Euro Tax Flash from KPMG's EU Tax Centre

European Commission issues Tax Omnibus proposal

Issue 582 – June 24, 2026

On June 24, 2026, the European Commission published a Tax Omnibus proposal aimed at simplifying EU tax rules, reducing compliance burdens for businesses, and strengthening the competitiveness of the Internal Market.

Key proposed updates include:

- *Parent-Subsidiary Directive / Interest & Royalties Directive:* Removal of holding requirements – broad withholding tax exemption for intra-EU dividends, interest and royalties between eligible companies, withholding tax relief on dividends paid to pension institutions.
- *ATAD:* Introduction of EU-wide R&D allowance, changes to Interest Limitation Rules (e.g., mandatory deductibility threshold of 30 percent tax EBITDA, EUR three million de-minimis safe harbor made mandatory, exclusion for qualifying third-party debt, exclusion for public benefit projects and defense sector), carve out from scope of CFC rules for groups in scope of Pillar Two and SMEs, mandatory application of categorical passive-income approach for CFCs, extension of the scope of the GAAR to withholding tax and Pillar Two top-up taxes, and removal of rules on imported mismatches.
- *Dispute Resolution Directive*: Clarification of the scope, simplification of the complaint process, clearer rejection grounds with safeguards (e.g., 30-day remedy period), earlier taxpayer notification requirement if no agreement is reached, extension of the scope to include admissibility issues, and simplified filing mechanism for SMEs and individuals.
- *Merger Directive:* Alignment of scope with recent EU company law developments (to include simplified mergers and divisions by separation), and extension of tax neutrality to cross-border conversions.

For more details on the Tax Omnibus, please join our June 29, 2026, webcast, starting 4 pm CET, where a team of KPMG specialists who will unpack the Commission's proposals and discuss practical considerations for multinational groups operating across the EU. Click here to register.

Overview of our E-News
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European Commission – Tax Omnibus – Simplification – Decluttering – ATAD – Parent-Subsidiary Directive – Interest and Royalties Directive – Merger Directive – Directive on Tax Dispute Resolution Mechanisms – EU Minimum Tax Directive

Background

On March 11, 2025, the ECOFIN Council adopted conclusions setting a tax decluttering and simplification agenda with a view to contributing to the EU's competitiveness. The conclusions represent the Council's views and aim to guide the European Commission (EC) on possible upcoming initiatives in the field of taxation, in the context of improving the EU's competitiveness and reducing administrative and reporting burdens.

With respect to existing EU legislation, the Council conclusions called on the EC to reduce reporting, administrative and compliance burdens and eliminate outdated and overlapping rules by reviewing pieces of EU law that aim to achieve similar objectives and could therefore be considered redundant. The Council conclusions further proposed increasing the clarity of tax legislation and adopting a more consistent approach to the application of EU tax rules, for example by developing guidelines in close cooperation with Member States, where relevant.

On February 16, 2026, the EC launched a call for evidence on an "Omnibus on taxation". The objective of the Tax Omnibus initiative is to simplify the existing EU direct taxation legal framework and boost competitiveness in the internal market, without undermining the objectives of the existing corporate tax Directives. The Tax Omnibus includes the review and potential amendment of several key EU direct tax directives – notably the Anti-Tax Avoidance Directive (ATAD), the Parent-Subsidiary Directive (PSD), the Interest and Royalties Directive (IRD), the Merger Directive (TMD) and the Directive on Tax Dispute Resolution Mechanisms (DRM). Interested parties were invited to submit their feedback by March 30, 2026. The EC received a total of 117 responses, including a response letter submitted by KPMG member firms in the EU.

For more information, please refer to Euro Tax Flash Issue 577.

Tax omnibus proposal

Interest and Royalties Directive (IRD)

The Interest and Royalties Directive (IRD)[1] aims to eliminate the double taxation of cross-border intra-group interest and royalty payments. The IRD abolishes withholding taxes on royalty and interest payments levied by the EU source country, provided that the beneficial owner of the payment is an associated company in another Member State or a permanent establishment situated in another Member State. Two companies are regarded as "associated companies" where one company holds a direct participation of at least 25 percent in the capital of the other, or where both companies are held through a direct participation of at least 25 percent by the same shareholder[2]. Member States have the option of not applying the Directive where the conditions for exemption have not been maintained for an uninterrupted period of at least two years. In addition, Member States may apply administrative or prior authorization/certification procedures to verify a priori whether access to the exemption from withholding tax should be granted.

