



EU Anti-Tax Avoidance Directive

Implementation Overview

EU Tax Centre
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Introduction

On July 12, 2016, the Council of the European Union (EU) adopted the Anti-Tax Avoidance Directive (ATAD I) Council Directive (EU) 2016/1164.

The Directive is a separate and distinct initiative from the OECD's Base Erosion Profit Shifting (BEPS) plans; however, the Directive is designed to implement and build on the proposals announced as part of the BEPS initiative in October 2015, in an attempt by the European Union to harmonize the adoption of anti-BEPS measures into local laws across EU Member States.

On May 29, 2017, the Council of the EU adopted a Directive (ATAD II – Council Directive (EU) 2017/952) to amend the hybrid mismatch measures in ATAD I. The Directive extends Article 9 to include hybrid mismatches between EU Member States and third countries and introduces rules on hybrid permanent establishment (PE) mismatches, hybrid transfer, hybrid financial instrument mismatches, dual resident mismatches, reverse hybrid mismatches and imported mismatches.

ATAD I contains five specific measures:

Measure	ATAD I
Interest Limitation Rule	Article 4
Exit Taxation	Article 5
General Anti-Avoidance Rule (GAAR)	Article 6
Controlled Foreign Company (CFC) Rule	Articles 7 & 8
Hybrid Mismatches	Article 9

ATAD Implementation Timelines

October 2015



OECD launches Action Plan on BEPS

July 12, 2016



Council of European Union adopts ATAD I

May 29, 2017



Council of European Union adopts ATAD II

January 1, 2019



Interest Limitation*, GAAR and CFC Rules effective

January 1, 2020



Exit Taxation and Hybrid Mismatch provisions effective

January 1, 2022



Reverse Hybrid Mismatches effective

January 1, 2023



Hybrid regulatory capital in the banking sector effective

Overview of ATAD Measures

Interest Limitation Rule (Article 4)



What is it?

The rule applies to restrict interest deduction to 30 percent of taxable Earnings before Interest, Tax, Depreciation and Amortization (EBITDA). Member States are allowed, under ATAD I to use a lower percentage.

How does it work?

- the 30 percent restriction applies to “exceeding borrowing costs”, which are defined as “the amount by which the deductible borrowing costs of a taxpayer exceed taxable interest revenues and other economically equivalent taxable revenues that the taxpayer receives according to national law”.
- Borrowing costs include interest paid to third parties and to group entities.
- A de minimis threshold of EUR 3 million applies: Member States may allow taxpayers to fully deduct exceeding borrowing cost of up to EUR 3 million.
- **Carry-forward and carry-back rules:** Member States may choose from three options permitted under ATAD I in relation to unused exceeding borrowing costs:
 - Carry forward (indefinitely) unused deductions;
 - Carry forward (indefinitely) unused deductions and back (3 years);
 - Carry forward (indefinitely) unused deductions and unused interest capacity (5 years).

Group measures

- **Group ratio rule:** Where the taxpayer is a member of a consolidated group for accounting purposes, the taxpayer may be allowed to deduct net interest expense at an amount in excess of 30 percent of the group’s EBITDA. This higher limit is determined by multiplying the group ratio by the company’s EBITDA. The group ratio is the group’s net interest expense (third party debt only) divided by the its EBITDA.

Equity escape rule: Where a taxpayer is a member of a consolidated group for accounting purposes, the taxpayer may be allowed to fully deduct its exceeding borrowing costs if its equity-to-assets ratio is equal to or higher than the equivalent ratio of the group, subject to the following conditions:

- the taxpayer’s equity-to-assets ratio is considered equal to the equivalent group ratio where it is lower by up to 2 percent; and
- the assets and liabilities of the taxpayer must be calculated using the same methodology as in the consolidated financial statements.

Permitted exclusions

- **Standalone entities:** Member States are permitted to exclude standalone entities from the scope of the rules. A standalone entity is a taxpayer that is not part of a consolidated group for financial accounting purposes and has no associated enterprise.
- **Exclusion for certain loans:** Member States are permitted to exclude from the scope of the interest limitation rules, exceeding borrowing costs incurred on:
 - Loans which were concluded before June 17, 2016, on the basis that the loan is not modified after this date (grandfathering clause);
 - Loans used to fund a long-term public infrastructure project where the project operator, borrowing costs, assets and income are all in the EU (long-term public infrastructure project exclusion)
- **Financial institutions and insurance undertakings:** The Directive calls for a customized approach to apply to financial institutions and insurance undertakings due to the special features present in these sectors. The Directive also allows for the exclusion of financial institutions and insurance undertakings from the rules where they are part of a consolidated group for accounting purposes.

