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PROPOSAL

From: Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director

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To: Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Subject: COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the document Proposal for a COUNCIL DIRECTIVE amending Council 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

Delegations will find attached document SWD(2026) 562 final.

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COMMISSION STAFF WORKING DOCUMENT
EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

Proposal for a COUNCIL DIRECTIVE

amending Council 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

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Executive Summary

Impact Assessment Report Accompanying the Proposal for a Council Directive amending Council 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

A. Need for Action

What is the problem and why is it a problem at EU level?

The largest volume of direct tax legislation is national, which implies that businesses which operate across borders in the EU face the need to comply with numerous corporate income tax systems. EU directives come to the fore only in specific fields of a primarily cross-border nature. The EU direct tax acquis is, therefore, limited and, where it exists, represents a significant achievement for the EU given the challenging political stakes which the adoption of EU tax directives is associated with. The fact that the EU rules often include several options for implementation is an illustration of this difficulty. It results in substantial differences across EU Member States and a fragmented tax landscape. In addition, the application of EU tax law across the internal market is often inconsistent. At the same time, the context has significantly evolved since these legal acts were first introduced, rendering some of the older rules outdated. Altogether, four main issues arise: (i) tax compliance requirements that are disproportionate, (ii) legal uncertainty due to unclear tax rules and terms, (iii) different tax treatment depending on national specificities, (iv) tax barriers on cross-border business activities.

These issues contribute to the overall high complexity, increased risks of disputes, and high tax compliance burdens for doing business in the EU and impede the EU's competitiveness. While in many other areas there is significant progress in EU law to ensure that businesses can operate in the internal market under common standards, tax remains a policy field intertwined between some EU harmonisation and vastly different national systems and thus a remarkable obstacle to broader alignment and efficient functioning.

What should be achieved?

The general objectives of the initiative are: (i) to simplify EU tax rules to boost EU competitiveness, while (ii) maintaining high tax standards in the EU.

To achieve such general objectives, the following specific objectives should first be attained: (i) to eliminate unnecessary EU tax compliance burdens; (ii) to introduce clear and predictable EU tax rules and terms; (iii) improve consistency in the application of EU tax directives; (iv) to reduce remaining tax-obstacles to cross-border investment and commercial activity.

What is the value added of action at the EU level (subsidiarity)?

The Tax Omnibus aims to simplify the EU tax environment. In conjunction with the DAC Recast, the Omnibus will bring coordinated and comprehensive action that is only possible at EU level, ensuring that both material tax rules and the exchange of information framework are up-to-date and fit for purpose. EU action in this area will bring clear added value by reducing red tape, lowering obstacles to cross border operations, and engendering efficiency and effectiveness in applying tax rules. By amending the EU direct tax acquis with the aim of simplification, the Omnibus should make tax compliance in the EU clearer, easier and more efficient. This will mean that for businesses, it will be less costly to operate or expand across borders in the EU. For tax administrations, simpler rules and streamlined procedures should ease their work related to tax controls and audits and, ultimately, lead to fewer disputes and a reduction in administrative costs.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

The objectives can be achieved through an Omnibus directive amending most of the existing EU direct tax acquis, via one single legal act. The objectives related to the DAC will be achieved in a separate initiative, the DAC Recast proposal. The Tax Omnibus proposal is

analysed in the present impact assessment report.

In brief, the Tax Omnibus aims to simplify, streamline and clarify existing directives in the area of direct taxation: the Interest and Royalties Directive (IRD)¹, the Parent-Subsidiary Directive (PSD)², the Tax Merger Directive (TMD)³, the Anti-Tax Avoidance Directive (ATAD)⁴, and the Dispute Resolution Mechanisms Directive (DRM)⁵. To facilitate the functioning of the IRD and PSD, the Omnibus will also amend the recent FASTER Directive⁶. The analysis of the impact assessment report is mainly based on the experience and challenges from applying these Directives in practice, as well as their interaction with more recent EU and international tax developments, such as the newly adopted Pillar 2 Directive⁷.

The report identifies a wide range of policy options. When it comes to withholding taxes under the IRD and PSD, an option would be 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. In this regard, an alternative option would be to align the scope and procedures of the IRD and PSD.

For Controlled Foreign Company (CFC) rules in the ATAD, it is envisaged to consider a mandatory application of Model A, a carveout for Pillar 2 companies or 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 also assesses a carveout for SMEs.