The Omnibus proposes a number of changes aimed at broadening the scope as well as simplifying the procedural requirements for obtaining the withholding tax exemption, as outlined below:

Broader scope:

- *Removal of the reference to associated companies:* The proposal removes the existing association and holding requirements (i.e., minimum percentage and minimum duration of the holding). As a result, interest and royalty payments between companies established in the EU could qualify for the withholding tax exemption regardless of the level of participation held and the duration of the shareholding, provided the entities involved take one of the forms listed in the Directive, are subject to one of the taxes listed and the recipient is the beneficial owner of the payment.

[1] Council Directive 2003/49/EC of 3 June 2003 on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States

[2] The associated-company requirement may, therefore, be satisfied either through a direct parent-subsidiary relationship or through a sister-company structure involving a common shareholder with the requisite level of ownership in both entities. Member States have the option to apply a minimum voting rights threshold instead of the minimum capital holding requirement.

- *No changes to key definitions or the beneficial ownership requirement*: The proposal does not amend the requirement that the recipient of the payment must be the beneficial owner of the interest or royalties. Likewise, no changes are proposed to the definitions of the terms 'interest' and 'royalties', which would remain unchanged.
- *Clarifications with respect to permanent establishments*: The proposal clarifies that the IRD applies to payments that represent an expense incurred in connection with the activities of a permanent establishment, irrespective of whether those payments are tax-deductible in the Member State in which the permanent establishment is situated.
- *Extending the list of eligible companies (legal form)*: The proposal updates the list of company forms that can benefit from the Directive (included in the Annex to the Directive), to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered. Additions include companies incorporated as a *European Company (SE)* and a *European Cooperative Society (SCE),* as well as several additional company forms in a number of Member States
- The Omnibus includes a proposal to empower the EC to adopt delegated acts to further amend the Annex, to encompass other company forms that may be constituted under national law in Member States or under EU law in the future.

New safeguard clause:

- The proposal requires Member States to ensure that interest and royalty payments are subject to taxation at least once. Therefore, where the recipient of the payment is established[3] in a non-EU jurisdiction that does not levy corporate income tax or applies a nominal zero tax rate to interest and royalty income, the Member State of the payer would be required to either levy a withholding tax on the payment or deny its deductibility.
- This protective measure would not apply where the recipient, for that tax period, is subject to a Qualified Domestic Minimum Top-up Tax (QDMTT – subject to additional conditions), or is part of an MNE Group that is subject to the Pillar Two rules, unless the UPE of that MNE Group is located in a jurisdiction with a qualified Side-by-Side regime for the tax period[4].

ETC Comment:

It is worth noting that, in addition to taking one of the forms listed in the Annex to the Directive, an entity will benefit from the withholding tax exemption if it is subject to one of the taxes mentioned under Article 3 of the Directive, which remains unchanged (other than the removal of the reference to the UK). The new safeguard clause therefore applies in addition to the existing subject to tax requirement within the EU, and it is meant to address situations where income flows of interest and royalties leaving the EU are untaxed in their country of destination.

The concept of zero- or low-tax jurisdictions is not defined in the context of the proposed protective measure. To ensure a consistent and harmonized identification across Member States and therefore provide certainty around the application of the rule, it would be useful for the European Commission to publish and regularly update a central record of such jurisdictions.

The protective measure is broadly aligned with the defensive measures that Member States have committed to taking against countries included on the EU list of non-cooperative jurisdictions. For an overview of the defensive measures applied by EU Member States, please refer to an article prepared by the KPMG's EU Tax Centre: Tax defensive measures against non-cooperative jurisdictions. However, the proposed rules go one step further, as the obligation to levy a withholding tax or deny the deductibility of the payment would become mandatory if approved at Council level, whereas the defensive measures are not legally binding.

[3] For the purposes of this anti-abuse provision, an entity is considered established in a jurisdiction where it is incorporated, has its place of effective management, or is otherwise regarded as tax resident under the laws of that jurisdiction, provided it is not treated as tax resident in any other jurisdiction.

[4] Jurisdiction with a qualified Side-by-Side regime means a jurisdiction that is reported as having such status on the OECD Central Record. As at June 24, 2026, only the United States have a qualifying Side-by-Side regime.

Streamlined relief procedure:

- *No prior authorization / administrative procedures to verify eligibility:* Under the proposal, Member States would no longer be allowed to require any prior authorization or administrative procedure for verifying whether the conditions for the withholding tax exemption are fulfilled at the time of payment[5]. According to the Explanatory Memorandum and the Preamble to the Directive, eligibility will instead be self-assessed by the taxpayer, with ex post controls to be applied by each Member State in light of national anti-abuse rules, including with regard to beneficial ownership.
- *Refund claims:* In cases where the paying company cannot determine in advance whether the conditions for the application of the exemption have been met by the recipient (for example, in the case of portfolio holders of securities held in nominee accounts), one of the following two procedures would apply:
  - In the case of interest payments in scope of the FASTER Directive[6] (i.e., interest from publicly traded securities), Member States would be required to apply the fast-track refund procedures under FASTER.
  - In all other cases, the standard refund procedure provided under the current version of the IRD remains applicable.

