



Modernising the tax framework for financial institutions and financial services

EBF TAX POLICY PAPER

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EXECUTIVE SUMMARY

In the current global environment, Europe must assert itself as a single, cohesive bloc. The freedom of movement of people and capital across the Union fosters the exchange of ideas, talent, and expertise, the essential foundations for innovation-led growth. A more integrated financial ecosystem will enable Europe to operate at scale and reinforce its global competitiveness.

Banks must be empowered to fully play their central role in financing and supporting economic growth, providing lending capacity to households, businesses, and strategic sectors. A stronger European banking sector is vital to mobilise savings and channel capital effectively into the real economy. Investment - both intra-Union and from global markets - is critical to drive innovation, fund the digital and green transitions, strengthen industrial capacity, and support long-term productivity and prosperity.

Achieving these objectives demands greater simplification of Europe's fiscal framework. This means reducing unnecessary complexity in tax procedures, aligning and streamlining tax rules, and removing persistent tax barriers that fragment capital flows and impede investment. A simpler, more coherent tax environment will support deeper financial integration, expand investment, and unlock Europe's full economic potential.

The EBF welcomes the Commission's Communication, "A Simpler, Clearer and Better Enforced EU Rulebook", and the inclusion of taxation in the Regulatory Deep Cleaning Action Plan. This provides a timely opportunity to modernise the EU tax framework by reducing unnecessary reporting, administrative and compliance burdens, removing outdated or overlapping requirements, strengthening legal certainty, and addressing national tax barriers that continue to hinder cross-border banking and investment activity. In this context, EU tax initiatives affecting financial institutions and financial services should be guided by the principles of simplification, proportionality, harmonisation and operational practicality.

A stronger, competitive banking sector, combined with a simplified fiscal framework, is essential if Europe is to finance its future, accelerate innovation, and compete effectively in the global economy.

Financial sector specific taxes

No new taxes, such as a Financial Activities Tax (FAT) or windfall taxes, should be introduced. Sector-specific levies erode banks' profitability and competitiveness, constrain credit supply in economic downturns, and weaken financial resilience. Since the financial crisis, regulatory reforms and prudential requirements have already increased operating and compliance costs for banks, while reducing systemic risk.

Windfall taxes tied to interest-rate normalisation, which have been recently introduced by several Member States, are poorly calibrated to banks' risk profiles and heighten financial-stability risks, particularly as net interest margins are now compressing. Claims that banks are earning "excess profits" are based on a misreading of bank income statements, which are not directly comparable to those of other sectors. Traditional profit-margin measures often exaggerate how profitable banks appear, because they overlook fundamental features of the banking business such as high leverage, regulatory capital floors, liquidity buffers, and interest-rate and maturity-transformation risk. These factors reduce real, risk-adjusted returns when analysed on a fair, comparable basis.

Both the European Central Bank (2023, 2024)¹ and the International Monetary Fund (2024)² have warned that targeted fiscal levies can materially weaken financial resilience. By reducing retained earnings, such taxes limit banks' ability to build capital buffers organically, undermining balance-sheet strength and increasing systemic vulnerability, as economic growth slows and lending capacity becomes most needed. A stable, competitive, and profitable banking sector is an economic necessity, not a policy luxury. Further

fiscal levies would impair Europe's ability to sustain credit, mobilise savings, and finance innovation, infrastructure, and the green and digital transitions essential to future growth.

VAT on financial services

The EU financial services tax reform must ensure VAT neutrality for financial services, in order to support financial stability, competitiveness, and capital market development. The current VAT framework for financial services requires urgent modernisation to keep pace with economic transformation and rapid technological change. Legal certainty, VAT neutrality – particularly for B2B transactions – and a level playing field across the EU must remain central policy objectives. Digitalisation and the emergence of new market entrants have intensified VAT-related challenges, increasing compliance burdens and distorting competition. Any reform should therefore prioritise administrative simplification, greater consistency and stronger harmonisation.

Withholding tax procedures and FASTER regime

The Commission's intention to improve the efficiency and security of withholding tax procedures in the EU is welcome. However, the current FASTER Directive requires careful reassessment to ensure it delivers genuine simplification for both investors and financial intermediaries. Particular attention should be given to the organisational and technical realities faced by Certified Financial Intermediaries.

¹ OPINION OF THE EUROPEAN CENTRAL BANK of 12 September 2023 on the imposition of an extraordinary tax on credit institutions (CON/2023/26); OPINION OF THE EUROPEAN CENTRAL BANK on 17 December 2024 on a tax on the net interest and commission income of certain financial institutions (CON/2024/41).

² IMF WP/24/143, "Bank Profits and Bank Taxes in the EU."

Automatic exchange of information

European banks play a crucial role in supporting the fight against tax evasion within the framework of Automatic Exchange of Information. We observe a growing trend towards expanding responsibilities of intermediaries, including banks, to audit or investigate aspects of taxpayers' affairs, frequently framed as "due diligence" obligations. These intermediaries, however, provide services that are only ancillary to the tax outcome pursued by clients, with purely tax-related advice falling strictly within the remit and responsibility of internal and external tax advisers. In this context, it is essential to reaffirm that primary accountability for the accuracy and completeness of tax information rests with individual taxpayers in their relationship with the tax authorities. Policy design must also recognise the practical and legal limitations of non-government stakeholders in assessing, validating and reporting data that pertains directly to individuals' tax affairs. Any further extensions to the legal framework should therefore be subject to rigorous evaluation, particularly with regard to potential data protection implications. Any reform of the AEOI framework or revision/extension of the Directive on Administrative Cooperation (DAC) – notably via the EU Tax Omnibus - must strike a balance between tax transparency and fundamental rights to privacy, ensuring that the framework remains legally robust, operationally feasible and durable over the long-term.

Corporate Income Tax

The implementation of Pillar Two – the OECD framework enforcing a 15% global minimum tax for large multinationals – combined with existing EU measures such as the Anti-Tax Abuse Directive (ATAD), has led to an increased administrative burden for EU businesses, and overlapping and duplicative corporate tax requirements. To safeguard competitiveness and support the EU's funding priorities, the 2026 "EU Tax Omnibus" should aim to simplify corporate income tax rules, alleviate unnecessary compliance obligations, and ensure that taxation acts as a lever for competitiveness and qualitative growth, incentivizing the massive investments needed to achieve the digital and green transitions, and support EU defence spending.

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Banks must be fully empowered to fulfil their central role in financing the economy and supporting sustainable economic growth.

