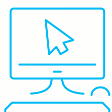
E-News from KPMG's EU Tax Centre

Key Insights of E-News Issue 224

KPMG's EU Tax Centre compiles a regular update of EU and international tax developments that can have both a domestic and a cross-border impact, with the aim of helping you keep track of and understand these developments and how they can impact your business. Today's edition includes updates on:

- *CJEU:* Referral on the compatibility of Germany's double tax relief switch-over mechanism for foreign permanent establishments with EU law
- *CJEU:* Referral on Portuguese tax defensive measures with respect to real estate held through tax haven structures
- *Council of the EU:* Programme of the Cyprus Council Presidency released
- *Council of the EU:* DAC9 implementation – state of play
- *Council of the EU:* DAC8 implementation – state of play
- *OECD:* Pillar Two Side-by-Side Package published
- *Cyprus:* Tax reform bill enacted
- *Luxembourg:* Pillar Two registration and reporting forms published
- *Netherlands (court decision):* Dutch Supreme Court confirms 'fraus legis' for deduction of interest from debt related to the purchase of a participation



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Infringement Procedures and CJEU

Key Insights

- CJEU referral on the compatibility with EU law of Germany's double tax relief switch-over mechanism for foreign permanent establishments
- CJEU referral on Portuguese tax defensive measures with respect to real estate held through tax haven structures

CJEU Referrals

CJEU referral on the compatibility with EU law of Germany's double tax relief switch-over mechanism for foreign permanent establishments

On November 19, 2025, the German Federal Fiscal Court referred a question to the Court of Justice of the European Union (CJEU) concerning the compatibility with EU law of Germany's double tax relief switch-over mechanism for foreign permanent establishments (case C-738/25).

Under the German controlled foreign corporations (CFC) rules, in general, qualifying passive income of a foreign subsidiary of that meets certain conditions is subject to taxation in Germany. The rule applies when German resident taxpayers directly or indirectly own more than 50 percent of the shares in a foreign corporate subsidiary that (i) is subject to a low rate of taxation, and (ii) earns income from certain passive activities. Exceptions to the 50 percent threshold apply to certain types of passive income of an investment character (i.e., a lower participation may be sufficient to trigger CFC taxation). EU/EEA subsidiaries that carry out genuine economic activities may be exempt from the CFC rules (the "motive test"), as a consequence of a 2008 amendment in light of the CJEU's decision in case C-196/04.

Whilst a foreign partnership cannot be a CFC for the purposes of the German CFC rules, a foreign permanent establishment may fall in scope of the rules where a German tax resident receives income within a foreign permanent establishment and such income would be taxable as passive income under the rules if this permanent establishment were a foreign legal entity. In those cases, German CFC rules require the application of a treaty-override provision such that the passive income derived through the foreign permanent establishment is subject to the credit method of relief from double taxation rather than through an exemption – the so-called switch-over mechanism. Unlike the regime applicable to foreign legal entities, this provision does not allow taxpayers to demonstrate that the foreign permanent establishment is genuinely established and carries out real economic activities (i.e., there is no "motive test").

The plaintiff in the case at hand is a German holding company that forms a fiscal unity with its wholly owned German subsidiary, A GmbH. The latter company established a wholly owned subsidiary in Luxembourg, which in turn held interests in several lower-tier subsidiaries. These entities ultimately acquired immovable property. A GmbH and its Luxembourg subsidiary entered into a silent partnership, with A GmbH acting as the silent partner. For German tax purposes, the silent partnership was treated as transparent, with its profits attributed to the German-resident partners. Under the double tax treaty concluded between Germany and Luxembourg, income attributable to a permanent establishment (triggered by the tax transparent partnership) would normally be exempt from German taxation.

However, the German tax authorities classified the income as passive income generated through a foreign permanent establishment located in a low-tax jurisdiction. On this basis, they argued that the switch-over mechanism applies and,

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consequently, that double taxation relief should be granted under the credit method rather than the treaty-based exemption method. The applicant challenged the tax authorities' approach, arguing that the inability to prove genuine economic activity and thereby access the exemption method constitutes an unjustified restriction on the freedom of establishment under EU law.

The referring court expressed doubts as to the compatibility of the German rules with EU law. It also noted that the CJEU had already ruled on the switch-over mechanism in case C-298/05, in which the CJEU found those rules to be compatible with EU law. Nevertheless, the referring court took the view that the present case raises a distinct question. In its opinion, the earlier case examined the switch-over mechanism in isolation, without considering its interaction with the CFC rules, which, according to the Court's case law, must include a motive test in order to ensure compatibility with EU law.

The referring court has therefore asked the CJEU whether EU law precludes a national rule that unilaterally imposes the credit method on income from a foreign permanent establishment, without allowing the taxpayer to demonstrate genuine economic activity, where such a possibility exists in comparable situations involving foreign legal entities.

CJEU referral on Portuguese tax defensive measures with respect to real estate held through tax haven structures

On October 8, 2025, the Tribunal Arbitral Tributário (Portugal) submitted a request for a preliminary ruling to the CJEU (case C-661/25). The request concerns the compatibility with EU law of the Portuguese regime imposing increased taxation on Portuguese real estate assets held by companies directly or indirectly controlled by entities established in jurisdictions included on Portugal's domestic tax haven list.

Under Portuguese tax law, increased rates of real estate transfer tax (IMT) and municipal property tax (IMI) apply to the acquisition and ownership of Portuguese real estate by entities that are directly or indirectly controlled by persons or entities resident in a jurisdiction classified domestically as a tax haven. The Portuguese domestic tax haven list comprises approximately 80 jurisdictions and is independent of the EU list of non-cooperative jurisdictions, although it partially overlaps with both Annex I and Annex II of the EU list.

The applicants in the case at hand are Portuguese private limited companies established in Lisbon, whose activity consists of the acquisition, sale and management of real estate. Their share capital is indirectly held, through Luxembourg companies, by investment funds established in the Cayman Islands, which are managed by a general partner also established in the Cayman Islands.