ETC Comment:

Whilst a welcome development for the reasons set out in the FASTER section below, the extension of the fast-track procedures for income related to publicly traded security is likely, in practice, to have a more limited impact in the case of interest from publicly traded bonds, such payments do not fall mandatorily within the scope of the FASTER framework, but Member States may opt to extend the scope to include them. As a result, access to the fast-track relief procedure for such interest would be available only in Member States that have chosen to opt in and apply FASTER to interest payments. In addition, Member States meeting certain criteria – such as low market capitalization and the existence of a comprehensive relief-at-source system, are exempt from applying certain FASTER provisions, including the fast-track procedures. In these cases, the current amendment might similarly have limited practical relevance.

On a related note, ensuring that FASTER applies to payments of income from publicly traded securities would provide taxpayers with access to a substantially quicker refund process. Under the FASTER fast-track procedures, excess tax must generally be reimbursed within 60 calendar days from the end of the second month following the month of payment, as compared to the refund mechanism under the IRD that would still apply for other eligible payments, where Member States may are required to process a refund within one year.

Parent Subsidiary Directive (PSD)

The Directive currently eliminates double taxation of qualifying intra-EU profit distributions by exempting these payments from withholding tax in the Member State of the subsidiary and by eliminating taxation of such income at the level of the parent company (participation exemption or relief by credit).

The withholding tax relief is only available if the parent company has a minimum holding of 10 percent in the capital of its subsidiary and both entities take one of the forms listed in the Annex to the Directive[7]. Similar to the IRD, Member States may apply an additional requirement for the holding to be maintained for an uninterrupted period of at least two years.

The Omnibus proposes the following substantive and procedural amendments to the Directive, which would be renamed to reflect its expanded scope as the Council Directive on a common system of taxation applicable to dividends and other profit distributions between companies of different Member States:

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[5] Under the current text of the IRD, the source Member State may require an attestation confirming that the conditions for the withholding tax exemption are met. If no attestation is provided at the time of payment, withholding tax may be applied. Member States may also require that prior approval is obtained from the t

[6] Council Directive 2025/50 on faster and safer relief of excess withholding taxes.

[7] The benefits of the PSD also apply to permanent establishments. Specifically, a permanent establishment of an EU company may benefit from the Directive where the qualifying participation in the subsidiary is effectively connected with the PE, or where the dividend is received by the permanent establishments, provided that other requirements under the PSD are met.

Broader scope:

- *Removal of the shareholding threshold and minimum holding period requirement:* The proposal removes the minimum shareholding requirement, as well as the option for Member States to require a minimum holding period of up to two years. As a result, in line with the proposed changes to the IRD, dividends and other profit distributions between companies within the EU may benefit from the WHT exemption and participation exemption irrespective of the level of participation and the duration of the shareholding (subject to the condition related to the eligible company forms and the subject to tax condition).
- *Withholding tax exemption extended to payments to pension funds*: The proposal extends the scope of the Directive to cover withholding tax exemptions for payments made to pension institutions[8] irrespective of their legal form and by way of derogation from the subject-to-tax condition.
- *Extending the list of eligible companies (legal form)*: The proposal updates the list of company forms that can benefit from the Directive in the Annex, to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered. In addition to the above, the revised list removes the residual clauses referring to "other companies subject to corporate tax" (or equivalent wording) that were included in the initial version for some Member States. As a result, Annex I Part A now generally contains an exhaustive list of qualifying legal forms. The United Kingdom has also been removed from the list.
- The Omnibus includes a proposal to empower the EC to adopt delegated acts to further amend the Annex to encompass other company forms that may be constituted under national law in Member States or under EU law in the future.

ETC Comment:

The extension of the list of eligible companies is a long-awaited development and serves to align the scope of the two Directives with the company forms that are currently available in Member States.

Non-deductibility of management costs:

- The preexisting option for Member States to deny deduction of charges relating to the holding or losses connected with the distribution of profits (management costs) is limited to cases where there is a minimum participation of 10 percent, and therefore management costs are actually incurred.

Streamlined relief procedures:

- Similar to the IRD, the proposal prohibits Member States from requiring prior authorization or imposing an administrative procedure for verifying whether the conditions for the exemption are fulfilled at the time of payment. According to the Explanatory Memorandum and the Preamble to the Directive, eligibility will be self-assessed by the taxpayer, subject to ex post controls and the application of anti-abuse rules.

