, the exit tax payment should be delayed, thanks to a tax deferral, upon a cash generating transaction, i.e., the actual realisation of the capital gain.

If they cannot be repealed, the CFC rules should be simplified as follows (Articles 7 and 8):

Member states must remain free to opt for either Model A (Entity Approach) or Model B (Transactional Approach) for the transposition of the CFC rules and their potential subsequent modifications.

Under ATAD-Article 7(3), member states may decide not to treat a financial entity as a CFC if one-third or less of its income derives from the specific category of passive income (transactions with the taxpayer or with its associated enterprises). Sometimes, for regulatory or business reasons, a financial entity holds assets or performs certain functions through separate controlled entities. The exemption provided for financial enterprises should be extended to these holding companies, like the approach in Article 1.5.2 of the OECD GloBE Model Rules. Furthermore, transactions with these holding companies should not be counted towards the one-third threshold. Eurochambres proposes the following elements for further consideration:

- The option between Model A and Model B should remain available for member states
- Extension of the optional exemption under Article 7(3) (ATAD) to entities controlled by financial entities that primarily perform investment functions for the controlling financial entities.
- Transactions between a financial entity and entities controlled by it should be excluded from the calculation of the one-third threshold for the optional exemption in Article 7(3).

Interest limitation rule (Article 4):

The interest deduction limit is intended to prevent companies from reducing their tax burden through artificial debt financing. The issue is its inconsistent implementation at the national level, in particular regarding:

- the calculation of EBITDA (lack of an EU-wide definition, differing treatment of tax-exempt income),
- the application of the EUR 3 million exemption (per taxpayer or per group),
- interest carry forward (unlimited, time-limited, or not possible at all).

An option should be introduced to allow the cumulation of the carry-back of unused interest capacity over three years, as well as the possibility to carry forward exceeding borrowing costs, without limitation in time, and unused interest capacity, for over 5 years.

The inconsistent application of Article 4 leads to varying tax burdens across member states and undermines legal certainty and predictability. A minimum level of harmonization, for example, through implementing acts, is proposed as a solution. In addition, a more generous application of the stand-alone clause and a possible increase in the exemption threshold (the equity escape rule should increase from 2% to 10%) are suggested. It should also be clarified that the interest barrier applies as “lex specialis” and therefore no additional GAAR review is required.

While renegotiating the ATAD, we should aim at avoiding double taxation arising from Article 4 of the ATAD. This applies where the control of financing arrangements cannot be limited to the consistent application of the arm’s length principle. Should the restriction on interest deductibility be retained, it would need to be limited to financing by shareholders (abuse prevention). This could be achieved, for example, by excluding from deductibility only that portion of interest expenses exceeding 30% of EBITDA relating to shareholder loans, rather than the entire financing costs.

Suppose, one day, we strictly enforce the global minimum tax; whether the use of debt financing for foreign operations (in particular the capitalisation of foreign subsidiaries: ‘fat capitalisation’) then still requires an interest deduction restriction at all must be critically examined. It may be possible to resolve this issue through an internationally coordinated allocation of debt costs to parts of corporate groups.

Furthermore, a more precise definition of the term “interest” is required. At the same time, the definition of net interest expenses must be aligned with the GloBE rules for intra-group financing. Both measures would improve legal certainty for companies operating across multiple jurisdictions. Furthermore, a fixed interest allowance should be introduced to ensure uniform and consistent relief and replace the threshold, which is open to varying interpretations.

Interest and financing:

Companies with cross-border financing structures within the EU are confronted with multiple, sometimes conflicting regulations. The simultaneous application of ATAD 1 and the Interest and Royalty Directive (EU 2003/49/EC, 3.6.2003) results in a significant administrative burden without providing a corresponding additional safeguard against abuse. This is due

to differing definitions of interest, but also to multiple documentation and reporting requirements for identical financing arrangements, as well as a lack of coordination between deduction restrictions (from ATAD) and withholding tax exemptions (from Interest and Royalty Directive). This complexity particularly affects medium-sized corporate groups that do not have extensive internal tax departments.