RECOMMENDATIONS

RECOMMENDATION

1

Eliminate and/or avoid financial sector specific taxes and windfall taxes

To enable banks to effectively support the EU's strategic goals, the regulatory and tax framework governing the financial sector must be fair, efficient, and proportionate. In this context, the following objectives should be prioritised:

- Avoid the introduction of new taxes and levies on financial institutions, financial activities and capital markets, such as Financial Activities Tax (FAT) or windfall taxes, which risk distorting the level playing field and undermining the capacity of banks and markets to provide capital.
- Safeguard banks' core gatekeeping and funding functions by preventing tax burdens that reduce lending capacity and raise costs for EU citizens and businesses.
- Advance regulatory simplification and harmonisation in order to reduce fragmentation, lower compliance burdens, support cross-border operations, and deepen Single Market integration.

RECOMMENDATION

2

Conduct a fundamental review of VAT exemptions of financial services

Considering the impact of technology and complex transaction models, the VAT reform should provide for:

- A harmonised, optional "option to tax" regime applicable across the EU.
- Harmonised rules for cross-border VAT grouping and cost-sharing arrangements (optional for banks).
- Greater alignment of VAT recovery methods and reduction of national divergences.
- Codification of essential VAT mechanisms in directly applicable EU law to enhance clarity and uniformity.

RECOMMENDATION

3

Conduct a fundamental review of FASTER

A thorough review and genuine harmonisation of compliance requirements for Certified Financial Intermediaries (CFIs) is essential to ensure that FASTER delivers real simplification of relief-at-source and/or quick refund procedures, with harmonised access and processes for both investors and CFIs. These measures could be integrated into the broader tax simplification and decluttering agenda endorsed by the Council on 11 March 2025. The Commission is also urged to take full account of CFIs' organisational and technical constraints, as well as industry input, when adopting implementing acts. The focus should be on:

- Ensuring a harmonised and operationally workable implementation of the Directive across Member States.
- Preserving sufficient commercial and risk-based discretion for CFIs, allowing them to decide, on the basis of objective economic and risk considerations, whether to offer relief-at-source and/or quick refund procedures to their clients.
- Harmonising the template of registered owner declaration.
- Developing a genuine centralised EU portal for simplified CFI registration.
- Streamlining CFI reporting obligations.
- Calibrating CFI due diligence requirements.
- Establishing clear and fair liability rules.
- Clarifying key concepts and definitions.

If the Commission and Member States wish to focus on the safeguarding of withholding tax systems, they could consider certain direct mechanisms which would ensure economic certainty for investors. The EBF would welcome the opportunity to engage and meaningfully contribute to discussions on the most appropriate measures for achieving this objective.

RECOMMENDATION

4

Assess and adapt the Automatic Exchange of Information

After a decade of implementation, the time is right to evaluate the effectiveness of the Automatic Exchange of Information (AEOI) system and adapt it where necessary. This review should ensure that:

- Due diligence and reporting obligations are well-calibrated, clearly defined, and effectively coordinated between the Directive on Administrative Cooperation (DAC), the Common Reporting Standard (CRS), the US FATCA regime and the Crypto-Assets Reporting Framework (CARF), while avoiding legal conflicts caused by extraterritoriality.
- Inefficient rules are removed, including those in the Directive on Administrative Cooperation 6 (DAC6), the EU's mandatory early-warning reporting regime for cross-border tax arrangements based on predefined avoidance-risk characteristics (hallmarks).
- Member States are prevented from introducing national reporting requirements for foreign entities operating under the Freedom to Provide Services where the same data is already covered by the DAC framework.
- Entity level notification requirements under DAC 4 and DAC 9 are replaced by a centralised group level notification mechanism.
- Dual reporting under CARF/DAC 8 and CRS/DAC 2 for tokenised financial instruments is avoided.

RECOMMENDATION

5

Streamline corporate taxation requirements and alleviate the associated administrative compliance burden

The Pillar Two framework should be further assessed and simplified to safeguard the competitiveness of EU companies, including banks, in light of the evolving international context. In particular:

- Level the playing field with the United States by introducing an elective “global blending” safe harbour
- Consider whitelisting jurisdictions with an effective tax rate above 15%, exempting MNEs therein from detailed compliance requirements.
- Further simplify detailed Pillar Two rules and reporting requirements;
- Further extend the Transitional CbCR Safe Harbour pending international alignment;
- Ensure immediate applicability of all new simplification measures, including for already elapsed reporting periods;
- Strengthen EU coordination and consistency in Pillar Two compliance.
- In parallel, the Anti-Tax Avoidance Directive (ATAD) should be reviewed and streamlined in light of Pillar Two, with a view to eliminating overlaps and redundancies. In this context, a mandatory safe harbour from Controlled Foreign Company (CFC) rules for entities within the scope of Pillar Two should be introduced.

The ongoing EU simplification and decluttering agenda is strongly welcomed and should prioritise:

- Reassessing direct tax rules and procedures that hinder the free movement of capital;
- Using taxation as a lever for competitiveness and growth, while preserving Member States’ flexibility to introduce targeted investment incentives, in line with the Savings and Investments Union (SIU). Incentives supporting the green, digital, and defence transitions should be designed in a simple and coherent manner;
- Embedding administrative simplification across all existing and future EU initiatives, while avoiding new sources of regulatory complexity and ensuring consistency between tax and prudential frameworks;
- Simplifying tax compliance through coordinated EU-wide digitalisation and harmonisation of reporting processes, avoiding fragmented national approaches;
- Providing consistent EU-level guidance and definitions to support harmonised implementation and legal certainty.

DETAILED COMMENTS



Financial Sector Specific Taxes

Background

In the aftermath of the financial crisis, strong political momentum emerged to impose new taxes and levies on the banking sector and financial markets. Beyond seeking to hold banks accountable for their perceived role in systemic risk, these measures aimed to serve regulatory and fiscal objectives, by influencing banks and markets behaviour and raising public revenue.

Domestically, bank levies were primarily introduced to finance resolution mechanisms established to cover potential future bailout costs. Alongside these levies, the banking sector has been viewed – in both EU and national policy debates - as a convenient target for post-crisis fiscal consolidation efforts and as a source of revenue in times of fiscal strain. Proposals such as Financial Transaction Taxes (FTTs) and Financial Activities Taxes (FATs) attracted increasing political attention in this context.

This pattern resurfaced after the pandemic and during the energy crisis triggered by the war in Ukraine, particularly through renewed focus on windfall taxes on profits. Another argument advanced by advocates of sector-specific taxation is that such measures could help offset the loss of revenue arising from the current VAT treatment of financial services, or from potential reforms to that regime.

This approach frequently overlooks both the sector's critical role in supporting the broader economy and the potential economic repercussions on banks and their customers. These taxes risk undermining the capacity of banks to finance the economy, the functioning and liquidity of financial markets, and, by extension, the stability of the financial sector and the resilience of the broader economy.