ETC Comment:

The move to a pure self-assessment system represents an important step towards simplification. Several Member States have traditionally required some form of prior approval for relief at source from withholding taxes, both for the IRD (which currently specifically allows this option) and the PSD. The practical difficulties arising from such authorization requirements were illustrated, among others, in the 2026 decision of the Court of Justice of the European Union (CJEU) in case C-828/24. In that case, the Court was asked to determine whether the prior approval requirement under Czech law constituted a substantive or merely a procedural condition for benefiting from the exemption. For more details, please refer to Euro Tax Flash Issue 576.

[8] Defined as i) an institution for occupational retirement provision as defined in Article 6, point (1) of Directive 2016/2341 of the European Parliament and of the Council; and ii) pension institutions operating pension schemes which are considered to be social security schemes covered by Regulation 883/2004 of the European Parliament and of the Council and Regulation 987/2009 of the European Parliament and of the Council as well as any legal entity set up for the purpose of investment of such schemes.

- *Refund claims:* Similar to the IRD, the proposal amends the refund procedures available in cases where relief at source was not applied by the paying company at the time of payment, but the substantive conditions for exemption are nevertheless met. In such cases, the proposal addresses the procedural rules in two different ways, depending on the situation:
    - In the case of dividend payments in scope of the FASTER Directive[9] (i.e., dividends from publicly traded securities), a new provision is proposed, which requires Member States to apply the fast-track refund procedures under FASTER for the reimbursement of the excess tax.
    - In all other cases, a standard refund procedure would apply, similar to the IRD. Member States would be required to allow taxpayers to submit the refund request for the excess tax in a period that must run for at least two years after the date when the dividends were paid. The source Member State must repay any excess tax within one year of receiving a complete claim and the supporting information.

ETC Comment:

The proposed amendments to the PSD and IRD would represent a significant change for those Member States that currently levy withholding taxes on these types of payments. However, the EC is proposing that the majority of these changes only come into force from 2037, which would give Member States some time to adapt to these changes.

The removal of withholding tax barriers on intra-EU flows would be a key development in the Commission's ambition to strengthen the EU single market. In the same vein, extending WHT exemptions to dividends paid to EU pension funds is an important step to boosting cross-border investment, increasing effective returns and, in turn, enhancing the liquidity and depth of EU capital markets.

These changes are broadly aligned with the comments submitted by KPMG member firms in the EU in response to the European Commission's call for evidence on the Tax Omnibus proposal. As highlighted in our submission, the amendments have the potential to lower financing costs for EU companies, support higher levels of investment and productivity, and thereby foster economic growth. They should also reduce compliance costs and simplify the administration of taxes across the EU.

However, it should be noted that any changes would require unanimous approval by EU Member States in the Council. Experience with discussions on simplifications and cutting red tape shows that achieving consensus among Member States may prove to be difficult, in particular, where this is expected to affect tax sovereignty and tax revenues of Member States. Notably, whilst the Explanatory Memorandum to the proposal notes that the initiative will not have 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.

Merger Directive

The Tax Merger Directive (TMD) provides for the deferral of taxation of capital gains arising from reorganizations involving companies of different Member States until the actual disposal of the underlying assets. Reorganizations currently in scope of the TMD include mergers, divisions, partial divisions, transfers of assets and exchanges of shares.

The Explanatory Memorandum to the Omnibus notes that the current scope of the TMD no longer fully reflects recent developments in EU company law. In particular, Directive 2017/1132 relating to certain aspects of company law, as amended by Directive 2019/2121, introduced new forms of cross-border reorganizations that are not covered by the existing TMD framework.

[9] Council Directive 2025/50 on faster and safer relief of excess withholding taxes.

The draft therefore proposes the following amendments to the TMD:

- Aligning the scope of the TMD with developments in EU company law, by:
  - updating the definition of “Merger” in the TMD to include “simplified merger”, which occurs when one or more companies are dissolved and transfer all their assets and liabilities to another existing company, without issuing new shares, provided that ownership remains the same, and
  - updating the definition of “Division” to include “division by separation”, which occurs when a company transfers part of its assets and liabilities to one or more other companies in exchange for shares in the recipient company. The proposal further complements the existing framework by introducing a new chapter on tax neutrality rules for cross-border conversions, thereby expanding its scope beyond the previous coverage, which was limited to European Companies (SE) and European Cooperative Societies (SCE).
- With respect to cross-border conversions, the proposal includes an exemption from taxation of capital gains at the level of the converting company in the departure Member State (both now defined through proposed changes to the TMD), provided that:
  - The company remains tax resident in that Member State or the assets and liabilities remain effectively connected to a permanent establishment therein and continue to be subject to tax.
  - The tax continuity is preserved, with assets and liabilities maintaining their existing tax values and depreciation rules as if the conversion had not occurred.
  - Existing tax attributes are retained, including the carry-over of reserves and provisions and the preservation of loss carry-forward and carry-back (subject to conditions); and
  - No taxation occurs at shareholder level at the time of conversion, without prejudice to taxation upon subsequent disposal of shares.
- The proposal updates the list of company forms covered by the TMD and adjusts related provisions accordingly. The Omnibus includes a proposal to empower the EC to adopt delegated acts to further amend the Annex to encompass other company forms that may be constituted under national law in Member States or under EU law in the future.