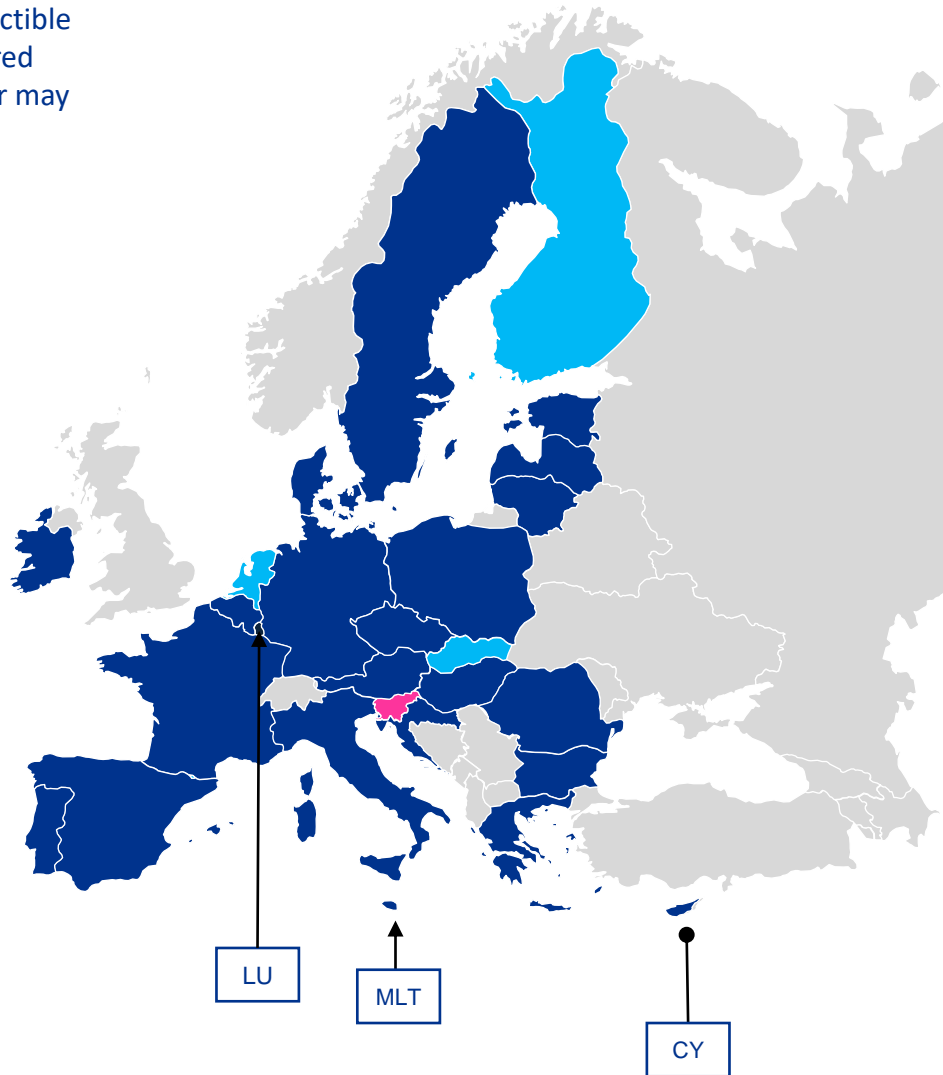
Percentage and de minimis thresholds

Exceeding borrowing costs shall be deductible in the tax period in which they are incurred only up to 30 percent EBITDA. A taxpayer may be given the right to deduct exceeding borrowing costs up to EUR 3 million.