1) Bank-specific taxes impacting banks' profits:

Bank-specific taxes, including bank levies, FATs and windfall taxes, as well as unrecoverable VAT on financial services, directly erode banks' profits as taxpayers.

- **Financial Activities Taxes (FATs)** are designed to tax the value added by financial institutions, generally by applying a charge to total profits and remuneration. This concept, encompassing three variants (addition method FAT, rent-taxing FAT and risk-taxing FAT), gained traction in the aftermath of the 2008 global financial crisis amid increasing public and political pressure to hold the financial sector accountable and ensure it contributes fairly to public finances. FATs were also advanced, in part, as an alleged compensation for the existing VAT exemption on financial services. This rationale was grounded in a misreading of the VAT exemption as granting a competitive advantage to the financial sector. This view is ultimately inaccurate, especially when considering the hidden VAT costs that banks incur. Moreover, the final incidence of FATs could be passed on to consumers through higher interest rates, as banks seek to recover the additional tax costs. There are also significant concerns about the uneven treatment FATs may create between financial institutions subject to the tax and other entities that fall outside its scope but engage in substantial financial activities without being officially classified as financial institutions. This raises important questions regarding the scope and appropriateness of the tax.

- **Windfall taxes on “excess” profits:** Some Member States have recently introduced windfall taxes on excess or above-normal profits as temporary measures in response to the sharp rise in bank profitability, largely driven by inflation and monetary tightening. However, such measures carry adverse implications for financial stability and are often based on misleading assumptions, failing to account for the inherently cyclical nature of bank earnings. Banks are highly leveraged institutions that face significant borrowing costs, loan losses, and interest rate risks. Moreover, there is no common consensus on how to define “normal” versus “excess” profits within the banking sector. The baseline used for calculating windfall profits is frequently distorted for several reasons, e.g. using operating profit margin alone to compare banks with other industries, which is inaccurate, since it excludes interest expenses from operating income.

The disruptive effects of new taxes on the financial sector have been acknowledged on several occasions. In its opinions in 2023 and 2024³ on windfall profits taxes introduced by Spain and Italy, respectively, the European Central Bank (ECB) emphasized that such taxes negatively affect financial stability by hindering banks’ ability to build additional capital buffers, thereby reducing their resilience to economic shocks and undermining their role as intermediaries in the economy. The International Monetary Fund (IMF)⁴ (2024) highlighted that the currently elevated profits are expected to decline as interest income falls following prospective policy rate cuts. It also noted that several structural challenges that have weighed on European banks’ performance over the past two decades remain largely unaddressed and will continue to constrain profits and capital. The IMF therefore warns policymakers to exercise caution when considering taxes on profits or other measures that could impact banks’ capital buffers.

More specifically, such bank levies and taxes have considerable repercussions for the broader economy, in terms of financial stability, economic growth, Savings and Investments Union (SIU), harmonized Single Market, compliance costs for banks and impact on consumers.

2) Financial Transaction Taxes (FTTs):

FTTs such as capital duty, transfer tax and stamp duties impact the operations and clients of banks acting in their capacity as tax intermediaries and withholding agents. They are indirect taxes levied on the value of specific financial transactions, such as the purchase or sale of shares, bonds, or derivatives, and are proportional to trading volumes. While FTTs are not bank-specific taxes per se, they disproportionately impact the financial markets. Although they are often presented as regulatory tools aimed at enhancing market stability, in practice, they can act as obstacles that hinder growth and reduce the functioning and the liquidity of financial markets. Given the highly heterogeneous landscape of FTTs across EU Member States, investors are exposed to a material risk of double taxation, notably where two Member States simultaneously exercise taxing rights over the same underlying transaction. Some Member States have introduced FTTs, while others have repealed them after determining that their economic costs outweighed revenue benefits. Post-implementation assessments in several jurisdictions pointed to increased volatility, moderate revenue gains, and reduced trading volumes. Attempts to establish an EU-wide FTT in 2011 and 2013 stalled due to a lack of unanimity among Member States, highlighting both deep political challenges and widespread concerns about the economic impact of such measures. Reflecting these structural constraints and limited progress, the European Commission withdrew the EU FTT proposals in October 2025, bringing this legislative cycle to a formal close.

³ OPINION OF THE EUROPEAN CENTRAL BANK of 12 September 2023 on the imposition of an extraordinary tax on credit institutions (CON/2023/26); OPINION OF THE EUROPEAN CENTRAL BANK on 17 December 2024 on a tax on the net interest and commission income of certain financial institutions (CON/2024/41).

⁴ IMF WP/24/143, “Bank Profits and Bank Taxes in the EU.”

RECOMMENDATION

1

Eliminate and/or avoid financial sector specific taxes

While recognizing the importance of pursuing fiscal equity, the EU must primarily ensure that banks can effectively support the EU's strategic goals and are hence empowered to fully play their central role in financing and supporting economic growth, providing lending capacity to households, businesses, and strategic sectors. Accordingly, the EU must ensure that the regulatory and tax framework for the financial sector is fair, efficient, and proportionate.

Therefore, the introduction of new fiscal measures on financial institutions, financial activities and capital markets, such as Financial Activities Tax (FAT) or windfall taxes, should be avoided, as they can undermine competitiveness and negatively impact the capacity of banks to finance the economy and fund the EU's strategic objectives. Any proposal to introduce additional taxes or levies on banks or financial activities should be carefully evaluated to avoid unintended consequences or placing an excessive fiscal burden on a sector already subject to significant taxation.

As the EU confronts economic, political, and geopolitical pressures, investment needs for the digital and green transitions and for stronger defence will rise. Banks are central to providing this capital, but their contribution depends on a regulatory and tax framework that raises revenue efficiently while remaining fair and proportionate. Ensuring a level playing field is essential for banks to supply the liquidity needed by citizens and businesses, and to advance the EU's strategic objectives.

Safeguarding banks' gatekeeping and funding function by preventing tax burdens that reduce lending capacity and raise costs for EU citizens and businesses must be considered a priority. Instead of introducing new taxes, any review of the banking regulatory framework should focus on simplification, harmonisation, lowering compliance burdens, and enhancing legal certainty to support cross-border operations and foster a more competitive and integrated Single Market.

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Bank-specific taxes risk undermining banks' capacity to finance the economy, impairing the functioning and liquidity of financial markets, and weakening the stability of the financial sector.

VAT on financial services

Background

Under the current EU VAT Directive (2006/112/EC), financial services are generally exempt from VAT (Article 135(1)(b)-(g)). The rationale behind this exemption is twofold:

- **Technical complexity in defining the tax base:** Financial services often involve margins or implicit pricing mechanisms. As such, the value added in financial intermediation is often hard to measure for VAT purposes;
- **Financial stability concerns:** Imposing VAT on essential financial services, such as loans, payments, and deposits, could raise costs for consumers and reduce access to capital.