ETC Comment:

The proposed amendments to the Merger Directive are intended to modernize the Directive with the aim to reflect the more extensive cross-border corporate mobility allowed by the Company Law Directive. These changes are broadly aligned with the KPMG response to the EC’s public consultation on the Tax Omnibus, where we recommended that the scope of the TMD is extended and aligned with the Company Law Merger Directive, and that the list of companies eligible to benefit from the TMD is broadened beyond the closed list currently provided.

In particular, the extension of the Directive’s scope to cover simplified mergers, divisions by separation and cross-border conversions addresses gaps that have become apparent in practice. The introduction of tax neutrality rules for cross-border conversions, together with provisions ensuring the continuity of tax values and attributes, is expected to provide greater clarity for taxpayers undertaking such operations. At the same time, it remains to be seen how the new rules will interact with existing domestic provisions and whether a consistent approach will be achieved across Member States, particularly in areas such as the preservation of tax attributes and the conditions attached to maintaining taxing rights in the departure Member State.

Anti-Tax Avoidance Directive

The 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), introduced through two directives: ATAD I (Council Directive (EU) 2016/1164), which builds on the OECD BEPS initiative to harmonize anti-avoidance measures across Member States, and ATAD II (Council Directive (EU) 2017/952), which further expands the hybrid mismatch rules, including those involving third countries.

The current ATAD framework combines minimum standards under which Member States may apply stricter rules (e.g., applying a stricter interest limitation than the 30 percent EBITDA threshold) with areas offering design choices (e.g., the choice between

two CFC models) and optional provisions or exemptions (e.g., group ratio and equity escape rules, standalone entity exclusions, or exclusions for certain loans and infrastructure projects). For more details on how Member States have implemented the provisions of the ATAD, please refer to a report prepared by KPMG's EU Tax Centre.

The Preamble to the Omnibus proposal notes that the results of the ATAD evaluation highlighted that discrepancies in key concepts and definitions, as well as the coexistence of different models and options in the ATAD, have resulted in fragmentation of the EU legal framework for taxation, legal uncertainty for taxpayers and increased compliance burdens. In addition, the Preamble notes that, in light of Pillar Two implementation in the EU, the ATAD should be adjusted to avoid overlaps and redundancies in scope, objectives and effects, including situations of double taxation and duplicative reporting obligations resulting from the coexistence of the two frameworks.

In addition, the Preamble to the proposal highlights the importance of promoting investment in research and development (R&D) across the internal market in order to support innovation and facilitate the green and digital transition. It also points to a fragmented landscape of national R&D tax incentives and the absence of a common minimum level of support across the EU, which, according to the EC, may distort investment decisions and place the EU at a competitive disadvantage compared to major trading partners. According to the Preamble, this should be addressed by introducing a common framework in the ATAD for the tax treatment of certain R&D expenditure.

Against that background, the draft proposes the following amendments to the ATAD:

EU-wide R&D allowance

The draft proposes the introduction of an EU-wide R&D allowance, as a minimum standard. Key features include:

- Full deductibility of research and development (R&D) qualifying expenditure (i.e., capital expenditure on plant, machinery and tangible assets used directly for R&D or to support R&D facilities). The proposal defines R&D activities as consisting of: i) basic research: experimental or theoretical work undertaken primarily to generate new knowledge, without a specific practical application in view; ii) applied research: original investigation undertaken to generate new knowledge for specific practical objective, and iii) experimental development: systematic work, drawing on knowledge gained from research and practical experience to develop or improve products or processes. Taxpayers can either immediately deduct qualifying expenditure in the tax period in which it is incurred or deduct it over any of the four subsequent tax periods.
- Qualifying expenditure must be used for R&D for a minimum of three years, ensuring that the measure supports genuine R&D activity. Recapture rules are introduced for situations where the assets are disposed of, demolished or cease to be owned, leading to the withdrawal of the allowance and potentially to balancing charges.
- The proposal further requires adjustments to be made to the calculation of EBITDA under the Interest Limitation Rule, to ensure that the new R&D allowance does not decrease the taxpayer's EBITDA and therefore negatively impact the level of interest available for deduction.