In 2018, the applicants acquired several properties in Portugal and benefited from an IMT exemption applicable to properties acquired for resale. As the properties were not resold within the statutory three-year period, the exemption expired and the applicants voluntarily paid the IMT due.

In January 2023, the Portuguese tax authorities conducted tax inspections and subsequently issued additional IMT and IMI assessments at increased rates, on the ground that the applicants were indirectly controlled by entities established in a low-tax jurisdiction, namely the Cayman Islands. The applicants challenged the assessments before the Portuguese courts.

The Portuguese referring court expressed doubts as to the compatibility of the Portuguese rules with EU law and referred several questions to the CJEU, including the below:

- whether Portuguese legislation that applies higher IMT and IMI rates solely because a taxpayer is directly or indirectly controlled by an entity resident in a listed low-tax jurisdiction constitutes a restriction on the free movement of capital;
- if such a restriction exists, whether the objective of combating tax evasion and tax avoidance may constitute an overriding reason in the public interest capable of justifying it;
- if the restriction may in principle be justified, whether the Portuguese regime goes beyond what is necessary, notably where taxpayers are not allowed to rebut the application of the increased rates by demonstrating that the ownership structure is not artificial and is based on genuine commercial and economic reasons. Furthermore, the referring court asked for clarification on whether the assessment of proportionality depends on whether Portugal has an effective legal framework for the exchange of tax information with the relevant low-tax third country that covers the taxes under dispute.

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EU institutions

Key Insights

- Programme of the Cyprus Council Presidency released
- DAC9 implementation – state of play
- DAC8 implementation – state of play
- European Commission publishes notice in support of Pillar Two Side-by-Side Package
- European Commission launches consultation on upcoming DAC recast proposal
- FISC Subcommittee discusses taxation of ultra-high-net-worth individuals

Council of the EU

Programme of the Cyprus Council Presidency released

On January 1, 2026 , Cyprus assumed the Presidency of the Council of the EU for the first half of 2026 (January 1 – June 30, 2026). Key takeaways from the Programme of the Cyprus Presidency in the context of direct taxation include:

- *Simplification:* The Cyprus Presidency will focus on promoting the EU tax decluttering and simplification agenda. This includes initiating the work on the upcoming recast of the Directive on Administrative Cooperation (DAC recast proposal). The Programme also indicates that the Cyprus Presidency stands ready to open discussions on the upcoming omnibus package to streamline direct taxation rules and enhance the competitiveness of EU businesses.
- *Anti-abuse:* The Presidency will continue efforts to combat tax evasion, aggressive tax planning and harmful tax competition, including the work on updating the EU list of non-cooperative jurisdictions.
- *Own resources:* The Presidency will aim to significantly progress discussions on the Own Resources proposals within the new Multiannual Financial Framework (MFF) for 2028 to 2034.
- *United Nations:* The Presidency aims to advance discussions at the level of the United Nations regarding a Framework Convention on International Tax Cooperation. According to the Programme, the Presidency supports a balanced and inclusive outcome that reflects both EU values and global consensus.

Furthermore, the Programme notes that the Presidency will further pursue the efforts to advance the legislative work on the Savings and Investments Union (SIU), by making sufficient progress on the Capital Markets Union agenda on initiatives aimed at strengthening the competitiveness and integration of the EU banking sector.

DAC9 implementation – state of play

On May 6, 2025, Council Directive (EU) 2025/872 on Administrative Cooperation to establish a framework for the exchange of Pillar Two information between Member States (DAC9) was published in the Official Journal of the EU. The Directive entered into force the day after its publication in the Official Journal of the European Union, i.e., May 7, 2025.

The purpose of DAC9 is to introduce a framework for the exchange of Top-up tax information returns filed by groups in scope of Pillar Two with the tax administration of an EU Member State. This allows MNEs to switch from local to central filing in the EU, where the EU UPE or designated filing entity files on behalf of the group in an EU Member State.

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Member States were required to transpose the Directive by December 31, 2025. EU Member States that have opted to delay the implementation of the IIR and UTPR must also transpose DAC9 by this deadline.

To the best of our knowledge, as at December 31, 2025, the following Member States had transposed DAC9 into national law.

- *Austria:* On December 23, 2025, Austria published amendments to its Pillar Two Minimum Tax Act in the Official Gazette, including the rules to transpose DAC9 into national law. See below for more information.
- *Croatia:* On December 3, 2025, Croatia published in the Official Gazette a bill to transpose DAC9 into domestic law. For more details, please refer to E-News Issue 223.
- *Denmark:* On December 17, 2025, Denmark published Act No. 1643 implementing DAC9 into domestic law.
- *Finland:* On December 22, 2025, the bill to transpose DAC9 into domestic law was approved by the Finnish Parliament.
- *Germany:* On December 23, 2025, the bill to transpose DAC9 into domestic law was published in the Official Gazette. See below for more information.
- *Ireland:* On December 23, 2025, the bill to transpose DAC9 into domestic law was published in the Official Gazette. For more information, please refer to a report prepared by KPMG in Ireland.
- *Italy:* On October 29, 2025, Italy published a ministerial decree in the Official Gazette, implementing DAC9 reporting and information exchange requirements with respect to the GIR for Pillar Two purposes. For more information, please refer to a report prepared by KPMG in Italy.
- *Hungary:* On December 16, 2025, Hungary implemented Act XC of 2025 transposing DAC9 into domestic law.
- *Luxembourg:* On December 19, 2025, Luxembourg published in their Official Gazette the law which implements DAC9 into domestic law. For more information, please refer to a report prepared by KPMG in Luxembourg.
- *The Netherlands:* On December 23, 2025, the Netherlands published amendments to its Pillar Two Minimum Tax Act in the Official Gazette, including the rules to transpose DAC9 into national law. See below for more information.
- *Slovakia:* On October 21, 2025, the legislative amendments to the Slovakian Pillar Two law were approved by the Parliament, including amendments to transpose DAC9 into domestic law. For more information, please refer to E-News Issue 220.
- *Slovenia*: On November 4, 2025, the Slovenian National Assembly approved an amendment to the tax procedure act transposing DAC9 into domestic law.