However, the current VAT regime creates significant issues of non-neutrality, particularly in business-to-business (B2B) transactions as financial institutions are generally unable to recover input VAT on their purchases. Since most of their services are exempt, VAT incurred on inputs becomes a non-deductible “hidden” VAT cost⁵. This results in cascading distortions across the broader economy. Key implications include:

- **Loss of competitiveness for EU financial institutions:** Hidden VAT costs reduce profit margins and increase end prices, resulting in an increasing loss of competitiveness for EU banks in the global marketplace and creating an unlevel playing field towards fintech and bigtech. Additionally, legal uncertainty and high compliance costs hinder cross-border operations and encourage the relocation of activities outside the EU.

- **Fragmentation within the EU:** Divergent national interpretations and implementations of VAT rules lead to legal uncertainty and regulatory inconsistency, creating barriers to the Single Market and spillover effects across Member States’ fiscal regimes.
- **In-house vs. outsourcing distortions:** The VAT exemption discourages outsourcing, as third-party providers are required to charge VAT, costs that banks cannot reclaim. For instance, outsourced payment services are fully subject to VAT, allowing providers to deduct input tax, while banks performing the same services in-house cannot. This asymmetry distorts pricing and leads to inconsistent tax treatment for equivalent services.
- **Disaggregation of financial services:** The VAT regime treats financial services individually, breaking them down into separate transactions and applying VAT exemptions to each qualifying service separately, rather than considering the overall nature of the banking service. This approach, combined with the CJEU’s strict interpretation of VAT exemption rules, creates inefficiencies, especially when exemptions apply unevenly or when services are outsourced.

I ⁵ PwC Study, November 2006

A **fundamental review** of VAT exemptions is urgently needed to address the evolving nature of financial services, particularly in light of digitalization and increasingly complex business models. The current VAT framework is outdated, as it is rooted in a traditional understanding of financial services that no longer reflects the realities of the modern financial sector. The digital transformation of finance has amplified existing challenges in VAT treatment, exposing inconsistencies, legal uncertainties, and structural inefficiencies. The result is an uneven playing field, not only between Member States, due to divergent interpretations of exemptions, but also between the financial sector and other industries, where equivalent services may bear different tax burdens. To ensure fairness and efficiency, the VAT system must guarantee equal treatment across sectors and business models, whether traditional or digital. This requires enhanced clarity, neutrality, and recoverability of input VAT for financial institutions. Aligning the VAT treatment with the economic substance of services, regardless of how they are delivered, is essential to restoring competitiveness, reducing distortions, and supporting a well-functioning Single Market.

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The current VAT regime for financial services creates significant distortions and undermines tax neutrality.

RECOMMENDATION

2

Conduct a fundamental review of VAT exemptions of financial services in order to avoid VAT cost for banks and make the current VAT framework more competitive

The existing VAT regime for financial services needs to be overhauled and updated to reflect today's realities. Legal certainty and the neutrality of VAT, particularly in B2B transactions, for the banking industry need to be improved, obstacles to economically efficient business models removed and all distortion of competition avoided to strengthen the competitiveness of the European banking industry in the international arena and create a level playing field within the EU. It is particularly important to consider comparable positions of the various market participants, whether in view of increasing digitalization or with regard to new market entrants, which is creating additional VAT problems, costs and a competitive disadvantage for banks. Neutrality in the B2B chain must therefore be established.

Solutions must focus on the future. This requires a holistic review of the VAT rules applicable for financial services which must address the following issues, taken together:

- A fundamental review of the exemptions, taking into account the significant role of technology in highly fragmented, outsourced supply chains of transaction lifecycles.
- In each Member State, harmonized implementation of an option to tax on a transaction-by-transaction basis which can be exercised by the bank vis-à-vis its customers, regardless of the Member State in which the customer is located (cross-border option to tax). Therefore, the option to tax must be harmonized across the EU, mandatory for Member States to introduce in national law and optional for banks to make use of it. If banks are given this flexibility, there is no need to limit the option to tax to B2B scenarios, fee-based services or domestic supplies; it is up to the bank to decide.

- In each Member State, harmonized implementation of cross-border VAT grouping is available as an option for the bank, which can be exercised when the requirements are fulfilled. The requirements must be defined using a holistic approach to avoid distorting competition and ensure equal treatment of financial groupings regardless of legal form and group structure. The possibility of including branches or entities located in another Member State in the group is essential for having EU VAT grouping.
- In each Member State, harmonized implementation of optional cross-border cost sharing arrangements is available as an option for the bank, which can be exercised when the requirements are fulfilled.
- Alignment of VAT recovery between Member States for banks having a proportional deduction of input VAT due to VAT exempt and non-exempt supplies. The rules for direct attribution should be less rigid and better reflect economic reality.
- In principle, the VAT rules should be better harmonized, leaving fewer discretionary options for Member States.
- Inconsistent interpretation and application of VAT rules by Member States must be avoided, as these entail complexity, legal uncertainty, and distortions within the Internal Market.
- Include the VAT rules, particularly the rules on the cross-border option to tax, on cross-border VAT grouping and cross-border cost sharing arrangements, in a VAT Regulation that applies directly in all Member States.

The contemplated reform of the taxation of and VAT on financial services should not result in additional taxation or new taxes for the financial sector, considering potential adverse impacts in terms of competitiveness, financial stability and the development of European capital markets. Instead, it should focus on administrative simplification, creating a level playing field, enhancing harmonisation and legal certainty, and leveraging on existing concepts. This approach would also resonate with the objectives set out in the Competitiveness Compass released by the Commission.



Withholding Tax Procedures

Background

In the pre-FASTER context, current withholding procedures are complex, costly and inefficient, creating a major barrier to cross-border portfolio investment, cross-border securities issuance and to Capital Markets Union (CMU) and Savings and Investment Union (SIU). In many countries, withholding tax relief processes have worsened, leading to higher costs and long delays. Common burdens include: excessive, non-standardised documentation for each payment, source-country requirements for bespoke residence certificates, ineffective or absent refund procedures, opaque or impractical rules for Collective Investment Vehicles (contrary to OECD guidance), and the need to hire local counsel to support filings.

Although intermediaries already hold accurate, regulated customer information, these obstacles often make relief impracticable. Investors therefore forgo entitled relief, suffering full withholding at the maximum rate.

Simplifying and standardising withholding tax procedures for cross-border portfolio investments has long been recognised as essential, at international and European levels, notably by the Giovannini Group (2001, 2003), the Commission's FISCO Expert Group, the Commission's T-BAG Expert Group, the OECD and the CMU High Level Forum (2020).