As a result, the draft Directive proposes to change the name of the ATAD to 'Council Directive […] laying down rules on the tax treatment of research and development expenditure and against tax avoidance practices that directly affect the functioning of the internal market'.

ETC Comment:

The draft clarifies that the introduction of the common EU R&D allowance shall not preclude the application of domestic provisions either already existing adopted in the future that allow for a more favorable tax deductibility of qualifying expenses. In fact, many EU countries provide for additional incentive offerings in respect of qualifying R&D expenditure, for example, in form of enhanced allowances and tax credits (see the KPMG Global R&D Incentives Guide for more details). Groups in scope of Pillar Two may further need to consider how these different types of tax incentives may trigger a potential Pillar Two exposure and how countries may be incentivized to adjust their tax system to ensure tax incentives remain effective and efficient following the implementation of Pillar Two. For more details, please refer to a dedicated KPMG article.

Interest Limitation Rules (ILR)

With respect to the Interest Limitation Rules, the following amendments are proposed:

- *EBITDA threshold:* The proposal makes the 30 percent EBITDA amount mandatory, disallowing Member States from setting lower thresholds to reduce the deductibility of exceeding borrowing costs. In order to address the procyclical effect of the interest limitation rule, the proposal provides that the interest limitation would not apply to a taxpayer whose EBITDA is reduced by 50 percent in a given tax year.
- *Exclusion of third-party loans:* The proposal excludes from the scope of the interest limitation rule third-party loans, reflecting the view that BEPS risks primarily arise from intra-group debt, subject to the condition that they are used to fund the borrowing taxpayer's own activities. However, a third-party loan would not qualify where it is used by the borrowing taxpayer for on-lending within the group or where the loan is used (directly or indirectly) to fund capital or other equity contributions within the group.
- *De-minimis threshold:* The proposal makes the de-minimis EUR three million minimum threshold test mandatory. In addition, the proposal introduces an automatic annual adjustment of the threshold based on inflation. The proposal removes the option to exclude standalone entities, which the EC considers redundant in light of the third-party loan exclusion and the mandatory de-minimis threshold.
- *Exclusions:* The proposal introduces several exclusions and targeted adjustments to the application of the interest limitation rule:
    - *Group escape rule:* The proposal makes the group escape rule (full deduction of exceeding borrowing costs if the taxpayer's level of leverage is aligned with that of the group, subject to conditions) mandatory, to address the concerns of capital-intensive sectors which are highly leveraged for legitimate reasons.
    - *Infrastructure and public-benefit projects:* The proposal broadens the scope of the optional long-term public infrastructure project exclusion to cover a broader range of public-benefit projects[10].
    - *Other excluded sectors/projects: T*he proposal introduces a mandatory temporary exclusion for the defense sector for investments initiated in the first five tax periods following January 1, 2029[11].
    - *Definition of the term 'financial undertakings':* The proposal updates the definition of "financial undertakings" to align with recent EU financial regulatory frameworks, including the Markets in Financial Instruments Directive II (MiFID II), as well as regulations for Alternative Investment Fund Manager (AIFM) and Undertakings for Collective Investment in Transferable Securities (UCITS. This is relevant for determining the scope of entities that may benefit from specific treatments or exclusions under the ILR.
- *Carry-forward rules:* The proposal requires Member States to allow the carry-forward without time limitation of non-deductible exceeding borrowing costs. Member States continue to have the option to allow for the carry forward of unused interest capacity for a maximum of five years. It would remain the Member States' choice to also provide rules to carry back non-deductible exceeding borrowing costs, for a maximum of three years.
- *Diverging rules:* a new provision is introduced with the aim of preventing Member States from maintaining or adopting national rules within the scope of the IRL article that diverge from the rules laid down in the Directive.

ETC Comment:

The proposed changes to the ILR aim to further harmonize its application across the EU while reducing compliance burdens in lower-risk situations. In particular, the introduction of a mandatory 30 percent EBITDA threshold could require adjustments in Member States that currently apply stricter limitations, such as the Netherlands (20 percent) and Finland (25 percent). Similarly, the proposal to make the group escape rule mandatory may affect jurisdictions that currently do not provide for such a rule (e.g., Belgium, the Netherlands, Poland or Spain), thereby reducing Member States' flexibility but potentially providing relief for highly leveraged, capital-intensive groups.

[10] According to the Explanatory Memorandum, this is aimed to cover projects contributing to the EU's common priorities in particular in relation to climate, digitalization, social and economic resilience, energy security and social housing.

