Briefing

International review for July

Speed read

This month's update is dominated by European tax reform, although political realities may make it difficult to translate proposals into practice any time soon. Tax simplification, competitiveness and modernisation are at the heart of the recently published Tax Omnibus and DAC recast proposals, but the requirement for unanimous Member State approval means implementation may prove challenging. Meanwhile, in the Netherlands, debate on reforms to the Box 3 'Wealth Tax' is likely to continue for the foreseeable future. Discussions on the merits of an EU-wide Digital Services Tax also remain active, although the risk of US retaliation is likely to influence the direction of travel.

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Tax Omnibus and DAC recast proposals published by European Commission

On 24 June 2026, the European Commission (EC) published a tax simplification package designed to modernise the EU's direct tax framework and strengthen the competitiveness of the single market, while maintaining existing protections against tax fraud, evasion and avoidance. The package is expected to save EU businesses around €8bn annually and comprises two proposals:

- the Direct Taxation Omnibus (DTO); and
- the recast of the Directive on Administrative Cooperation (DAC).

The DAC recast proposal aims to improve clarity by consolidating the various DAC texts (DAC 1 to DAC 9) into a single cohesive text and to streamline the application of certain rules in the DAC framework through a series of targeted amendments. These include a number of amendments to the EU Mandatory Disclosure Rules, including a reporting exemption for groups in-scope of Pillar Two and changes to the list of hallmarks.

The DTO proposes reforms to the Directives set out below.

Interest and Royalties Directive and Parent Subsidiary Directive

The Interest and Royalties Directive (IRD) and Parent Subsidiary Directive (PSD) are designed to eliminate double taxation on intra-EU royalty and interest payments and qualifying profit distributions, provided certain conditions are met including shareholding thresholds and minimum holding periods. Amongst other changes, the DTO removes the holding requirements under these Directives, providing a broad withholding tax (WHT) exemption for intra-EU dividends, interest and royalties between eligible companies, and WHT relief on dividends paid to pension institutions.

The IRD and PSD changes are perhaps the most significant of the DTO proposals, with the potential to lower financing costs for EU companies, support higher levels of investment and productivity, reduce compliance costs, and simplify the administration of taxes across the EU. They represent a considerable change for those Member States currently levying WHT on these types of payments, therefore the EC is proposing that the majority of IRD and PSD changes come into force from 2037 to give Member States time to adapt.

Anti-Tax Avoidance Directive (ATAD)

ATAD establishes a common EU framework of anti-avoidance rules, including provisions on interest limitation, exit taxation, controlled foreign companies (CFCs), hybrid mismatches and a general anti-abuse rule (GAAR). The DTO proposals include:

- introducing an EU-wide R&D allowance as a minimum standard, including full deductibility of R&D qualifying expenditure on tangible assets used for R&D activities for three years;
- changes to the Interest Limitation Rules including making the 30% EBITDA threshold mandatory, a mandatory de-minimis safe harbour of €3m, and exclusions for qualifying third-party debt;
- introducing an exemption from CFC rules for groups in scope of Pillar Two (to mitigate the risk of double taxation) and for SMEs (to remove disproportionate compliance burdens);
- updating the GAAR to clarify that WHT and Pillar Two top-up taxes are in scope; and
- removing the rules on imported mismatches.

Dispute Resolution Mechanism Directive

The Dispute Resolution Mechanism (DRM) sets out rules for the effective resolution of disputes related to the interpretation of tax treaties. The DTO makes a series of proposed amendments to enhance the effectiveness, consistency and accessibility of dispute resolution procedures across the EU, while reducing administrative burdens and addressing divergent interpretations among Member States. These include clarification of the scope of the DRM, simplification of the compliance process, clearer rejection grounds with safeguards (for example, 30-day remedy period), earlier taxpayer notification requirement if no agreement is reached, extension of the scope to include admissibility issues, and simplified filing mechanisms for SMEs and individuals.

Tax Merger Directive

The Tax Merger Directive (TMD) provides for the deferral of taxation of capital gains arising from reorganisations involving companies of different Member States until the actual disposal of the underlying assets. The DTO proposes several amendments, broadly to extend and align the scope of the TMD with recent EU company law developments (to include simplified mergers and divisions by separation) and extension of tax neutrality to cross-border conversions.

The Omnibus package will next be submitted to the European Parliament for consultation and the EU Council for adoption, which would require unanimous approval by Member States. Achieving consensus on issues impacting tax sovereignty and revenues of Member States (as proposed by the DTO) is notoriously difficult and whilst the Explanatory Memorandum notes that there will be no budgetary implications for the EU budget, it is silent on the impact on local tax revenues. The proposal is therefore likely to be subject to in-depth discussions in Council working groups, which may result in amendments to the current proposal.

Netherlands: Debate in Upper House of Parliament on new Box 3 ('Wealth Tax') regime

On 30 June 2026, the Upper House of the Dutch Parliament held a plenary debate on the new Box 3 ('Wealth Tax') regime for levying personal income tax on asset income, which was approved by the lower house of the Dutch Parliament on 12 February 2026.