- 30 percent of EBITDA:**
 Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Spain, Sweden

- Lower threshold:**
 Netherlands: 20% of calculation base
 Finland: 25% of EBITD
 Slovakia 25% of EBITDA (only applies to related-party loans)

- Equally effective measure:**
 Slovenia



* Slovenia applies a 4:1 thin capitalization threshold and has not introduced the 30% EBITDA interest limitation rule

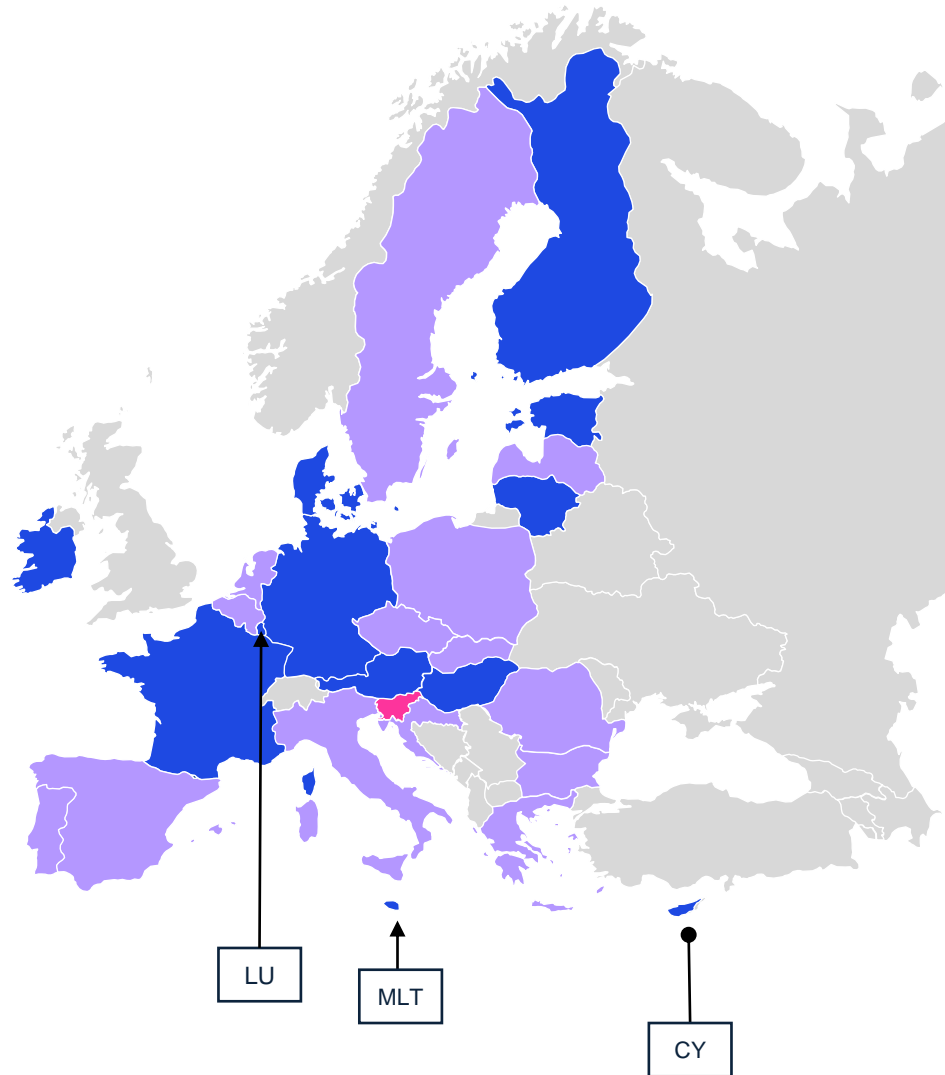
De minimus threshold	
EUR 3 million	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic (CZK 80 million), Denmark (DKK 22,313,400), Estonia, Finland, France, Germany, Greece, Ireland, Lithuania, Luxembourg, Malta
< EUR 3 million	Italy (nil), Latvia (nil), Slovakia (nil), Netherlands (EUR 1m), Portugal (EUR 1m), Romania (EUR 1m), Spain (EUR 1m), Poland (PLN 3m), Hungary (HUF 939,810), Sweden (SEK 5m)

Relief and exemptions

Group ratio or equity escape implemented:
Austria, Cyprus, Denmark, Estonia, Finland, France, Germany, Hungary, Ireland, Lithuania, Luxembourg, Malta

Neither relief implemented:
Belgium, Bulgaria, Croatia, Czech Republic, Greece, Italy, Latvia, Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden

Not applicable:
Slovenia



Other Exemptions	Implemented	Not Implemented
Standalone Company Exemption	Austria, Belgium, Croatia, Cyprus, Finland, Germany, Ireland, Lithuania, Luxembourg, Malta, Romania	Bulgaria, Czech Republic, Denmark, Estonia, France, Greece, Hungary, Italy, Latvia, Netherlands, Poland, Portugal, Slovakia, Spain, Sweden
Loan Grandfathering	Austria (until 2025), Belgium, Cyprus, Finland, Hungary, Ireland, Lithuania, Luxembourg, Malta	Bulgaria, Croatia, Czech Republic, Denmark, Estonia, France, Germany, Greece, Italy, Latvia, Netherlands, Poland, Portugal, Romania, Slovakia, Spain, Sweden
Financial Undertakings	Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, Greece, Hungary, Italy, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovakia, Spain	Austria, France, Germany, Ireland, Latvia, Netherlands, Romania, Sweden

Exit Taxation Rules (Article 5)



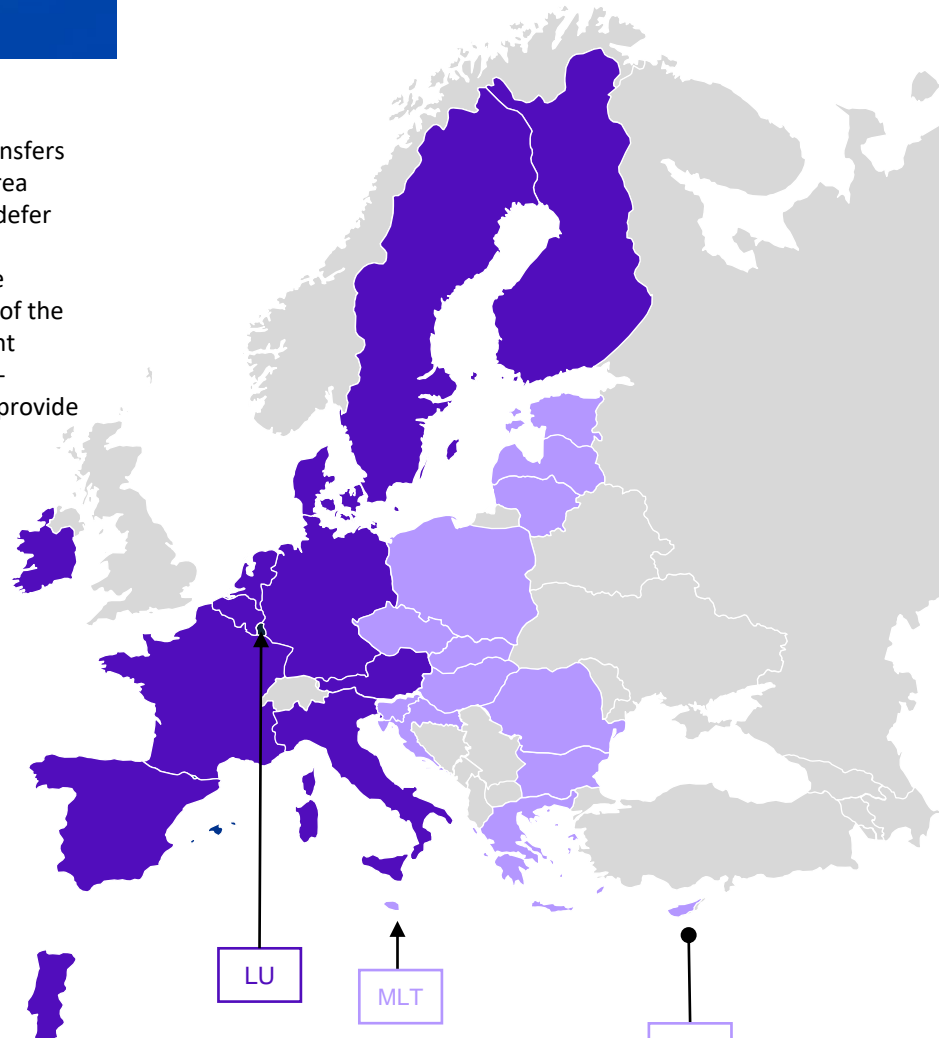
What is it?

The rule applies to impose a tax charge (exit tax) on asset transfers from a corporate taxpayers' head office to its PE in another Member State or in a third country and vice versa (i.e. from a PE to head office as well as between PEs in different States) where the Member State no longer has the right to tax the transferred asset. The exit tax also applies on the transfer of corporate tax residence.