[11] According to the Explanatory Memorandum, this exclusion only applies to critical defense capabilities identified as priority areas by Council Regulation (EU) 2025/1106.

From a taxpayer perspective, the exclusion of third-party loans would, in principle, narrow the scope of the rule. However, this carve-out may be limited in practice, as it does not apply where financing is centralized within the group for business reasons (such as operating ease and access to favorable lending rates). In particular, groups that raise external debt through entities that perform centralized treasury functions (and subsequently lend onwards to other group companies) would not benefit from the exclusion, meaning that such typical group financing models may remain within the scope of the limitation rules.

Overall, while the proposal could simplify and align the application of the ILR across Member States, its practical impact will vary depending on existing domestic regimes and typical financing structure.

CFC Rules

With respect to the CFC rules, the following amendments are proposed:

- The proposal introduces an exemption from CFC rules for taxpayers subject to Pillar Two. This reflects the fact that the objective and effects of CFC rules and of the Pillar Two Income Inclusion Rule (IIR) substantially overlap, as both aim to ensure that low-taxed income earned through foreign subsidiaries is subject to a minimum level of taxation at the level of the parent. In particular, the Pillar Two regime achieves this outcome through a minimum effective tax rate of 15 percent applied on a broad income base, covering both passive and active income, while CFC rules typically target low-taxed passive income.

  As a result, applying both sets of rules in parallel would not only duplicate their policy function but may also lead to:

  - Economic double taxation, as the same income could be taxed under CFC rules and then again through a top-up tax under Pillar Two IIR; and
  - Significant compliance burdens, as taxpayers would need to perform overlapping calculations, tracking similar income bases under two distinct regimes.

  To address these issues, the proposal provides a carve-out for groups subject to Pillar Two. However, this carve-out does not apply in specific cases where Pillar Two may not fully ensure effective taxation, notably where:

  - the group is headquartered in a jurisdiction which operates a qualified 'Side-by-Side' regime, meaning that the IIR is not applied at group level; and
  - the low-taxed CFC is not subject to a QDMTT or where a refund or direct or indirect financial benefit is granted in relation to a QDMTT that the taxpayer is subject to.
- The proposal introduces an exemption from the CFC rule for small and medium-sized groups (SMEs)[12]. This reflects their limited exposure to BEPS risks and the fact that CFC rules are rarely triggered for SMEs, meaning their application can create disproportionate compliance and administrative burdens.
- The proposal makes Model A (categorical passive-income approach) mandatory, deleting the option to implement CFC rules by applying Model B. This aims to reduce fragmentation and improve legal certainty, as the coexistence of two models has led to divergent implementation across Member States. Based on the Preamble to the Proposal, the Commission considers that Model A is more effective and easier to administer, while Model B overlaps with transfer pricing rules and offers limited added value in practice.
- The proposal requires Member States to introduce the exemption to exclude from their scope entities or permanent establishments where one third or less of the income accruing to the entity / PE is derived from passive income categories. Similarly, Member States are required to introduce the exemption to exclude financial undertakings where one third or

[12] Both defined in Directive 2013/34/EU of the European Parliament and of the Council as follows:

- Small groups shall be groups consisting of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, do not exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking: (a) Balance sheet total: EUR 5,000,000; (b) Net turnover: EUR 10,000,000; (c) Average number of employees during the financial year: 50.
- Medium-sized groups shall be groups which are not small groups, which consist of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, do not exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking: (a) Balance sheet total: EUR 25,000,000; (b) Net turnover: EUR 50,000,000; (c) Average number of employees during the financial year: 250

less of the passive income from the entity / PE is derived from transactions with the parent entity / head office or its associated enterprises.

- The Omnibus introduces a new provision with the aim of preventing Member States from maintaining or adopting national rules within the scope of the CFC article that diverge from the rules laid down in the Directive.

General Anti-Abuse Rule (GAAR)

The proposal updates the scope of the GAAR by referring broadly to tax liability instead of corporate tax liability. According to the Preamble, this aims to clarify that the GAAR applies to all taxes to which companies are subject, in particular withholding taxes and Top-up Taxes resulting from the Directive (EU) 2022/2523 (EU Minimum Tax Directive).

Hybrid mismatch rules

In order to simplify hybrid mismatch rules and ensure their proportionality, the proposal removes rules on imported mismatches from the ATAD[13] (i.e., denial of deduction to the extent that a payment directly or indirectly funds expenditure that results in a hybrid mismatch between EU and non-EU associated enterprises).

ETC Comment:

The proposed changes to the ATAD are generally welcomed and align with KPMG's previous suggestions to make key taxpayer-friendly options in the ATAD mandatory (given its current fragmented implementation) and exempt from CFC regimes those groups that are in scope of Pillar Two – see Euro Tax Flash Issue 557 and KPMG's ATAD implementation summary.