The following Member States are yet to transpose the provisions of the Directive into domestic law: Belgium, Bulgaria, Cyprus, Czechia, Estonia, France, Greece, Lithuania, Malta, Poland, Portugal, Romania, Spain, Sweden.

For more details on DAC9, please refer to Euro Tax Flash Issue 572.

DAC8 implementation – state of play

On October 17, 2023, the Council of the European Union adopted amendments to the Directive on Administrative Cooperation (DAC) to introduce, amongst others, provisions for the exchange of information on crypto-assets (DAC8). This includes rules on due diligence procedures and reporting requirements for crypto-asset service providers, based on the OECD's Crypto-Asset Reporting Framework (CARF). DAC8 further aims to extend the scope of the exchange of information on cross-border rulings to those involving the tax affairs of high-net-worth individuals. Other changes brought by DAC8 include the extension of the automatic exchange of information to cover non-custodial dividend income and requirements to report the Tax Identification Number (TIN) for certain elements where this was not previously prescribed – including, inter alia, for certain categories of income and capital under DAC1, advance cross-border rulings and advance pricing agreements (DAC3), CbyC reports (DAC4) and reportable cross-border arrangements (DAC6).

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With the exception of the provisions related to the TIN[1] Member States need to transpose DAC8 by December 31, 2025.

To the best of our knowledge, as at December 31, 2025, the following Member States had transposed DAC8 into national law.

- *Austria:* On December 23, 2025 the bill to implement DAC8 was published in the Official Gazette.
- *Croatia*: On December 3, 2025, Croatia published in the Official Gazette a bill to transpose DAC8 into domestic law. For more information, please refer to E-News Issue 223.
- *Denmark:* On April 29, 2025, the Danish Parliament adopted a bill to transpose DAC8 into domestic law. Please refer to E-News Issue 213.
- *Finland:* On December 11, 2025 Finland published Law 1141/2025 implementing the DAC8 rules into domestic law. For more information, please refer to E-News Issue 223.
- *France:* On February 15, 2025, France published the 2025 Finance Act in the Official Gazette including rules to transpose DAC8 into domestic law. For more information, please refer to a report prepared by KPMG in France.
- *Germany:* On December 23, 2025, the bill transposing DAC8 into domestic law was published in the Official Gazette on December 23, 2025.
- *Hungary:* On November 28, 2025, Hungary published rules to transpose DAC8 into domestic law.
- *Ireland:* On December 23, 2025, the Irish government published the Finance Act 2025 in the Official Gazette, including rules to transpose DAC8 into domestic law. For more information, please refer to a report prepared by KPMG in Ireland.
- *Italy*: On December 22, 2025, Italy published Legislative Decree No. 194/2025 in the Official Gazette, transposing DAC8 into domestic law.
- *Latvia*: On November 21, 2025, amendments to the Law on Taxes and Duties partially transposing DAC8 into domestic law were published in the State Gazette. For more details, please refer to E-News Issue 222.
- *Lithuania*: On December 10, 2025, Lithuania published rules implementing DAC8 into domestic law.
- *Romania*: On December 10, 2025, Romania published Government Emergency Ordinance No. 71/2025 in the Official Gazette, transposing DAC8 into domestic law.
- *Slovakia*: On July 10, 2025, Slovakia published in the Official Gazette a bill to transpose DAC8 into domestic law. For more information, please refer to E-News Issue 215.
- *Slovenia*: On November 4, 2025, the Slovenian National Assembly approved an amendment to the tax procedure act transposing DAC8 into domestic law.
- *Sweden*: On December 3, 2025, Sweden implemented the DAC8 rules into national law through the Act on Automatic Exchange of Information on Crypto Assets and the Act on collection of certain information in the field of taxation regarding crypto assets.

The following Member States are yet to transpose the provisions of the Directive into domestic law: Belgium, Bulgaria, Cyprus, Czechia, Estonia, Greece, Luxembourg, Malta, the Netherlands, Poland, Portugal, Spain.

For more details on DAC8, please refer to Euro Tax Flash Issue 572.

[1] The deadline to comply with the TIN provisions is January 1, 2030, for the categories of income and capital subject to the exchange of information and January 1, 2028, for the other exchanges for which the TIN collection is applicable.

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European Commission

European Commission publishes notice in support of Pillar Two Side-by-Side Package

On January 12, 2026, the European Commission (EC) published a notice in the Official Journal of the EU acknowledging the release of the Side-by-Side Package and confirming the application of the following Safe Harbours through Article 32 of the EU Minimum Tax Directive:

- the Simplified ETR Safe Harbour;
- the extension of the Transitional CbCR Safe Harbour;
- the Substance-based Tax Incentive Safe Harbour;
- the Side-by-Side Safe Harbour; and
- the UPE Safe Harbour.

Subject to local implementation, the Package will be available for fiscal years commencing on or after January 1, 2026. One exception applies to the Simplified ETR Safe Harbour, which can be implemented by jurisdictions for fiscal years beginning on or after December 31, 2025.

For more information, please refer to Euro Tax Flash Issue 573.

Commission launches public consultation on upcoming DAC recast proposal

On December 16, 2025, the EC launched a call for evidence and public consultation on the DAC recast proposal.

The consultation document builds on the results from the DAC evaluation and seeks further feedback, in particular, on DAC4 (country-by-country reporting) and its interplay with Pillar Two, DAC6 (EU Mandatory Disclosure Rules) and DAC7 (Reporting obligations on platforms operators).

The consultation period ends on February 10, 2026. A legislative proposal is scheduled to be released in the second quarter of 2026.

For more information on the DAC recast proposal, please refer to Euro Tax Flash Issue 572.

European Parliament

FISC Subcommittee discusses taxation of ultra-high-net-worth individuals

On December 11, 2025, the European Parliament's Subcommittee on Tax Matters (FISC) held a hearing on the taxation of ultra-high-net-worth individuals, within the broader objective of promoting fairer tax systems. Experts representing the European Commission, the OECD, the EU Tax Observatory, and Tax Foundation Europe participated in the discussion.