- **Step-up in value:** The Directive allows for a mandatory step up to market value as the starting value of the assets for tax purposes in the transferee Member State.
- **Temporary transfers:** Where the assets are transferred for a period of 12 months or less before reverting to the Member State of the transferor, exit tax would not apply where the asset transferred relates to the financing of securities, assets posted as collateral or where the asset transfer takes place in order to meet prudential capital requirements or for the purpose of liquidity management.

How does it work?

- **Deferred payment of exit tax:** For asset transfers within the EU or the European Economic Area (EEA), taxpayers shall be given the right to defer the payment of the exit tax by paying it in instalments over five years. Interest may be charged in accordance with the legislation of the Member State of the taxpayer or permanent establishment. Where there is a risk of non-recovery, the taxpayer may be required to provide a guarantee in certain circumstances.



Exit tax in place pre-ATAD:

Austria, Belgium, Denmark*, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden

Exit tax under ATAD:

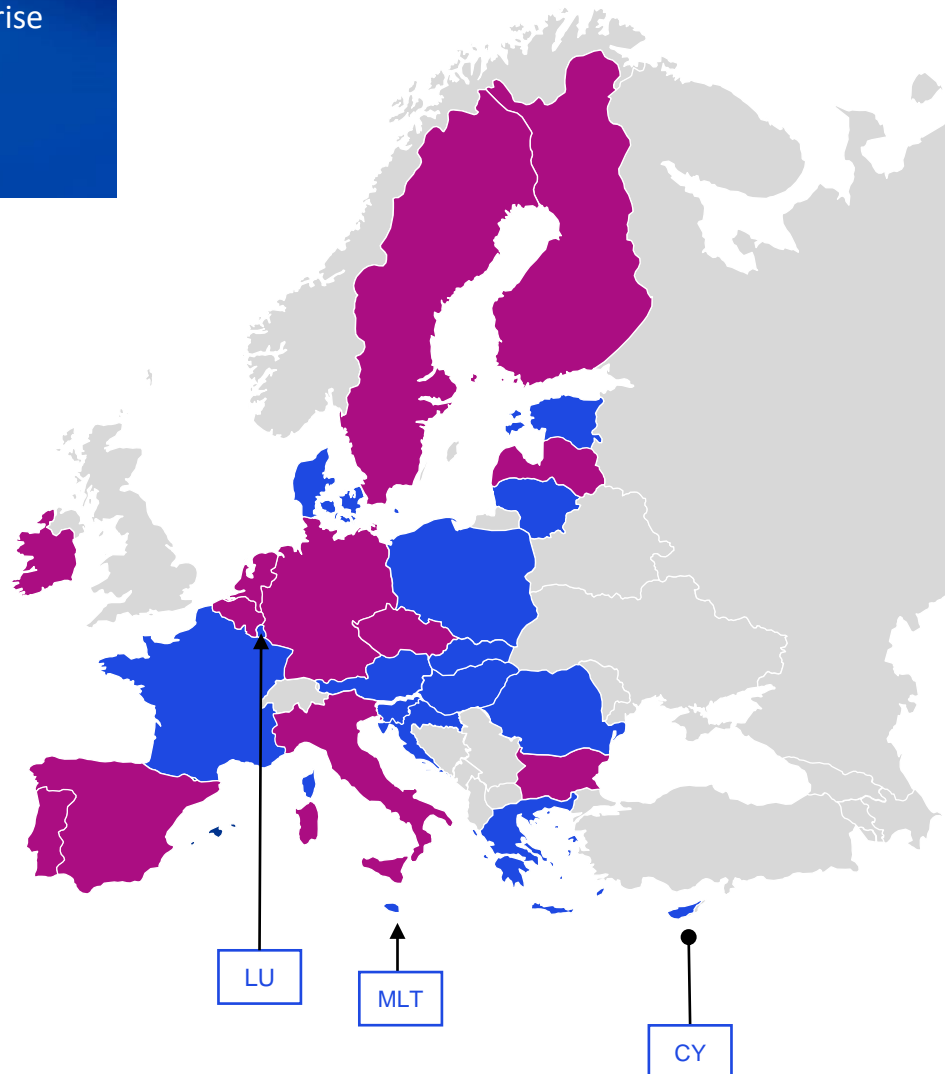
Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

General Anti-Abuse Rules (GAAR) (Article 6)



What is it?