Therefore, intra-group financing payments, once classified and reviewed at the EU level, should not be subject to multiple classifications or reviews based on different guidelines and standards. A uniform EU-wide reference interest rate concept must be developed, or at the very least, a mandatory cross-reference between the existing definitions (Interest and Royalty Directive/ATAD I).

3.2. GAAR – General Anti-Avoidance Rules

General anti-avoidance rules are incorporated into several EU directives (ATAD Art. 6, Parent-Subsidiary Directive). Differently worded GAAR clauses, some of which apply different assessment criteria, result in identical situations being reviewed for abuse multiple times and according to varying criteria. This results in increased documentation and justification efforts for companies, as they must demonstrate separately for each directive that no artificial arrangements exist.

At the same time, legal uncertainty arises because the same structure may be recognised under one directive but rejected under another. These multiple reviews neither increase the effectiveness of anti-abuse measures nor the coherence of EU law, but rather lead to administrative burdens, inconsistent outcomes, and a lack of predictability.

Dividends paid between EU companies may fall under both the specific GAAR of the Parent-Subsidiary Directive and the general GAAR of the ATAD. The order of priority is often unclear, leading to increased documentation requirements and the risk of multiple findings of abuse.

An effective solution in the spirit of decluttering requires a coordinated and binding approach to GAARs at the EU level.

3.3. Parent-Subsidiary Directive and Interest and Royalty Directive

The Parent-Subsidiary Directive and the Interest and Royalty Directive do not provide “relief”; rather, they trigger a process of classification and verification. The same cash flow must be classified under different definitions depending on its nature (dividend, interest, royalty); different anti-abuse standards apply in parallel, and hybrid or borderline instruments may be “reclassified” multiple times. The result is legal uncertainty, redundant documentation, and excessive compliance effort without proportionate benefit for abuse prevention.

A clear EU-wide priority and demarcation rule between the two directives is required, alongside a binding 'once-assessed' principle: once a cash flow has been classified under EU law and the relief conditions (including the anti-abuse test) have been met, it must not be re-examined under a different directive. Redundant documentation requirements must be replaced with uniform, streamlined standard documentation. Tax decluttering is only credible if companies can point to measurably fewer audits and reporting obligations.

In addition, the approach applied regarding the minimum holding requirement of the Interest and Royalty Directive should be aligned to what is applied in the Parent-Subsidiary Directive so that under the Interest and Royalty Directive, interest and royalty payments would qualify for a potential tax exemption, under certain conditions, when there is a direct or indirect minimum holding of 25% in the subsidiary, and not only a direct one as per the current provisions.

4. Aligning reporting requirements to the purpose of legislation

Over the past decade, numerous tax reporting obligations have been introduced that are poorly coordinated with one another and whose purpose is often unclear. The cumulative compliance burden of preparing and revising these reports is considerable. A principled reassessment of their purpose and proportionality is necessary.

Unnecessary DAC provisions should be abolished. For instance, virtually identical data sets are currently required for both the global minimum tax and country-by-country reporting. The fact that this overlap was agreed at OECD level in the past is not, in Eurochambres' view, sufficient justification for perpetuating it.

Regarding the EU-level reporting obligation for cross-border tax arrangements (DAC6, EU 2018/822, 25.5.2018), the Hallmark catalogue is too broad, frequently unclear and imprecisely worded, and lacks clear definitions for key terms. The Commission should urgently consider introducing materiality thresholds: where a reporting requirement generates no significant additional tax revenue relative to the compliance burden it imposes, it cannot be considered justified.

5. Simplified procedures for low-risk activities and exemptions for SMEs

Reporting obligations for low-risk companies, such as domestic groups with no cross-border activities and no possibility of profit shifting, should be substantially limited. Conversely, permanent safe-harbour rules based on CbCR data could be permanently introduced under Pillar 2. In Germany, for example, large domestic groups with no foreign presence are currently subject to extensive reporting obligations, even though their corporate structure precludes any possibility of profit shifting to low-tax countries

5.1. Safe harbour under Pillar 2

The global minimum tax rules are extensive and highly complex. Allowing simplified proof of an effective tax burden of at least 15% – through a permanent safe-harbour – would be more efficient than requiring calculation of effective tax rates for each jurisdiction of operation.