The EBF strongly supports the harmonisation and simplification of withholding tax procedures, which will foster cross-border investment, strengthen the Savings and Investment Union (SIU) - two initial objectives of the FASTER Directive - and combat tax fraud.

However, in light of the following main features, the FASTER Directive does not provide a solution that would adequately meet its initial objectives:

- Option by Member States for either harmonized relief-at-source or quick refund procedures provided by the FASTER Directive, opening lots of options (around 30) for Member States and thereby departing from the initial objective of harmonisation.
- Coercive mechanism and dual regime for Certified Financial Intermediaries (CFIs) versus non-CFIs, with significant reporting and due diligence obligations placed on CFIs irrespective of whether they obtained relief or file reclaims on behalf of clients – this filing deadline occurs within 2 months after the month in which an income payment is received, making it one of the strictest and most challenging withholding tax reporting regimes in the world. Moreover, requiring CFIs to report data systematically, even on investors that do not intend to request relief of excess withholding tax, appears to go beyond what is needed to ensure the correct application of taxes and may be viewed as disproportionate from a data protection perspective.
- Mandatory CFI registration of large EU intermediaries and voluntary basis for small FIs and non-EU FIs (global custodians), creating extra-territoriality.

- A requirement to make declarations regarding “financial arrangement” or “beneficial owner”, in the absence of a clear definition of those concepts which underpin the “SAFER” elements of the regime, requiring investors to make declarations and financial intermediaries to due diligence such declarations in an environment of legal uncertainty.
- Dual reporting model combining direct reporting by all CFIs to source country and indirect reporting i.e. upstream reporting through the payment/custody chain with the CFI that is the closest to issuer being the only one to report to the source country’s tax administration, with an unprecedented monthly frequency.
- Potential liabilities of CFIs – even if they act in good faith - in case of under-withholding resulting from client’s negligence.

In the light of the above, the FASTER Directive has shifted from the initial objectives (“FASTER”) to a system mainly focusing on the prevention (“SAFER”) of tax abuse exploiting dividend stripping (cum-cum and cum-ex schemes), running counter to the objective of simplification and speed initially envisaged. While the Directive contains positive elements (common EU electronic tax residence certificate to document reliefs/refunds, usefully digitalising and accelerating relief procedures), the new rules remain incredibly complex, requiring significant due diligence and reporting from CFIs, placing overwhelming obligations on them and investors. It risks lengthening processes and ultimately excluding more investors from any harmonised, faster reclaim mechanism. It is also unclear whether the mere accumulation of large volumes of reporting data will deliver the intended compliance benefits, particularly given that key concepts remain undefined and that agreement on single, EU-wide definitions across all Member States is uncertain. Reintroducing simplification and harmonisation into FASTER is therefore essential to achieve its objectives.

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FASTER has drifted away from its original objective of simplification and evolved into a Directive primarily focused on preventing tax abuse.

RECOMMENDATION

3

Review the current FASTER Directive to ensure it yields genuine simplifications for investors and financial intermediaries

A thorough review and genuine harmonisation of compliance requirements for CFIs is essential to ensure that FASTER delivers real simplification of relief-at-source and/or quick refund procedures, with harmonised access and processes for both investors and CFIs. Several provisions are either inefficient or impose disproportionate administrative burdens and costs on financial intermediaries. Practical recommendations are therefore proposed below which could be integrated into the broader tax simplification and decluttering agenda endorsed by the Council on 11 March 2025. In this context, we also urge the Commission to take full account of CFIs' organisational and technical constraints, as well as industry input, when adopting implementing acts.

- **Ensure a harmonised and operationally workable implementation of the Directive across Member States.**
- **Preserve sufficient commercial and risk-based discretion for CFIs:** CFIs should be permitted to decide based on objective economic and risk elements whether to offer the relief-at-source and/or quick refund procedures to their clients.
- **Harmonise the template of registered owner declaration** across Member States alongside a yearly collection and verification of the documentation.
- **Simplify CFI registration:** While the European portal's single registration point is welcome, it must be complemented by full harmonisation of procedures across Member States. We support the flexibility to register branches/subsidiaries centrally or locally, the subrogation clause (allowing non-CFIs to appoint CFIs for fast-track access), and the outsourcing of certain obligations. However, overly strict liability rules risk undermining these options: joint liability

would discourage centralised registration, while excessive indemnity requirements would render subrogation and outsourcing ineffective. In addition, documentation requirements should be streamlined, notably by limiting the declaration of compliance with Directive 2015/849 to a simple confirmation that the CFI meets its obligations.

- **Calibrate due diligence requirements:** We understand the need for financial intermediaries to perform due diligence of investor declarations and the importance of verifying the investor's jurisdiction of residence. However, custodian banks and financial intermediaries typically have limited information concerning the precise trading strategies or other financial arrangements of clients for whom they are providing a safekeeping service. It is therefore important that any requirement to validate an investor declaration regarding other financial arrangements is proportionate and bears in mind the information available to the relevant bank. It is also important to note the inherently subjective nature of what the investor is being asked to declare and the tax technical complexity. It would be unfair to expect financial institutions to effectively audit the activities of their clients or impute broad knowledge concerning financial arrangements to custodian banks when such products are offered by particular segments of the financial services industry. The due diligence obligations imposed on financial intermediaries should be limited to assessing whether the documentation and the attestations provided by the investor align with the information already available to them (i.e., the data collected for AML/KYC/CRS purposes) with no further investigation being required. Implementation costs must be considered, and measures should be introduced to mitigate undue financial and operational burdens.
- **Streamline reporting obligations:** The proposed monthly reporting obligations for withholding tax purposes are unprecedented and entail a significantly higher reporting frequency than that required under existing relief-at-source regimes in certain jurisdictions, including the US QI and Finnish TRACE

regimes, which require only annual reporting. In addition, the scope of information to be reported is particularly burdensome, as it requires investor attestations concerning the existence of other financial arrangements at the relevant dividend date, as well as confirmation of holding periods. These requirements present material challenges for CFIs, both in terms of collecting the necessary data and applying the requisite due diligence. While we recognise that Member States may wish to obtain information promptly in order to facilitate the processing of quick refunds, a recalibration of timelines would be fair and proportionate. Specifically, we would welcome an extension of reporting timelines to align with those of existing regimes, and would accept a corresponding adjustment of refund payment timelines to reflect such extended reporting periods. Moreover, we note that indirect reporting through the custody chain may conflict with existing commercial secrecy obligations and data protection requirements under the GDPR.

