

Briefing

International review for February

Speed read

This month's update illustrates how countries around the world are using tax levers to address fiscal challenges. France has finally passed its 2026 Finance Act, extending tax rises on companies and individuals in an attempt to reduce the fiscal deficit. The Indian Budget 2026/27 opts for a mix of tax holidays and simplification of transfer pricing rules in order to boost economic growth. The Netherlands coalition agreement seeks to assure investors by promising stability on business taxation, but also proposes a 'freedom tax' to pay for increased defence spending. To promote intellectual property (IP) trading and licensing activities in Hong Kong, a consultation has been launched on enhancing the country's IP tax regime. Finally, the European Parliament has adopted a resolution setting out its recommendations to the EC on the 28th legal regime proposal, which forms part of broader efforts to enhance the bloc's competitiveness.



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France adopts Finance Act 2026

After months of twists and turns, the French Finance Act 2026 ('the Act') was adopted by Parliament on 2 February 2026. It will be formally enacted after publication in the official gazette, which is expected later this month.

As a reminder, France is subject to an excessive deficit procedure by the EU Council, which meant that the 2026 Budget measures had to reduce the country's overall deficit. However, the absence of a clear majority in the French National Assembly led to months of wrangling in Parliament on the difficult tax and spending decisions that would be needed to achieve this.

Last month, French Prime Minister Sebastien Lecornu resorted to using article 49-3 of the French Constitution which allows the Prime Minister to pass the Budget bill without parliamentary support, provided he survives any resulting vote of no confidence. Lecornu survived a no-confidence vote by making further political compromises in the final version of the Bill to secure the backing of the socialists in Parliament.

The final Act proposes three key measures of interest:

- **A one-year extension of the exceptional surtax on corporate income tax:** The surcharge, applying to the largest companies with significant profits, was introduced in last year's Budget as a one-off measure to raise around €8bn. The applicable rates will not be halved, as was initially proposed, but will remain 20.6% for companies with turnover above €1.5bn and below €3bn, and 41.2% for companies with turnover of €3bn and above. However, for 2026 the entry threshold will be increased from €1bn to €1.5bn. The threshold

will only be assessed for the financial year in which the contribution is due (2026), and not over two financial years as was the case for the contribution due in 2025.

- **Extension of the 20% minimum tax on high income taxpayers:** This tax, which applies to those with income exceeding €250,000 whose effective income tax rate is below 20% of their adjusted tax income, was introduced last year as a temporary measure, but has now been extended until the public deficit falls below 3% of GDP.
- **Introduction of a tax on certain extravagant non-professional assets of holding companies:** This measure was initially intended as a tax on the financial assets of asset holding companies, but the scope and rate have been significantly modified in the final text of the Act. The new tax is now presented as an anti-optimisation tool with a low expected yield. The tax base is calculated on the market value of 'extravagant goods' owned by certain companies that are not used for operational purposes, such as vehicles, yachts, aircrafts, jewellery, wines and spirits, accommodation reserved for the use of the relevant individual, etc.

One of the major compromises in the final Act was that the timetable for abolishing the CVAE (a local tax levied a company's added value and one of the main production taxes in France) would not be modified as proposed in the initial Finance Bill in October 2025. The CVAE will end in 2030, as set out in the 2025 Finance Act.

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The final Budget is expected to cut the deficit from an expected 5.4% of GDP at the end of 2025 to 5% in 2026. However, this is still a long way off the 3% of GDP limit under EU rules: although the government plans to achieve that target by 2029, as we have seen from this Finance Act, politically that may be easier said than done.

India: Budget 2026/27

Earlier this month, the Finance Minister presented the Union Budget for fiscal year 2026/27. The Budget aims to encourage foreign direct investment into India through the introduction of various tax holidays as well as simplifying and streamlining transfer pricing rules.

Foreign companies providing international cloud services using data centres in India will benefit from a tax holiday on their income until 31 March 2047. Where services are provided to Indian users, the tax holiday would only apply where the foreign company sells its services to Indian customers through an Indian reseller.

Foreign companies providing capital goods, equipment and tools to Indian contract manufacturers, located in a custom bonded area, for the manufacture of electronic goods on behalf of the foreign company, will also benefit from a tax holiday until 31 March 2031. The International Financial Services Centre tax holiday period will also be extended from ten to 20 years.