Key takeaways from the discussion include:

- Gabriel Zucman of the EU Tax Observatory outlined their proposal for a minimum tax on extreme wealth which would subject EU citizens with net assets exceeding EUR 100 million to a 2 percent tax.
- Michael Christl of Tax Foundation Europe cautioned that introducing new taxes on wealthy individuals could trigger disinvestment and capital flight, advocating instead for reforms aimed at enhancing the efficiency and transparency of existing tax systems.
- Members of the European Parliament (MEPs) expressed divergent views on the most effective policy approach. Some called for stronger empirical evidence to support claims that high-net-worth individuals would swiftly relocate following an increase in taxation. Others stressed the need to reconcile greater social fairness with Europe's competitiveness and attractiveness as an investment destination. It was also suggested that the European Commission should explore legislative proposals through the enhanced cooperation mechanism.

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- Pasquale Tridico, Chair of the FISC Subcommittee, highlighted the ongoing inequality issue within the European Union and the importance of securing adequate resources to finance EU policies. In view of the findings from the EU Tax Observatory, Mr. Tridico pointed to structural weaknesses in existing net-wealth taxes that undermine their effectiveness in taxing highly concentrated wealth. Mr. Tridico urged the European Commission to develop uniform and equitable tax rules at the European level in order to foster sustainable growth and competitiveness.

For more information on the FISC discussion, the recording of the meeting can be found here and the background document provided by the European Parliamentary Research Service (EPRS) is available here.

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OECD and other International Organizations

Key Insights

- Inclusive Framework on BEPS releases agreed Side-by-Side Package (Pillar Two)
- OECD updates Central Record for Global Minimum Tax purposes (Pillar Two)
- OECD updates list of signatories of the GIR MCAA (Pillar Two)
- OECD releases comments received on tax issues relevant to the global mobility of individuals

OECD

Pillar Two Side-by-Side Package published

On January 5, 2026, the Inclusive Framework on BEPS (IF) released an agreed package of measures (Side-by-Side Package), which modifies key aspects of the Pillar Two framework. Key components include:

- *Side-by-Side (SbS) Safe Harbour:* The SbS Safe Harbour will 'turn off' the application of the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) if the Ultimate Parent Entity (UPE) of a MNE Group is located in a jurisdiction that imposes minimum taxation requirements with respect to both domestic and foreign income, and provides a foreign tax credit for Qualified Domestic Minimum Top-up Taxes (QDMTTs), subject to any generally applicable limitations under its domestic law (a Qualified SbS Regime). According to the OECD Central Record, only the US is so far being treated as having a Qualified SbS Regime in place. The GloBE Information Return (GIR) filing requirements for MNE Groups electing the SbS Safe Harbour will also be consequently modified. The SbS Safe Harbour will be available for fiscal years commencing on or after January 1, 2026, subject to local implementation (i.e., the SbS Package does not provide for retroactive application of the SbS Safe Harbour to fiscal years 2024 or 2025).
- *UPE Safe Harbour:* Separately, in parallel, the existing Transitional UTPR Safe Harbour is set to be replaced with a new, permanent UPE Safe Harbour. For a given MNE Group, the UPE Safe Harbour will protect UPE jurisdiction profits from foreign UTPRs if the UPE is located in a jurisdiction that imposes minimum taxation requirements with respect to domestic income (a Qualified UPE Regime), but will not protect profits of foreign subsidiaries or permanent establishments (PEs) from the application of the IIR or the UTPR (nor would it protect profits of a subsidiary located in the UPE jurisdiction from the application of the IIR). The UPE Safe Harbour would be relevant for MNE Groups located in jurisdictions that do not meet the requirements for the SbS Safe Harbour. Similarly to the SbS assessment process, an evaluation of pre-existing tax regimes, enacted and effective as of December, 31, 2025, will be made by the end of the first half of 2026. At present, no jurisdictions are listed as being eligible for the UPE Safe Harbour in the OECD Central Record. The UPE Safe Harbour will be available for fiscal years commencing on or after January 1, 2026, subject to local implementation.
- *Substance-based Tax Incentives (SBTI) Safe Harbour:* Where MNE Groups elect to apply the SBTI Safe Harbour, certain Qualifying Tax Incentives (QTIs) are treated as an increase to the ETR numerator (Adjusted Covered Taxes) in the amount of their deemed tax value. At the same time, QTIs are not to be included in the ETR denominator (GloBE Income). The increase to the ETR numerator is subject to a cap equal to the higher of 5.5 percent of the payroll costs or depreciation on tangible assets in the jurisdiction. Alternatively, MNE Groups can make a five-year election to apply a cap equal to 1 percent of the carrying value of tangible assets in the jurisdiction (excluding land and other non-depreciable assets). The SBTI Safe Harbour applies broadly to different forms of incentives, including tax credits, super deductions, exemptions or preferential rates subject to a number of conditions. Amongst others, QTIs must be

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calculated based on eligible expenditures or, in the case of production-based incentives, on the basis of the amount of tangible property produced in a jurisdiction. MNE Groups can make the SBTI Safe Harbour election for Fiscal Years beginning on or after January 1, 2026.

- *Extension of the Transitional Country-by-Country Reporting Safe Harbour (TCSH):* The existing TCSH has been extended for an additional year, with the Simplified ETR test continuing to apply at 17 percent.
- *Simplified ETR Safe Harbour (SESH):* A permanent Safe Harbour is introduced to eventually replace the TCSH. Under the SESH, MNE Groups will be required to calculate their Simplified ETR on a jurisdictional basis. The SESH is more detailed than the Simplified ETR Test from the TCSH but potentially less complex than the full GloBE Rules, with the calculation based on financial accounting data (rather than Country-by-Country data), subject to a number of adjustments to determine the Simplified Income and Simplified Taxes. Where the Simplified ETR exceeds 15 percent, the MNE Group shall be deemed to have no top-up tax liability in respect of that jurisdiction. The SESH will apply for fiscal years beginning on or after December 31, 2026, but can be implemented by jurisdictions for fiscal years beginning on or after December 31, 2025. Notably, in contrast to the TCSH, the SESH does not operate on a "once-out-always-out" basis. Broadly, an MNE Group will be eligible to elect the SESH for Tested Jurisdiction if it did not have a Top-up Tax Liability in the preceding two fiscal years.