For investments in research and development (R&D), the immediate expensing of the cost of assets related to R&D is explored against the status quo, whereby R&D expensing would continue to be defined only at national level.

The Interest Limitation Rule under the ATAD includes options for reform across its spectrum, with the main aim of ensuring fairness and mitigating the procyclical effects of the rule: a carveout for SMEs, a mandatory application of the 30% EBITDA cap, mandatory application of certain currently optional variations, a carveout for low-risk third-party loans, and an exemption in case of profitability shocks.

More contained options for modifications involve removing the rules on imported hybrid mismatches; aligning the TMD with the Mobility Directive (cross-border mergers from a company law perspective), either through a dynamic reference or via addition of new structuring transactions; and several targeted improvements to the DRM, to clarify procedural rules and allow the use of Council implementing acts.

The report specifically assesses three combinations of these options. **Comprehensive Omnibus:** this combination takes on board all policy options and where relevant, takes 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. **Medium Ambition Omnibus:** this approach

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.

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.

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.

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.

⁵ Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union.

⁶ Council Directive (EU) 2025/50 of 10 December 2024 on faster and safer relief of excess withholding taxes.

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.

encompasses policy options, but includes the less ambitious alternatives for withholding taxes under the IRD and the PSD, and CFC in ATAD while it keeps status quo concerning R&D expensing. **Limited Ambition Omnibus:** this version is targeting existing measures in a simpler and more straight-forward way, such as reducing the implementation options for the Interest Limitation Rule and extending the scope of the TMD, to generate simplification results through the easiest and most accessible options.

What are different stakeholders' views? Who supports which option?

Stakeholders fully supported the initiative to simplify existing EU tax rules. There was particularly strong support among private stakeholders, i.e. EU businesses and industry representatives as well as tax professionals, who identified the need for simplification across all existing directives and beyond as detailed in Annex 2. EU Member States unanimously welcomed the initiative, as evidenced by the Council Conclusions of March 2025, and encouraged the Commission to adopt an ambitious proposal; while convergence on the specific policy options will also need to be further attained during Council negotiations.

C. Impacts of the preferred option

What are the benefits of the preferred option?

The impact assessment 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. The preferred option is the Comprehensive Omnibus. This option is roughly estimated to reduce compliance and 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), and 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.

What are the costs of the preferred option?

The impact assessment report attempts to describe 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 are thus estimated as none, marginal, or not relevant.

What are the impacts on SMEs and competitiveness?

SMEs: the Omnibus includes measures in favour of SMEs, such as an explicit carve-out from the CFC rules and a *de facto* carve-out from the interest limitation rule of the ATAD. These are estimated to bring additional cost savings of around EUR 90 and at least EUR 69 million per year, respectively. In addition, SMEs will also benefit from the general cost savings which are expected to arise from the other simplification measures. In this way, the Omnibus will support the Commission objective to prioritise burden reduction for SMEs (35%, compared to 25% generally).

Competitiveness: the Omnibus is estimated to have an overall positive effect on competitiveness, by lowering compliance and administrative costs, improving legal certainty and removing some continued tax barriers for cross-border business activity in the internal market. These effects are expected to boost investment decisions and enhance the EU business environment, supporting overall growth and competitiveness.

Will there be significant impacts on national budgets and administrations?

Most of the policy options are not expected to have significant impact on national budgets. Where relevant, the impact assessment report estimates the overall impact of policy options on tax revenues, and the outcome should be limited or neutral, especially when compared to the related investment and GDP growth benefits.

Additionally, administrations are meant to benefit from simplifications. Tax authorities should face very limited adaptation costs to adjust to new procedures, especially IT procedures, since

the envisaged measures generally either simply eliminating existing requirements or extending the use of procedures and templates already introduced via the FASTER directive.

Will there be other significant impacts?

The impact assessment also considers whether the initiative may have environmental or social impacts, or an impact on fundamental rights. No particular and direct environmental impact is expected. It is also not expected that there would be a significant social impact, although freed resources may positively influence employment to some extent. The initiative should also not interfere with the protection of fundamental rights, which are guaranteed, and personal data will be protected.

Proportionality?

The preferred option does not go beyond what is necessary to achieve the objectives and focuses on elements where the added value of EU action goes beyond what can be achieved by Member States alone.

D. Follow up

When will the policy be reviewed?

The first evaluation should take place not earlier than five years after the new rules start to apply.