- **Establish Clear and Fair Liability Rules:**

We note that the question of liability has not yet been settled and flag that, in aggregate across EU markets, withholding tax reclaims and relief for a large bank typically amount to several billion euros. Strict or secondary liability placed on banks acting in good faith will materially increase the risk associated with participation in custody and safekeeping activities. The regime should include balanced liability provisions that protect financial intermediaries acting in good faith. Given the high financial volumes involved in withholding tax reclaims, undue or secondary liability risks significantly impact banks' willingness to participate in FASTER related procedures.

- **Clarify Key Concepts and Definitions:** The complexity of some of the concepts introduced by the rules – **beneficial ownership** and **financial arrangements** – and the lack of

clear guidance, including pan-European agreement on the definition of these concepts, will increase the level of risk associated with withholding tax procedures. This, in turn, could have adverse impacts on the willingness of investors and banks to apply for, or support, any FASTER-related reclaims or relief-at-source from withholding tax. Clearer Pan-European definitions and harmonised guidance on complex concepts should be provided at EU level, to ensure consistent interpretation and application across Member States, hence reducing legal uncertainty and compliance risks.

Given investors are required to declare whether they have entered into other financial arrangements concerning the securities they hold, a clear definition of “other financial arrangements” should be a core element of the regime. We understand that the scope of financial arrangements may be defined broadly to cover common financial instruments or transactions such as derivatives (e.g. options, futures, and swaps), securities lending, sale and repurchase transactions (“repo”) and collateral transfers. Any policy decision to exclude from FASTER investors who have entered into such transactions should be pursued, bearing in mind the commercial scale of such activity. ESMA's market report for 2023 states the total notional value of the EU equity derivatives market stood at 15 trillion EUR at Q4 2023⁶. These financial transactions are commonplace and entered into at high volume for legitimate business reasons (such as hedging, enhancing portfolio returns, etc.). We therefore stress the importance of considering the proportion of the investor base that may be excluded from the FASTER regime under specific policy or design choices and whether such exclusion may undermine the fundamental purpose of the proposal.

⁶ ESMA Market Report on EU Derivatives Markets 2023 (ESMA50-54821-2930), 6 December 2023. p. 5. Available: https://www.esma.europa.eu/sites/default/files/2023-12/ESMA50-524821-2930_EU_Derivatives_Markets_2023.pdf

Automatic Exchange of Information



Background

Banks play a central role in the effective implementation of tax transparency rules under the Automatic Exchange of Information (AEOI) framework. By carrying out due diligence and reporting obligations, they help ensure transparency on their clients' financial accounts and support tax authorities in combating tax evasion.

Together, the Foreign Account Tax Compliance Act (FATCA), the OECD's Common Reporting Standard (CRS), the OECD's Crypto-Asset Reporting Framework (CARF) and the EU Directive on Administrative Cooperation (DAC) form the backbone of global tax reporting and information exchange. Within this complex framework of domestic, EU and international rules, EU financial institutions are required to report information on income payments (under CRS/DAC2), on cross-border arrangements (under DAC6) and on transactions involving crypto-assets (under CARF/DAC8).

The European Commission's prospective recast of the Directive on Administrative Cooperation in the field of taxation (DAC), expected to merge DAC1 through DAC9 into a single legislative text, represents a timely opportunity to assess the effectiveness of the existing framework and to identify areas for improvement. In order to meet the Commission's ambitious targets for reducing administrative burdens associated with reporting requirements, it is critical that the recast focuses on streamlining obligations, enhancing clarity and ensuring proportionality in its implementation. The recast also provides an important opportunity to enhance legal certainty, promote a more consistent application of the rules across all Member States, and support the growth and competitiveness of the

EU economy also through substantial simplification measures that significantly reduce compliance burdens.

EU banks stand ready to engage constructively with policymakers to help ensure that the DAC recast delivers tangible benefits for both tax administrations and stakeholders, while maintaining an administrative cooperation framework in the field of taxation that is proportionate and effective in practice. Particular attention should be paid to avoiding duplications and overlaps between reporting obligations, which risk increasing compliance costs and undermining the overarching objective of making business in Europe easier and faster by cutting red tape and simplifying implementation.

RECOMMENDATION

4

Assess the current Automatic Exchange of Information system to ensure that obligations are well-calibrated, proportionate, clearly defined, effectively coordinated, and efficient

While the sector remains fully committed to the objectives of tax transparency and fairness, it advocates for a more pragmatic, proportionate, and streamlined regulatory framework. After a decade of implementation, it is an appropriate time to assess the Automatic Exchange of Information system, ensuring that obligations are well-calibrated, proportionate, clearly defined, effectively coordinated and efficient.

- **Well-calibrated:** Banks can only provide tax authorities with factual indicators based on the information readily available to them in digital form. They do not determine taxpayers' liabilities, which can only be established by the competent authorities of the residence country under domestic law, after reviewing reported data and verifying tax returns. If tax authorities require more detailed information, they must rely on instruments beyond CRS/DAC2 and DAC 6 reporting. Banks are committed to transparency and to providing the available information to help combat tax avoidance and tax evasion. However, they should not be expected to carry out subjective assessments or investigations that fall solely within the remit of tax administrations. It is also important to recall that holding a foreign bank account is often a practical necessity within the European context and should not, in itself, be treated as evidence of tax fraud or evasion. Excessive or disproportionate requirements with additional reporting duties imposed on financial institutions would increase their compliance costs, reduce efficiency, risk undermining the free provision of financial services and the free movement of capital within the EU, and may conflict with the General Data Protection Regulation (GDPR). A coherent, harmonised framework is therefore needed - one that ensures legal certainty, fosters transparency, and supports genuine international tax cooperation, without imposing responsibilities on banks that are the prerogative of tax authorities.
- **Clearly defined:** It is essential to uphold the fundamental principle of legal certainty in tax reporting by identifying common practices, providing clear guidance on definitions, and establishing well-defined responsibilities and liabilities for financial intermediaries.
- **Effectively coordinated:** Consistency of rules across tax reporting regimes is critical. This is fully in line with the European Commission's Communication "A Simpler, Clearer and Better Enforced EU Rulebook", which identifies taxation as one of the key areas covered by the Regulatory Deep Cleaning Action Plan and states that the recast of the DAC "will ensure

that reporting and notification obligations are proportionate and targeted, preserving our policy objectives of tackling tax evasion and avoidance, while eliminating unnecessary burdens. It will also improve the effectiveness and usability of information, enabling tax administrations to identify taxpayers and use data to drive risk assessment and compliance monitoring." Against that background, Member States need to refrain from introducing extraterritorial tax legislation and "gold-plating" the DAC Directive by introducing extra national reporting requirements imposed on foreign entities operating under the Freedom to Provide Services, where those requirements either duplicate information already covered by the DAC framework or pursue the same objective through superfluous national reporting obligations... Such measures risk creating conflicts of laws, placing financial intermediaries in an untenable position by forcing them to navigate contradictory legal obligations, where compliance with one set of rules may expose them to legal or regulatory consequences under another. This issue is particularly evident when intermediaries must comply simultaneously with local privacy laws and extraterritorial reporting obligations. Overlapping, extraterritorial, and inconsistent rules risk creating duplicative reporting requirements, which can significantly impair the usability and efficiency of data for tax authorities due to multiple reporting processes and varying data points for the same underlying assets. Moreover, legal conflicts arising from extraterritorial rules introduce operational and reputational risks for financial institutions. These challenges ultimately undermine global tax transparency efforts, deter cross-border financial activity, and disrupt the Single Market by imposing complex, inefficient, and costly compliance obligations on financial intermediaries.