Furthermore, the SbS Package highlights a number of issues on which further work will be done, including:

- a permanent routine profits and a de minimis Safe Harbour (scheduled to be completed in the first half of 2026);
- adaptations to the GloBE Information Return, the GIR XML Schema to apply the agreed Safe Harbours (scheduled to be completed in the first half of 2026);
- guidance on related benefits and on what may not be treated as a covered tax (e.g., conditional or discriminatory taxes);
- additional administrative guidance on technical GloBE issues (Investment Entities, Minority-owned Constituent Entities, Joint Ventures, hyperinflationary currencies, local accounting standards, Substance-Based Income Exclusion for mobile assets, and Real Estate Investment Vehicles);
- integration of some of the SESH provisions back into the main GloBE rules, with a particular focus also on facilitating continuity between the Simplified ETR and GloBE calculation.

For more information, please refer to a report prepared by KPMG International.

Updated Central Record for Pillar Two purposes

On January 5, 2026, the OECD released an updated version of the central record providing the outcome of the Pillar Two transitional peer review process current as at December 1, 2025.

The registry is updated on a regular basis and identifies jurisdictions that have been granted Transitional Qualified Status concerning the local implementation of the Domestic Minimum Top-up Tax (DMTT) and Income Inclusion Rule (IIR). According to the update, the following jurisdictions have now been awarded transitional qualified status:

- The IIR regimes of Hong Kong (SAR, China) and Qatar were awarded transitional qualified status since the previous update.
- The DMTT regimes of Bahrain, Hong Kong (SAR, China) and Qatar were awarded transitional qualified status and considered eligible for the QDMTT Safe Harbour since the previous update.

Notably, the central record now also includes a list of jurisdictions with Qualified SbS Regimes. At present, this includes only the United States.

For previous coverage, please refer to E-News Issue 216.

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List of signatories of the GIR MCAA updated (Pillar Two)

On December 19, 2025, the OECD updated the list of jurisdictions that have signed the GloBE Information Return Multilateral Competent Authority Agreement (GIR MCAA) to include Sweden, which signed the Agreement on November 4, 2025.

The list of 23 signatories now includes Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, South Korea, Liechtenstein, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Slovakia, South Africa, Spain, Sweden, Switzerland and the UK.

For previous coverage on the GIR MCAA list of signatories, please refer to E-News Issue 221.

Public comments received on tax issues relevant to the global mobility of individuals

On January 14, 2026, the OECD released comments received on tax issues relevant to the global mobility of individuals (for previous coverage, please refer to E-News Issue 222).

The OECD received a total of 64 responses, including a response letter submitted by KPMG International. In the submission, KPMG welcomes clarifications brought through the recent update to the OECD Model Tax Convention (please refer to a dedicated KPMG alert for more details) and agrees with the acknowledgement in the consultation document that remote working arrangements remain prevalent. In addition, the KPMG submission highlights key obstacles that prevent remote working arrangements and provides input on common fact patterns that KPMG observes in practice, while stressing the need for further guidance from both a personal income tax and corporate tax perspective.

In a next step, the OECD will hold a public consultation session on January 20, 2026. For more details, please refer to the OECD webpage.

Additional developments

On December 17, 2025, the OECD published the 2025 peer review report on compliance of 139 Inclusive Framework members with the exchange of information on tax rulings requirements under the BEPS Action 5 minimum standard.

On January 12, 2026, Guatemala joined the OECD/G20 Inclusive Framework on BEPS as its 148th member.

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Local Law and Regulations

Key Insights

- Austria enacts amendments to local Pillar Two rules
- Cyprus consents to Pillar Two Side-by-Side Package
- Cyprus enacts tax reform bill
- Germany enacts amendments to local Pillar Two rules
- German publishes revised guidance on treaty interpretation
- Ireland extends Pillar Two registration deadline
- Italy enacts 2026 Budget Bill introducing changes to financial transaction tax and other tax measures
- Jersey extends MCIT registration deadline
- Luxembourg launches Pillar Two registration and reporting forms
- The Netherlands enact amendments to local Pillar Two rules
- Norway enacts amendments to local Pillar Two rules
- Portugal extends Pillar Two registration deadline
- Türkiye further extends QDMTT return filing deadline

Austria

Amendments to local Pillar Two rules

On December 23, 2025, Austria published amendments to its Pillar Two Minimum Tax Act in the Official Gazette. The amendments introduce into existing legislation additional elements of the OECD Administrative Guidance. The bill includes:

- Additional guidance on the application of article 9.1. of the OECD Model Rules, as provided in the OECD January 2025 Administrative Guidance, including related amendments to the transitional CbyC Reporting Safe Harbour and QDMTT Safe Harbour.
- Elements from the OECD June 2024 Administrative Guidance, including rules on allocating cross-border current and deferred tax expenses, updated guidance on DTL recapture rules, guidance on the divergence between GloBE and accounting carry values and guidance on the treatment of securitization vehicles.
- Amendments to the treatment of blended CFC regimes as provided in the OECD December 2023 Administrative Guidance.

The changes apply retrospectively to fiscal years beginning on or after December 31, 2023.

The bill also transposes DAC9 into domestic law – see above.

For more information on Austrian Pillar Two rules, please refer to E-News Issue 214.

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Cyprus

Consent to Pillar Two Side-by-Side Package

On January 8, 2026, the Cypriot Government published a press release announcing its consent to the Side-by-Side (SbS) Package published on January 5, 2026, including the Side-by-Side Safe Harbour, the UPE Safe Harbour, the Simplified ETR Safe Harbour, the extension of the Transitional CbCR Safe Harbour, and the Substance-Based Tax Incentives Safe Harbour.

Note that Article 32 of the EU Minimum Tax Directive deems Pillar Two top-up tax in a jurisdiction to be zero for a fiscal year if the effective level of taxation of the Constituent Entities located in that jurisdiction fulfils the conditions of an international set of rules and conditions which all Member States have consented to. Whilst the SbS Package has been agreed by all OECD/G20 Inclusive Framework members, Cyprus is the only EU Member State that is not a member of the Inclusive Framework. Separate consent from Cyprus is therefore a requirement for the conditions of Article 32 of the Directive to be met.