The Budget also aims to enhance tax transparency and

certainty for businesses through significant reforms to the transfer pricing rules and streamlining of Advance Pricing Agreement procedures. Notably, there are amendments to the transfer pricing safe harbour rules that should provide greater clarity and predictability, in particular for IT service companies navigating the Indian transfer pricing regime. These include:

- the consolidation of multiple service categories (software development services, information technology enabled services, knowledge process outsourcing services, and contract research and development services) under a single category of 'IT Services', with a common safe harbour cost plus margin of 15.5% (previously 17% or 18% based on size, and 24% for R&D services);
- an increase in the threshold for availability of safe harbour provisions from INR 3bn to INR 20bn, with an option to apply for a continuous period of five years, through an automated, rulebased approval process; and
- a new safe harbour of 15% on cost for Indian companies providing data centre services to a foreign related party reseller entity.

Netherlands: proposed tax measures in minority coalition agreement

Following his election as Dutch Prime Minister in October 2025, Rob Jetten's liberal D66 party recently reached an agreement to govern as a coalition with the centre-right VVD and the Christian Democrats. On 30 January 2026, the coalition published an agreement detailing its proposed tax agenda. The publication provides only a high level outline of the proposed tax measures, and it remains to be seen if the minority government can gain support to pass these in due course, however it does provide an indication of the desired direction of travel for Dutch tax.

To help the country meet its pledge to increase defence spending from 2.5% of GDP to 5% of GDP by 2035, the Netherlands is introducing a 'freedom tax' on businesses

On business tax, the agreement states there will be no increase in the corporation tax rate, and that the Innovation Box, loss set-off scheme, the participation exemption and the R&D tax credit scheme (WBSO) will all be retained, albeit the WBSO will be made less complex and administratively burdensome. The scheme will also be extended to cover the development of AI and technology. Where possible the energy investment allowance, the environmental investment allowance and the free depreciation of environmental investments will be merged into one robust investment scheme.

To help the country meet its pledge to increase defence spending from 2.5% of GDP to 5% of GDP by 2035, a 'freedom tax' will be introduced for businesses. No further details were provided, but the agreement states the tax should generate €1.5bn in revenue in 2027 and €1.7bn per annum by 2028. Businesses will be consulted on the design of the tax in due course. Individuals will also be subject to a freedom tax, expected to raise €1.5bn in revenue in 2027 and €3.4bn per annum by 2028.

The Netherlands is not the first country to propose a specific defence tax to fund military spending and, with

NATO members recently pledging to invest 5% of GDP annually on defence spending by 2035, it seems unlikely to be the last.

Hong Kong: intellectual property proposals

Following its 2025/26 Budget, Hong Kong has launched a stakeholder consultation on proposals to enhance its intellectual property (IP) tax regime.

Under the existing tax regime, expenditures incurred in acquiring IP or rights to use IP are generally non-deductible capital expenditure. A tax deduction may be available if the acquired IP or IP rights fall within a specified category, however numerous anti-abuse rules exist to deny tax deductions in various circumstances.

To further promote IP trading and licensing activities in Hong Kong, the Government is consulting on the proposals to enhance the existing regime including, amongst other measures, allowing a tax deduction for upfront licence fees incurred for the rights to use IP in licensing arrangements, even if they are capital in nature, provided they are incurred in producing assessable profits.

European Parliament: innovative companies

Finally, on 20 January 2026 the European Parliament adopted a resolution setting out its views and recommendations to the European Commission (EC) in relation to the proposal on the new legal framework for innovative companies (the 28th legal regime).

Based on the European Union (EU) Competitiveness Compass released in January 2025, the 28th legal regime aims to create a unified legal framework that would apply across the EU, operating alongside the 27 national legal systems. The framework seeks to simplify compliance for businesses and reduce administrative burdens operating across multiple Member States by offering a single set of rules in areas such as tax, corporate law, insolvency procedures and labour regulations. In its 2026 Work Programme, the EC committed to proposing the 28th legal regime by Q1 2026.

Parliament's resolution welcomed the initiative and stressed the proposal should be ambitious in substance and in form, emphasising the need for uniform application implemented through a Regulation or EU Directive.

Parliament called for measures to enhance access to capital, urging Member States to introduce a harmonised equity-like debt instrument allowing investment without conferring control rights, such as profit participation rights, silent partnerships, or profit-linked loans.

The resolution also advocated for the establishment of a new EU-wide company form, the Unified European Company (S.EU), conceived as a non-listed limited liability company with a registered seat in an EU Member State and automatic recognition throughout the EU. The S.EU would be reserved for digitally registered innovative companies.

The resolution also stressed the role of talent attraction, recommending harmonised rules on employee financial participation in S.EUs, including employee stock incentive plans, with related tax issues to be addressed in the EC's proposal.

The resolution supported faster dispute resolution, proposing the creation of a specialised alternative dispute resolution mechanism for S.EUs, potentially conducted in English, subject to the agreement of all parties. ■