The Directive calls for Member States to ignore, when calculating the corporation tax liability of a taxpayer, an arrangement or a series of arrangements that have been put in place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of the applicable tax law, where the arrangements are not genuine having regard to all relevant facts. An arrangement may comprise more than one step or part.



Controlled Foreign Company (CFC) Rules (Articles 7 & 8)



What is it?

An entity is treated as a CFC where:

- an EU parent / head office (together with its associated enterprises) hold a direct or indirect holding of > 50 percent of the voting rights or capital or is entitled to > 50 percent of the profits of the entity / permanent establishment; and
- the actual tax paid by the entity is lower than the difference between the corporate tax as computed under parent country rules that would have applied in the home member State and the actual corporate tax paid on its profits by the entity / PE.

How does it work?

Where an entity / PE is treated as a CFC, the EU parent / head office is taxed on the income of the CFC.

The directive allows Member States a choice between two approaches:

- Application of the CFC charge to the non-distributed income of the CFC where the income is derived from certain passive income categories (Model A: categorical approach) or;
- Application of the CFC charge to the non-distributed income of the CFC which arises from non-genuine arrangements put in place for the essential purpose of achieving a tax advantage (Model B: transactional approach).

Model A: categorical approach (passive income)

Where an entity or PE is treated as a CFC, undistributed income of the CFC or PE derived from:

- interest;
- royalties and other IP income;
- dividends and capital gains on shares;
- financial leasing; insurance, banking and other financial activities;
- sales and services to associated companies which add no or little economic value.

is included in the tax base of the EU parent/head office.

Model B – transactional approach

Under this option, the CFC rules only apply where the undistributed CFC / PE income arises from “non-genuine arrangements put in place for the essential purposes of obtaining a tax advantage”.

An arrangement is regarded as non-genuine if the CFC / PE would not own the assets or have undertaken the risks which generate all or part of its income if it were not controlled by a company where the significant people functions (relevant to those assets or risks) are carried out or are instrumental in generating the CFC/PE income.

Model B contains an exclusion for entities or PEs with accounting profits of < EUR 750,000 and non-trading income of < EUR 75,000; or with accounting profits of <10 percent of operating cost for the tax period.

Model A or B?



Model A:

Austria, Croatia, Czech Republic, Denmark, Finland, Germany, Greece, Lithuania, Netherlands¹, Poland, Portugal, Romania, Spain, Slovenia, Sweden



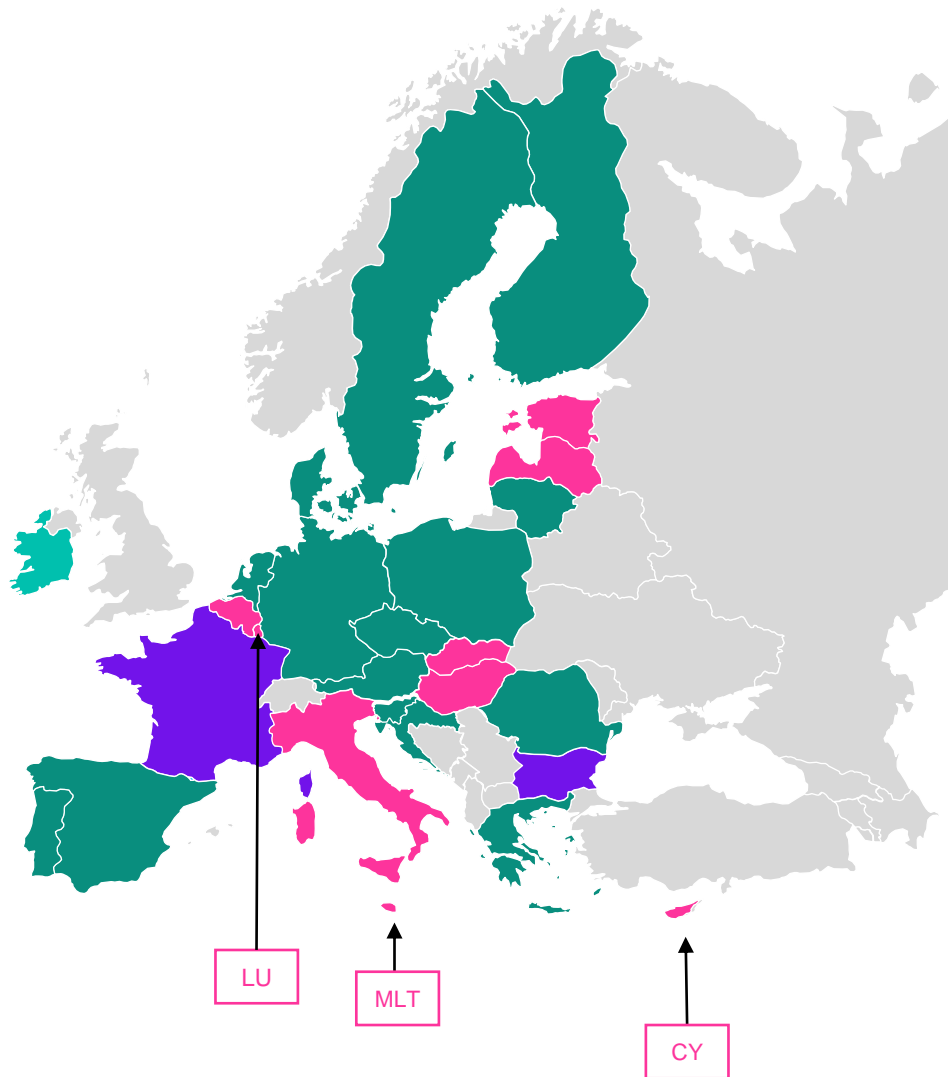
Model B:

Belgium, Cyprus, Estonia, Hungary, Ireland, Italy², Latvia, Luxembourg, Malta, Slovakia



Neither model:

Bulgaria, France



1 The Netherlands applies Model A to CFCs in a 'low taxed jurisdiction' or a jurisdiction on the EU list of non-cooperative jurisdictions

2 Italy has opted for Model B but applies a passive income test in the definition of a CFC

3 Denmark has introduced a partial substance test, which applies to other income from intellectual property.

4 Sweden also maintains a "white list" of jurisdictions, in which income will not be considered to be subject to low taxation.

5 Latvia has implemented the exclusion (however, the exemption does not apply to foreign entities established in low-tax jurisdictions).

Other Exemptions	Implemented	Not Implemented
Substance Escape under Model A	Austria, Croatia, Czech Republic, Denmark ³ , Finland, Germany, Greece, Italy, Lithuania, Netherlands, Poland, Portugal, Romania, Slovenia, Spain, Sweden ⁴	
Exception under Model A: < 1/3 of income is in specific categories of Model A	Austria, Croatia, Denmark, Greece, Italy, Lithuania, Netherlands, Poland, Portugal, Romania, Slovenia, Spain	Czech Republic, Finland, Germany, Sweden ⁴
Exception under Model B: Accounting profits > EUR 750,000 and non-trading income < EUR 75,000	Cyprus, Estonia, Hungary, Ireland, Latvia ⁵ , Luxembourg, Malta	Belgium, Italy, Slovakia
Accounting profits < 10 percent of operating costs	Cyprus, Hungary, Ireland, Latvia ⁵ , Luxembourg, Malta	Belgium, Estonia, Italy, Slovakia

Hybrid Mismatches (Article 9)



What is it?

The anti-hybrid provision seeks to counteract non-taxation outcomes from payments made on or after January 1, 2020 under:

- cross-border hybrid mismatch arrangements,
- between associated enterprises,
- which result in deduction without inclusion/double deduction outcomes.

How does it work?