Cyprus has also previously confirmed its consent to the transitional CbyC Safe Harbor, the transitional UTPR Safe Harbor and the permanent QDMTT Safe Harbor and related Administrative Guidance in March and October 2023 as well as July 2024 (see E-News Issue 199).

Tax reform bill enacted

On December 31, 2025, a comprehensive tax reform bill was published in the Official Gazette providing for various changes to tax laws in Cyprus

Key measures from a corporate tax perspective include:

- the corporate tax rate is increased from 12.5 percent to 15 percent for all companies;
- withholding tax on dividend payments made to associated companies in low-tax jurisdictions decreases from 17 percent to 5 percent;
- profits of foreign permanent establishment located in a jurisdiction which is included on the EU list of non-cooperative jurisdictions for tax purposes are no longer exempt;.
- the loss carry-forward period is extended from five years to up to ten years, subject to certain conditions;
- the 120 percent super-deduction for qualifying R&D expenditure on intangible assets is extended until 2030;
- a new 120 percent super deduction is introduced in respect of qualifying expenditure on machinery and installations used for agricultural or livestock production;
- a flat income tax rate of 8 percent on gains arising from crypto asset transactions is introduced.

The measures are generally effective from January 1, 2026.

For more information, please refer to a report prepared by KPMG in Cyprus and E-News Issue 208.

Germany

Amendments to local Pillar Two rules

On December 23, 2025, Germany published amendments to its Pillar Two Minimum Tax Act in the Official Gazette. The amendments introduce into existing legislation additional elements of the OECD Administrative Guidance. The bill includes:

- Additional guidance on the application of article 9.1. of the OECD Model Rules, as provided in the OECD January 2025 Administrative Guidance, including related amendments to the transitional CbyC Reporting Safe Harbour and QDMTT Safe Harbour.

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- Elements from the OECD June 2024 Administrative Guidance, including rules on allocating cross-border current and deferred tax expenses, updated guidance on DTL recapture rules, guidance on the divergence between GloBE and accounting carry values and guidance on the treatment of securitization vehicles.
- Amendments to the Transitional CbCR Safe Harbour (including anti-hybrid arbitrage rules that would apply to transactions entered into after December 15, 2022), as provided in the OECD December 2023 Administrative Guidance.
- A rule to update the Transition Year for the purposes of the QDMTT when foreign IIR or UTPR rules come into effect after the German QDMTT, as provided in the OECD July 2023 Administrative Guidance.

The amendments generally apply for financial years starting on or after December 31, 2023. An exception applies with respect to the anti-hybrid arbitrage rules in the context of the transitional CbyC Reporting Safe Harbour, which applies for financial years starting after December 31, 2024.

For more information on the German Pillar Two rules, please refer to a report prepared by KPMG in Germany.

The bill also transposes DAC9 into domestic law – see above.

In addition, the bill includes:

- the removal of the German royalty deduction limitation rules with effect from 2025, and
- changes to the CFC rules in relation to capital investment income – the current participation threshold of at least 1 percent is increased to 10 percent, with retroactive effect from 2022.

Revised guidance on treaty interpretation

On December 24, 2025, the German Ministry of Finance revised its guidance on the approach to double tax treaty (DTT) interpretation in light of the Commentary to the OECD Model Tax Convention (MTC). Key takeaways include:

- The guidance clarifies that DTTs can be interpreted with reference to the Commentary to the MTC provided that the respective DTT provision is identical or comparable to the OECD MTC.
- The guidance further notes that for DTT interpretation purposes the relevant MTC Commentary version is generally the one that was applicable when the DTT was incorporated into German law. In other words, a static interpretation approach should be applied instead of a dynamic approach.
- At the same time, the guidance clarifies that an exception to the static approach applies (i.e., possibility to use the most recent version of the MTC Commentary) where the most recent version is considered to provide only for clarifications and specifications compared to earlier versions (i.e., no substantive changes).
- The updated decree replaces earlier guidance dated April 19, 2023 and aligns with a decision of the German Federal Tax Court dated December 5, 2023.

For more information, please refer to a report (in German) prepared by KPMG in Germany.

Ireland

Extension of Pillar Two registration deadline

On December 18, 2025, Irish Revenue announced an extension of the registration deadline for Pillar Two purposes.

As a reminder, in-scope entities are required to register in Ireland within 12 months after the last day of the first fiscal year during which an entity qualifies as a relevant entity (e.g. parent entity subject to the IIR, entity subject to the UTPR, or entity liable to the QDTT).

According to eBrief No. 244/25, the deadline for calendar year taxpayers was extended from December 31, 2025 to February 28, 2026. For groups with a different fiscal year-end, the normal 12-month deadline for registration remains.

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In addition, Irish Revenue provided clarifications for groups seeking to register certain types of entities (including dissolved and inactive/dormant entities).

For more information, please refer to a report prepared by KPMG in Ireland and E-News Issue 217.

Italy

2026 Budget Bill introduces changes to financial transaction tax and other tax measures

On December 30, 2025, the Italian Senate published the 2026 Budget Bill in the Official Gazette. The budget contains increases to the rates of the Italian Financial Transaction Tax (FTT).

With effect from January 1, 2026, the key changes to the Italian FTT rates are as follows:

- The rate applicable to the transfer of ownership of shares and other equity instruments has increased from 0.2 percent to 0.4 percent.
- The rate applicable to high-frequency trading in equity instruments and related derivatives has increased from 0.02 percent to 0.04 percent.

The other core features of the Italian FTT regime remain unchanged.

In addition to the FTT rate changes, the budget also changes domestic dividend participation and capital gains regimes. Under the new rules, the partial dividend exemption (95 percent) and participation exemption for capital gains continue to apply for taxpayers subject to Italian corporate income tax (*imposta sul reddito sulle societa* – IRES) only if the participation meets a minimum threshold of at least 5 percent of the share capital or voting rights or a value of at least EUR 500,000. Where these thresholds are not met, dividends and capital gains do not qualify for preferential treatment under the participation exemption regime.