Compliance with international tax reporting frameworks like CRS, FATCA, and CARF places a significant reporting burden on banks. Traditional financial assets already subject to reporting under CRS and FATCA should not trigger additional reporting requirements solely due to

the use of Distributed Ledger Technology (DLT) to record ownership as this creates unnecessary duplication. Traditional financial assets are subject to reporting obligations under regulatory frameworks such as the Common Reporting Standard (CRS) and FATCA. However, with the increasing adoption of DLT and blockchain-based tools in financial markets, there is a risk that the mere use of DLT to record ownership could trigger additional reporting requirements. This concern is particularly relevant in the context of the OECD's Crypto-Asset Reporting Framework (CARF), which aims to enhance transparency for transactions involving crypto-assets. A key issue arises when traditional financial instruments are recorded using DLT. In such cases, the underlying financial asset remains unchanged, but ownership is recorded on a distributed ledger. If tax authorities interpret the use of DLT as creating a "crypto-asset" for tax reporting purposes, banks may be required to report the same asset twice: once under CRS/FATCA and again under CARF. This duplication would unnecessarily increase compliance costs and administrative burdens for financial institutions, while potentially discouraging the adoption of innovative blockchain technologies. Therefore, a harmonized approach should be developed to integrate tokenized traditional assets into the existing CRS and FATCA frameworks without creating parallel reporting obligations for the same asset, ensuring that dual reporting under CARF/DAC 8 and CRS/DAC 2 for tokenised financial instruments is avoided. This approach is consistent with recent OECD FAQ updates.

- **Efficient and proportionate:** Excessive, overlapping, or duplicative compliance requirements place substantial administrative burdens on financial institutions and risk undermining the overarching objective of combating tax avoidance. In this context, concrete efforts should be made to simplify and streamline reporting obligations to reduce unnecessary complexity and compliance costs for financial intermediaries. The principle of proportionality must remain central to the design and implementation of tax reporting rules. It is therefore essential to eliminate inefficient or redundant obligations and ensure that compliance efforts and costs of the reporting requirements imposed on financial

intermediaries are proportionate to the utility and benefit of data required for tax authorities. Reporting frameworks such as DAC6 are increasingly viewed as overly disproportionate, complex, costly, and ineffective in achieving their intended objectives. Simplifying DAC 6 should be a core objective of the recast in order to achieve meaningful reductions in administrative burden. The reform should not introduce new hallmarks, additional criteria, or supplementary reporting rules. Simplification must reduce obligations rather than replace one complex framework with another that further increases compliance costs. Taxpayers should bear primary reporting responsibility, as they hold the relevant information regarding the arrangement and its intended tax treatment. Banks do not possess the complete information necessary to reliably assess the existence of DAC 6 hallmarks. The information available to them is often partial, fragmented across business functions, and insufficient to provide full visibility over clients' tax structures. In addition, banks are already subject to extensive regulatory oversight and are required by supervisors to manage tax and reputational risks. The risk of regulated financial intermediaries knowingly or unknowingly facilitating aggressive tax arrangements is therefore extremely limited. Targeted simplifications for regulated financial intermediaries would accordingly remain fully consistent with the objectives and rationale of DAC 6.

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It is essential that the DAC recast prioritises streamlined compliance obligations for financial institutions, greater legal clarity, and a proportionate approach to implementation.

Corporate Income Tax

Background

In today's fragile economic and geopolitical environment, there is an urgent need to simplify the EU's corporate income tax framework by eliminating undue compliance requirements that place disproportionate burdens on EU businesses. The implementation of the OECD's Pillar Two Global Anti-Base Erosion (GloBE) rules through the EU Minimum Tax Directive (Council Directive (EU) 2022/2523) should not come at the expense of the EU's competitiveness. While the recently agreed Side-by-Side package introduces limited improvements, it falls short of addressing the competitiveness concerns raised by EU businesses. In particular, the political compromise reached at OECD/Inclusive Framework level to grant a Side-by-Side safe harbour to US-headquartered groups risks undermining both the design and the effectiveness of the rules as implemented in the EU and transposed into Member States' national legislation. This concern is heightened by the fact that the US tax system relies on global blending rather than jurisdictional blending and operates with an effective tax rate below 15 percent.

More broadly, the Inclusive Framework's increasingly flexible approach creates a material risk that other jurisdictions will seek, and obtain, similar exclusions on principled grounds. This development calls into question the overall coherence and effectiveness of the global Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR).

Furthermore, none of the measures included in the Side-by-Side package have been formally incorporated into the EU Directive. Instead, the European Commission considers them applicable by virtue of Article 32 of the Pillar Two Directive.

This interpretation raises serious doubts regarding their compatibility with the Treaty on the Functioning of the European Union.

At the same time, the global minimum tax entails significant implementation and ongoing compliance costs for both EU tax administrations and EU businesses, including banks. This burden is compounded by the continued uncertainty as to whether Pillar Two will generate the level of additional tax revenue initially anticipated.

Despite the introduction of a Permanent Simplified Effective Tax Rate (ETR) safe harbour, the rules remain complex and burdensome, failing to deliver meaningful simplification or relief, particularly for reporting years that have already elapsed. Although intended to simplify the framework, the permanent safe harbour has not resulted in tangible simplification in practice, nor does it align with the Commission's objective of enhancing EU competitiveness or with calls from European businesses for effective compliance relief.

Against this evolving international landscape, the current Pillar Two framework risks placing EU businesses at a structural competitive disadvantage, with Europe becoming the only major region to fully internalise the costs of Pillar Two without securing corresponding benefits. This concern is particularly acute in the EU banking sector, where the overall level of sector-specific taxation has steadily increased in recent years. This cumulative tax burden has not been adequately reflected in discussions on minimum taxation at G20, OECD, or EU level.