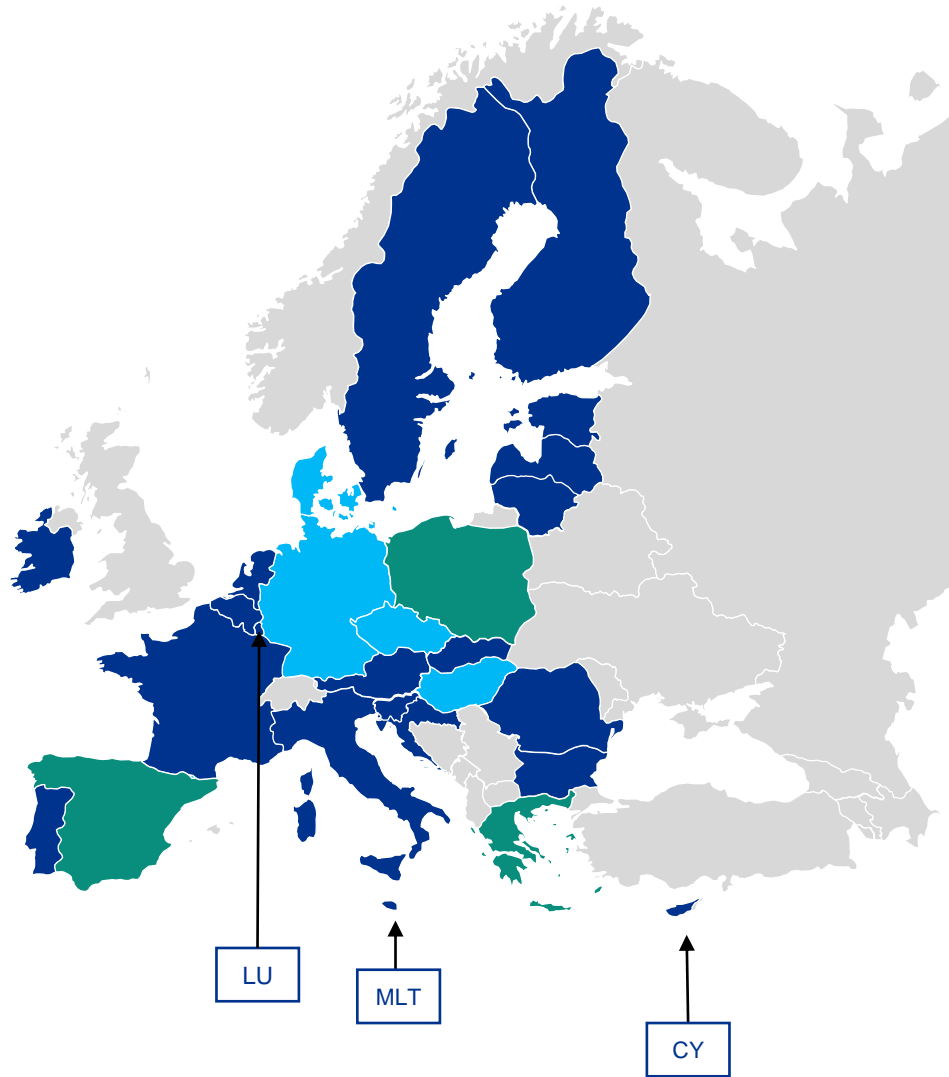
- **Double deduction:** to the extent that a hybrid mismatch results in double deduction, the deduction shall be denied in the investor Member State as a primary rule or, as a secondary rule, in the payer Member State.
- **Deduction / no inclusion:** to the extent that a hybrid mismatch results in a deduction without inclusion, the deduction shall be denied in the payer Member State, as a primary rule, or, as a secondary rule, the amount of the payment shall be included as taxable income in the payee Member State.

Main types of hybrid mismatches

- **Financial instrument:** this mismatch occurs due to differences in the characterization of the instrument or payments made under it.
- **Hybrid entity:** this refers to mismatches in relation to entities which are treated as a taxable person in one jurisdiction but whose owners or members are treated as the taxable person in another jurisdiction.
- **Branch mismatches (involving PEs):** this mismatch occurs where differences between the rules in the jurisdictions of the PE and the rules of the head office for allocating income and expenditure between different parts of the same entity give rise to a mismatch in tax outcomes. It also includes those cases where a mismatch outcome arises due to the fact that a permanent establishment is disregarded under the laws of the branch jurisdiction.
- **Hybrid transfers:** this mismatch arises as a result of a difference in treatment of asset transfers i.e. treated as a transfer of ownership of an asset for tax purposes in one country but as a collateralized loan in another country.
- **Residency mismatch:** this mismatch occurs where a double deduction mismatch outcome arises as the entity is dual tax resident.
- **Reverse hybrids:** this mismatch occurs as a result of a difference in treatment of the entity by tax authorities of the entity's home jurisdiction and the investor jurisdiction.
- **Imported mismatches:** this mismatch occurs where a payment to a non-EU established payee directly or indirectly funds a mismatch outcome.

Hybrid Mismatches

- All seven^ anti-hybrids rules:**
Austria, Belgium, Bulgaria, Croatia, Cyprus, Estonia, Finland, France, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Sweden
- Implemented six anti-hybrid rules (excluding reverse-hybrids):**
Greece, Poland, Spain
- Implemented some anti-hybrid rules:**
Czech Republic, Denmark, Germany, Hungary



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