The budget also modifies the withholding tax regime for dividends paid to EU/EEA non-resident entities. Dividends distributed to such entities qualify for a reduced withholding tax rate of 1.20 percent only if similar participation thresholds (5 percent or EUR 500,000) are satisfied by the non-resident recipient.

Jersey

Extension of the MCIT registration deadline

On December 19, 2025, Jersey Revenue announced an extension of the registration deadline for purposes of the new Multinational Corporate Income Tax (MCIT) .

As a reminder, the MCIT is a new corporate income tax at a rate of 15 percent, which applies to Jersey Constituent Entities of in-scope MNE groups for fiscal years starting on or after January 1, 2025. The MCIT legislation generally follows the Pillar Two Model Rules, such that the amount of MCIT payable in Jersey broadly aligns with the amount of tax that would be due under the GloBE Rules. Note, however, that the MCIT has not been confirmed as a QDMTT under the transitional OECD peer review (see above).

In-scope MNE groups are generally required to register for MCIT before the end of the first accounting period in which the scoping criteria are met. As an example, an in-scope MNE group with an accounting period from January 1 to December 31 must register before December 31, 2025.

According to new Jersey Revenue announcement, the deadline for in scope entities with a fiscal year-end on December 31, 2024 was extended from December 31, 2025 to February 28, 2026.

For more information on the MCIT, please refer to E-News Issue 216.

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Luxembourg

Pillar Two registration and reporting forms published

On January 6, 2026, the Luxembourg tax authorities made available the forms to be used to comply with the three main obligations under the Luxembourg Pillar Two Minimum Tax Act and launched the process on the "MyGuichet" e-filing platform.

- *Registration:* A registration form is now available. Each constituent entity, joint venture, and joint venture affiliate is required to register. The same form may be used to notify changes in the group or to de-register the entity. The form requires several data points, including:
  - the identity and tax identification number of the constituent entity;
  - the name of the multinational enterprise (MNE) group or large-scale domestic group;
  - the identity of the ultimate parent entity (UPE) and the jurisdiction where it is located;
  - the fiscal year for which the group falls within the scope of the Pillar Two rules;
  - the date on which the fiscal year of the group ends;
  - the identity of the designated local filing entity (if applicable);
  - the identity of the designated local entity for UTPR purposes (if applicable);
  - the identity of the designated local entity for QDMTT purposes (if applicable);
  - name and contact details of the relevant individual with respect to the registration.

- *GloBE Information Return (GIR):* Furthermore, the GIR xml schema has been made available and aligns with the GIR materials published by the OECD in January 2025. The GIR must be submitted by the Luxembourg constituent entities or the Luxembourg designated filing entity (on behalf of all Luxembourg entities), unless it is filed in another jurisdiction and exchanged with Luxembourg. If filed in another jurisdiction, a notification must be submitted to the Luxembourg tax authorities. Such notification is to be made within the same deadline as for the GIR. The notification is to be made through the registration process.
- *Local Tax Return for Pillar Two taxes:* A single local return for IIR, UTPR and QDMTT has also been made available. For QDMTT and UTPR, there is a possibility to elect a Luxembourg designated entity to file and pay the tax on behalf of all Luxembourg Constituent Entities. The form is relatively short and does not require the disclosure of detailed IIR, UTPR, or QDMTT calculations. Instead, only general information (e.g., identification of group, legal representative and entity liable for top-up tax) and a declaration of the amount of tax payable is required. At this stage, it is not clear whether the Luxembourg tax authorities will require a tax return to be filed in cases where no top-up tax is payable in Luxembourg.

The deadline for these filing obligations is 15 months after the end of the fiscal year (18 months for the transitional year). Accordingly, calendar-year taxpayers will have their first filing obligation by June 30, 2026 in respect of the 2024 fiscal year.

For more information, please refer to a report prepared by KPMG in Luxembourg.

Amendments to local Pillar Two rules

On December 22, 2025, Luxembourg published in the Official Gazette a bill to incorporate the January 2025 OECD Administrative Guidance into the Luxembourg Pillar Two law, along with additional technical amendments.

The bill also transposes DAC9 into domestic law – see above.

For more information, please refer to a report prepared by KPMG in Luxembourg and E-News Issue 216.

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Netherlands

Amendments to local Pillar Two rules

On December 23, 2025, the Netherlands published amendments to its Pillar Two Minimum Tax Act in the Official Gazette. The amendments introduce into existing legislation additional elements of the OECD Administrative Guidance. Key elements include:

- The bill incorporates additional guidance on the application of article 9.1. of the OECD Model Rules, as provided in the OECD January 2025 Administrative Guidance, including related amendments to the transitional CbyC Reporting Safe Harbour and QDMTT Safe Harbour.
- The bill also incorporates elements from the OECD December 2023 and OECD June 2024 Administrative Guidance, including rules on allocating cross-border current and deferred tax expenses, updated guidance on DTL recapture rules and guidance on the divergence between GloBE and accounting carry values.

The amendments generally apply retroactively to fiscal years beginning on or after December 31, 2023. Exceptions apply to measures that are seen as burdensome for the taxpayers (e.g., the revised rules on the application of article 9.1), which apply to fiscal years beginning on or after December 31, 2025.

The bill also transposes DAC9 into domestic law – see above.

For more information, please refer to a report prepared by KPMG in the Netherlands. For more information on the Pillar Two rules in the Netherland, please refer to E-News Issue 217.

Norway

Amendments to local Pillar Two rules

On December 22, 2025, Norway published amendments to its Pillar Two Minimum Tax Act in the Official Gazette as part of the 2026 Budget. The amendments introduce into existing legislation additional elements of the OECD Administrative Guidance. Key elements include:

- The bill incorporates additional guidance on the application of article 9.1. of the OECD Model Rules, as provided in the OECD January 2025 Administrative Guidance, including related amendments to the transitional CbyC Reporting Safe Harbour and QDMTT Safe Harbour.
- The bill also incorporates elements from the OECD June 2024 Administrative Guidance, including rules on allocating cross-border current and deferred tax expenses, updated guidance on DTL recapture rules, guidance on the divergence between GloBE and accounting carry values and guidance on the treatment of securitization vehicles.