By way of background, the Dutch personal income tax regime is divided into three separate 'boxes', all of which have their own applicable tax rates: Box 1 covers business and employment income and income from home ownership of a main private residence; Box 2 covers income and gains from 'substantial shareholdings'; and Box 3 covers income from savings and investments.

The amount payable under Box 3 is currently calculated by applying a fixed rate of 36% to the weighted notional yield on net assets; however, following a series of recent Supreme Court decisions, if taxpayers can prove their actual return is lower than the flat rate calculation, they can elect to be taxed on the lower amount. However, this system of having to provide evidence that actual returns are lower than the flat rate approach is considered burdensome for the Dutch tax authorities and is estimated to cost the treasury over €2bn annually.

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Under the proposals for a reformed Box 3 regime, which would take effect from 2028, the existing system would be replaced by a capital growth tax and a capital gains tax. The capital growth tax would apply to most assets, taxing both realised and unrealised ('profit on paper only') returns, including appreciation in value and income from assets such as shares, cryptocurrencies, savings and forex gains. The capital gains tax, in contrast, would focus on immovable property and certain start-up investments and would tax all 'annual' benefits, including dividend and rental income and appreciation in value. However, unlike the capital growth tax, the capital gains tax would only be levied at the point of realisation. This is usually when the relevant asset is sold, but also when immovable property exits Box 3 for another reason, such as emigration.

However, the Upper House has reportedly raised concerns about the capital growth tax including whether taxpayers would have sufficient liquidity to pay tax on the notional growth of their assets. At the Upper House's insistence, the Government is therefore now investigating the possibility of shifting to a full capital gains tax for all assets.

Because both houses of Parliament will go on summer recess at the beginning of July, no major parliamentary developments are expected in the near future with regard to the new Box 3 regime. As usual, the final decision on the content of the Tax Plan and the other tax bills that will be presented to the lower house of Parliament on Budget Day will take place in August.

Workshop on possible EU own resource based on a digital levy

On 23 June 2026, the Budgetary Support Unit for the Committee on Budgets of the European Parliament held a workshop on possible EU own resource based on a digital levy, with various experts presenting assessments of a potential EU-wide Digital Services Tax (DST) and providing pros and cons, design options, revenue potential and the international context.

Key takeaways from the discussion include:

- Several European countries have introduced DST-style measures (including Austria, Denmark, Finland, France, Hungary, Italy, Poland, Portugal, Spain, Türkiye and the UK) with considerable differences in terms of scope, thresholds, rates and reporting requirements. This was considered by the expert panellists as a source of fragmentation in the single market and a driver of trade-related challenges and broader geopolitical risks.
- However, Apostolos Thomadakis (Head of the Financial Markets and Institutions Unit, Centre for European Policy Studies) noted the risks of an EU DST include potential trade tensions, pass-through of the tax burden to businesses and consumers, changes in business models to reduce tax exposure, concerns over competitiveness and innovation, and significant legal and administrative implementation challenges.
- According to Cristina Enache (economist with the US Tax Foundation think tank) existing national DSTs contribute only marginally to overall tax revenues and even an EU-wide DST would represent a very small share of EU tax budget resources. In countries that have adopted DSTs, annual revenues generally fall typically below 0.1% of total Government revenue, with Türkiye being a notable exception at about 0.24%. At EU level, the European Commission estimated that an EU-wide DST could raise up to €5bn per year. According to Ms Enache, if the objective is to provide meaningful funding for the EU budget, a DST is not an effective instrument, and expanded rates or bases of VAT on digital services would be a more appropriate and effective solution (as this already generates about €33bn per year and is applied in a coordinated manner, including a credit mechanism that avoids multiple taxation along the value chain).
- Regarding the longer-term design of DSTs, Faith Amaro (PhD Researcher, Institute of Advanced Legal Studies, University of London) suggested moving from simple revenue or profit thresholds towards profit-margin-based approaches, using EBITDA margin formulas combined with standard corporate tax rates to set withholding tax rates on digital income, so that a profit-based withholding tax is calibrated to the MNE's global EBITDA margin. In her view, the DST should cover a broad scope of digital services, including automatic digital services as well as online gambling and cryptoasset services.

The European Parliament first voted in favour of imposing an EU-wide DST in 2018; however, the proposal failed to achieve the required unanimity to progress, and periodic efforts to revive it since have stalled. The latest iteration of the proposal, published in May 2026, may be partly responsible for President Trump's statements on 26 June 2026 that he would impose a 100% import tariff on any European country that introduces a DST on American technology companies. The President warned that such tariffs would be applied immediately and would completely supersede any existing bilateral trade agreements – presumably including the EU-US trade deal, the terms of which the EC agreed to the day before the President's latest threat. DSTs in Europe, and beyond, are therefore likely to remain the subject of contention for the foreseeable future. ■