The current CbCR safe harbour enables multinational enterprises, for a transitional period of three years, to use existing CbCR data to avoid calculating effective tax rates under Pillar 2 for activities in lower-risk countries. However, it is limited to financial years beginning on or before 31 December 2026 and ending before 1 July 2028. Businesses need clarity on permanent arrangements at an early stage. A suspension of the Minimum Tax Directive would create the space needed to thoroughly assess simplification options and devise durable solutions.

For large domestic groups, simplified reporting in the Global Information Return should be permitted permanently; for example, by requiring data at the country level rather than the company level.

5.2. Tax-neutral intra-EU transactions

The administrative burden associated with tax-neutral transactions, such as the intra-EU relocation of production facilities, is disproportionate and should be significantly reduced. In the case of certain vehicle manufacturers (OEMs), for example, monitoring obligations, extended reporting requirements, and registration requirements persist even where the activity ends on a tax-neutral basis. Companies must ensure that no further taxable transactions take place in the countries concerned. If this is the case, additional reports are required, and retrospective adjustments to other accounts may be necessary. Transfer reporting: Various documents are required, which vary significantly between EU countries and may be difficult to obtain. In some countries, specific obligations apply, such as real-time reporting or SAF-T reporting, leading to IT adjustments and maintenance costs – even if no relevant turnover is generated. Registration requirements: The car manufacturer must be registered for tax purposes in both countries for the relocation. In cases where no further transactions take place in these countries, this leads to unnecessary and time-consuming registration and subsequent deregistration.

Eurochambres proposes abolishing the reporting requirement for such shipments, exempting companies from registration requirements in these circumstances, and/or introducing a centralised EU reporting system to streamline compliance for businesses undertaking tax-neutral intra-EU transactions.

5.3. ATAD exemptions for SMEs

Many impact assessments have shown ATAD 1 and ATAD 2 measures, especially the interest limitation rule, the CFC rules, as well as the hybrid mismatch rules, have had a very limited impact on tax collections when considering SMEs' situations. On the contrary, the implementation of these rules has only caused an excess of administrative costs and resources for both SMEs and tax authorities.

As a consequence, in the context of the Omnibus on Taxation, the interest limitation rule, the CFC rules as well as the hybrid mismatch rules under the ATAD 1 and the ATAD 2 should be thoroughly revised to exempt SMEs from (i) falling within the scope of these rules and (ii) having to engage in any compliance work related to them.

6. Tax Dispute Resolution Mechanisms Directive

The current rules under the Tax Dispute Resolution Mechanisms Directive contain pitfalls that are detrimental to their application and efficiency. Indeed, businesses face practical challenges under the EU Dispute Resolution Mechanism (“DRM”) and related mutual agreement procedure (“MAP”) processes, mainly due to procedural complexity and in view of delayed processing times by the relevant tax authorities. Administrative and procedural complexity can be summarized as follows:

- Cross-border dispute resolution requires coordination between multiple tax

- authorities, often without harmonised forms or procedures.
- It is not always clear whether the DRM or MAP under a double tax treaty should be used, adding uncertainty for businesses.
 - MAP processes are often slow and unpredictable, sometimes taking up to (more than) three years with no certainty on the outcome, which can discourage businesses from pursuing relief and result in costs.
 - Some member states restrict taxpayers' effective access to the DRM or to the MAP by applying, for example, Article 16(6) of the DRM in an overly broad manner to deny access to the dispute-resolution processes.
 - This leads to increased operational workloads, delays in accessing refunds or reliefs, higher advisory costs, and reduced predictability of cash flows.

As a consequence, in the context of the Omnibus on Taxation, the rules under the Tax Dispute Resolution Mechanisms Directive should be improved to ensure (i) taxpayers' rights to initiate either an effective MAP or DRM procedure - and (ii) shorter and more predictable dispute-resolution timelines. Such amendments would significantly improve efficiency and enhance the EU's attractiveness and competitiveness for cross-border investments.



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