The amendments apply retroactively to fiscal years starting on or after December 31, 2023.

As a reminder, Norway has implemented an IIR and DMTT for fiscal years starting on or after December 31, 2023. The UTPR (including the UTPR Safe Harbour) was implemented as part of the 2025 Budget and applies to fiscal years beginning on or after December 31, 2024.

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Portugal

Extension of Pillar Two registration deadline

On December 12, 2025, the Portuguese tax administration announced an extension of the registration deadline for Pillar Two purposes.

As a reminder, every constituent entity located in Portugal and included in the scope of the GloBE rules must submit a notification to the Portuguese tax authorities within nine months (12 months for the transitional year) after the end of the fiscal year in which the group falls within the scope of the GloBE rules or when there are any changes in the elements contained in the notification.

According to the December 12, 2025, release, the registration deadline was extended from 12 to 15 months after the end of the fiscal year for in scope entities with a fiscal year-end between December 31, 2024, and March 31, 2025. This means that for calendar taxpayers, the registration should be completed by March 31, 2026.

For more information, please refer to E-News Issue 217.

Türkiye

Further extension of QDMTT return filing deadline

On January 13, 2026, the tax administration in Türkiye announced a further extension of the filing deadline for the QDMTT returns from January 15, to January 28, 2026, with respect to fiscal years ending on December 31, 2024.

For groups with a different fiscal year-end, the deadline for submitting the QDMTT return and paying QDMTT due in Türkiye remains 12 months after the end of the relevant fiscal year (i.e., March 31, 2026, for the fiscal year ending on March 31, 2025).

For more information on the previous extension and the e-filing portal, please refer to E-News Issue 223.

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Key Insights

- Dutch Supreme Court confirms 'fraus legis' for deduction of interest from debt related to the purchase of a participation

Netherlands

Dutch Supreme Court confirms 'fraus legis' for deduction of interest from debt related to the purchase of a participation

On December 19, 2025, the Dutch Supreme Court (the Supreme Court) issued a ruling in a case concerning the possibility to deduct interest on acquisition debt. The case represents a long-running litigation that was brought in front of the Supreme Court for the second time.

The case concerned a private equity investor that used a Dutch holding company (Dutch HoldCo) for the purpose of acquiring a Dutch company. The acquisition of the latter was financed by the Dutch HoldCo with a loan taken from its Luxembourg shareholder. The loan covered both the purchase price for the shares, as well as the amounts needed to refinance existing loans of the acquired entity. The Luxembourg shareholder had in turn financed the acquisition by issuing Preferred Equity Certificates ('PECs') – hybrid financing instruments that qualify as debt in Luxembourg. According to the Dutch Appeals Court, the payments received on the PECs had not been taxed as interest income in the hands of the recipients.

Deductibility of interest payments on the loan used to finance the purchase of the shares

In its judgment, the Supreme Court reaffirmed that the 'fraus legis' doctrine (i.e., anti-abuse doctrine) does not apply to a loan that, in principle, falls within the scope of the anti-base erosion rules under the Dutch corporate income tax act (Section 10a CITA 1969)[2] only if the loan is granted by an entity that performs a pivotal financial function within the group. The decision is in line with previous case-law from 2023, where the Dutch Supreme Court also clarified that the lender's pivotal financial function must be substantive and cannot be limited to acting merely as a conduit – for more details please refer to E-news Issue 173. Since the referral Court of Appeal had already ruled that such pivotal finance function is not present in the case at hand, the Supreme Court held that the disputed interest was not deductible.

Deductibility of the loan used to refinance existing debt

With respect to the portion of the loan used to refinance existing debt, the Supreme Court upheld the Court of Appeal's ruling that this part of the shareholder loan does not constitute 'fraus legis'. The Supreme Court based its decision on two points: i) the deductible interest for this part of the loan was already reduced to an arm's length interest of 2.5 percent, and therefore did not lead to a tax benefit, and ii) the refinancing related to a debt for which the acquired company and the tax authorities had previously reached a compromise, and no 'fraus legis' was present.

For more information, please refer to a report prepared by KPMG in the Netherlands.

[2] Under these rules, financing costs related to loans received from associated parties and used to acquire other companies represent an 'intra-group (non-business motivated) diversion' and are not deductible for tax purposes.

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Pillar Two state of play: Implication of recent developments – January 14, 2026

Following the G7 statement in June 2025 outlining a shared understanding of a "side-by-side" solution to US concerns regarding Pillar Two, the international tax landscape continues to evolve, with notable developments in late 2025 in relation to this solution, alongside new simplification measures and changes in the treatment of tax incentives.

Join us for an in-depth discussion where our KPMG tax specialists will delve into and discuss the implications of recent developments from a Pillar Two policy and compliance perspective.

Please access the event page to register.

Navigating the first wave of EU public country-by-country reporting

The regulatory landscape for multinational groups operating in the European Union has become more complex with the implementation of the EU public country-by-country (CbyC) reporting requirements across all Member States. Whilst for most in-scope multinational enterprises (MNEs) the first round of disclosures under these new rules will be due by the end of 2026, with respect to financial year 2025 (for calendar year taxpayers), others have already published their first disclosures.

Specifically, non-EU groups with significant operations in Romania and MNEs headquartered in Romania were required to publish their first reports by the end of 2024. Similarly, MNEs with a qualifying presence in Croatia are subject to a reporting obligation with respect to financial years starting on or after January 1, 2024, with these reports due by the end of 2025.

With the public CbyC reporting rules now in effect across all EU Member States, aside from the exceptions mentioned, 2025 is the first year for which that compliance is required across the full range of EU countries in which these groups have a qualifying presence. As a result, non-EU MNEs will now need to consider differences in national implementation when preparing their public CbyC reports.

To help multinational groups understand the practical implications of these new requirements, KPMG's EU Tax Centre (ETC) conducted an internal survey in December 2025 across the network of KPMG member firms[2] in Europe. The results of the survey were summarized in a dedicated blog post.

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