With the introduction of the Pillar Two minimum tax rules, there is a growing risk of regulatory

duplication and overlap with existing measures, such as the Anti-Tax Avoidance Directive (ATAD)⁷, potentially increasing the administrative burden for businesses operating in the EU. Against this backdrop and in line with the European Commission's Competitiveness Compass, there is a clear need for a more balanced and coherent corporate tax framework – one that fosters investment while supporting sustainable economic growth. Rather than adding further complexity, future EU tax initiatives should prioritise meaningful simplification to safeguard the Union's competitiveness. In particular, the Pillar Two framework requires substantial simplification and streamlining. This is critical to support the financing of the EU's key strategic priorities, including the green and digital transitions, as well as the strengthening of Europe's defence capabilities. More broadly, a predictable, efficient, and business-friendly tax environment will be essential to delivering on these long-term objectives.

RECOMMENDATION

5

Streamline corporate taxation requirements and alleviate the associated administrative compliance burden

- **Assess and simplify the Pillar Two framework to safeguard the competitiveness of EU companies, including banks, in light of the changed international context:**

» Introduce an elective consolidated “global blending” safe harbour to improve alignment with the U.S. tax system. The OECD/Inclusive Framework should also consider whitelisting jurisdictions with an effective tax rate above 15%, exempting MNEs therein from detailed compliance requirements.

» Intensify EU simplification efforts by building on OECD tools and safe harbours, and develop EU-specific measures aligned with existing reporting frameworks (such as CbCR)

to replace the current permanent safe harbour, which fails to deliver meaningful simplification. Extend the Transitional CbCR Safe Harbour to account for ongoing implementation burdens and the evolving international framework, ensuring greater certainty and proportionality.

» Address divergences in domestic implementation across Member States, which hinder efficient compliance. As DAC9 is insufficient in its current form, the European Commission should take a stronger coordinating role to ensure consistent application of, and compliance with, Pillar Two rules across the EU, including domestic minimum top-up taxes (DMTT). In addition, a single EU-wide penalty cap should replace divergent national penalty regimes, ensuring greater fairness and predictability.

» Although the Globe Information Return (GIR) can already be filed centrally in the jurisdiction of the Ultimate Parent Entity (UPE) and exchanged between tax administrations, the main compliance burden stems from the proliferation of local filing, notification, and registration requirements, which differ significantly across Member States, and the requirement in some Member States to include detailed data in local returns that will also be provided through the GIR. DAC 4 and DAC 9 entity-level notifications should therefore be replaced with a single centralised group-level notification mechanism. Under this approach, an EU-based UPE, or a designated EU entity of a non-EU-parented group, would submit one notification identifying the entities covered by the CbCR and the GIR filings, which would then be exchanged automatically among relevant tax administrations.

» Ensure that all simplification measures, including those agreed under the Side-by-Side package, are immediately applicable, including for prior reporting years.

» Exclude Non-Material Constituent Entities (NMCEs) from the minimum tax calculation, or integrate the NMCE safe harbour into the full GloBE calculation.

I ⁶ Council Directive (EU) 2016/1164 of 12 July 2016

- **Review and streamline ATAD measures in light of Pillar Two, eliminating redundancies:**

- » Simplify, rework, or remove redundant or inefficient provisions, particularly the CFC regime. In this regard a mandatory safe harbour from CFC rules for entities under Pillar 2 would be recommended.

- » Reassess the interest limitation rule, which, having been designed in a low interest rate environment, now increases the cost of debt financing and may hinder investment and economic recovery; while its anti-avoidance objective remains valid, any revision should avoid expanding its scope or introducing additional restrictions that would adversely affect genuine commercial activities, and Member States should refrain from “gold-plating” or diverging from the ATAD framework.

- » Extend the exclusion for “financial undertakings” to include all regulated entities that provide financing in the ordinary course of their business, such as leasing and factoring companies currently outside its scope.

- » Reconsider the ad hoc consolidation rules under Article 4(1) and (3), as well as the group ratio rule under Article 4(5), which have proven complex to implement and apply in practice for both tax authorities and taxpayers, particularly large groups with multiple entities.

- » Establish a more coherent and harmonised framework governing the interaction between the Parent-Subsidiary Directive and ATAD, including clearer hierarchy between participation exemptions and CFC rules, and more consistent substance and documentation requirements.

- **Remove barriers to the internal market and improve procedural efficiency:**

- » Review tax measures and procedures that restrict the free movement of capital and undermine the competitiveness of cross-border groups.

- » Ensure consistent implementation of the Parent-Subsidiary and Interest and Royalties Directives across Member States.

- » Extend the scope of the Interest and Royalties Directive to indirect shareholdings.

- » Introduce procedural simplifications to facilitate the effective application of these directives, including longer validity periods for tax residence certificates, increased use of digital processes, and reduced formal requirements where substantive conditions are met.

- **Preserve flexibility for targeted investment incentives:**

- » Allow Member States to deploy targeted incentives supporting investment and the Savings and Investments Union (SIU), while avoiding distortive preferential regimes.

- » Ensure that tax incentives supporting competitiveness, the green and digital transitions and defence spending are designed within a coherent and predictable framework.

- » Clarify the tax treatment of such incentives to ensure accessibility and legal certainty, and avoid unintended interactions with Pillar Two (e.g. triggering top-up taxes or disqualifying exemptions).

- **Prioritise competitiveness and simplicity in future corporate tax initiatives:**

» Ensure that future EU corporate tax initiatives – including the Tax Omnibus - focus on administrative simplification and avoid introducing additional layers of complexity.

» Promote simple, neutral, and predictable tax rules to support long-term economic growth and avoid distortions.

» Harmonise tax deduction rules in the banking sector in line with prudential requirements, to ensure consistency between tax and regulatory capital regimes and strengthen the banking union. Reference can be made in this respect to the treatment of AT1 loans under Pillar 2 provisions as embedded in EU Member States legislation.

- **Promote coordinated digitalisation of tax procedures and tax reporting processes:**

» Simplify and modernise tax procedures through the harmonised use of digital tools and the alignment of reporting processes across Member States.

» Avoid fragmented national digitalisation initiatives that impose multiple system changes and increase compliance costs for businesses.

» Achieve “quick wins” by harmonising technical aspects of reporting requirements at EU level.

- **Strengthen legal certainty and coordination at EU level:**

» Develop harmonised definitions of key tax concepts, drawing on approaches similar to OECD guidance and FAQs, including the concept of beneficial ownership across EU tax directives.

» Accompany future EU direct tax measures with coordinated EU-level guidance to ensure consistent interpretation and application across Member States.

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The 2026 “EU Tax Omnibus” should simplify corporate income tax rules, reduce unnecessary compliance burdens, and ensure that taxation serves as a driver of competitiveness and high-quality growth.





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