However, as already mentioned above, it should be noted that any changes would require unanimous approval by EU Member States in the Council. 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.

Dispute Resolution Mechanism (DRM) Directive

The DRM lays down rules for the swift and effective resolution of disputes related to the interpretation of tax treaties, covering cases of double taxation affecting both businesses and citizens. The Explanatory Memorandum notes that the proposed amendments aim 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. For further practical insights on the functioning of the DRM, please refer to a recent publication from KPMG in the Netherlands.

The following amendments to the DRM are proposed:

- Clarification that where the taxation of more than one person is directly affected by the same question in dispute, each such person qualifies as an "affected person" for the purposes of the Directive. This addresses a gap under the current framework, where it is not explicitly clear whether all taxpayers impacted by a single cross-border dispute (e.g., transfer pricing adjustments) have independent access to the dispute resolution mechanism.
- Several amendments are introduced to clarify and simplify the complaint stage, including:
    - In cases involving multiple affected persons, Member States shall allow either each person to file a complaint individually or one person to file on behalf of all, in order to avoid multiple filings and reduce administrative burdens. Under the current version of the DRM, each affected person must submit a complaint simultaneously to all competent authorities with consistent information, which can result in duplicative filings and administrative complexity in multi-entity cases.

[13] A Member State shall deny a deduction for any payment by a taxpayer to the extent that such payment directly or indirectly funds deductible expenditure giving rise to a hybrid mismatch through a transaction or series of transactions between associated enterprises or entered into as part of a structured arrangement except to the extent that one of the jurisdictions involved in the transaction or series of transactions has made an equivalent adjustment in respect of such hybrid mismatch.

- The concept of "simultaneous submission" previously included in the Directive is replaced with a 30-calendar-day submission window. Currently, the Directive requires complaints to be submitted "simultaneously" to all concerned Member States, but this concept is not clearly defined and has been interpreted differently in practice, ranging from submission on the same day to more flexible timing. The proposed 30-day window provides greater certainty by allowing each affected person to submit the complaint to the competent authorities of the Member States within 30 calendar days from the first filing.
- Competent authorities would be required to inform the taxpayer without delay where no agreement can be reached, rather than wait for the expiry of the two-year mutual agreement procedure (MAP) period, which is currently the case.
- The grounds for rejecting a complaint are clarified, including cases where the complaint lacks essential information, does not relate to a question in dispute, is submitted outside the applicable time limits, or is not filed in the required language or with consistent information across all competent authorities.
- At the same time, safeguards are introduced, including a 30-day period to remedy deficiencies and the possibility of resubmitting a complaint provided it is lodged within the three-year period prescribed by the Directive.
- The proposal requires competent authorities to raise any objection relating to an independent person of standing[14] no later than the moment when the final decision is agreed by all competent authorities and provides that objections raised after that point have no effect on the agreed decision.
- The scope of the arbitration commissions is extended to include disputes relating to the admissibility of complaints. Under the current Directive, such commissions are generally limited to resolving the substantive question in dispute (i.e. the double taxation issue), while decisions on the admissibility of complaints (e.g. whether a complaint meets the required conditions) are taken by the competent authorities of the Member States concerned. The proposed change would therefore allow disputes on admissibility to also be reviewed at commission level, strengthening taxpayer safeguards and ensuring a more consistent approach across Member States.
- It is clarified that qualification requirements apply only to independent persons of standing and not to representatives of competent authorities.
- The proposal provides that other dispute resolution procedures are suspended upon submission of a DRM complaint and terminated only once the complaint has been accepted by all competent authorities.
- The proposal requires the EC to evaluate the functioning of the Directive by December 31, 2030 and every five years thereafter, and requires Member States to provide yearly statistical data to the EC. The Commission would be empowered to adopt implementing acts defining the data to be reported, as well as the format and conditions for its communication, with such data to be published in anonymized form.

ETC Comment:

The proposed amendments to the DRM Directive aim to address practical challenges in its application, with a focus on improving procedural clarity, accessibility, and efficiency. In particular, the changes to the complaint stage, including the introduction of a 30-day submission window and greater flexibility for multiple affected persons, should help reduce administrative burdens and limit divergent interpretations across Member States. At the same time, clearer rejection criteria and additional safeguards to resubmit a claim are expected to strengthen legal certainty for taxpayers. These are good developments that, in our view, will improve the functioning of the directive.

In parallel to the proposed changes, other initiatives in the area of tax dispute resolution are progressing. In particular, in May 2026, a group of ten Member States — Austria, Bulgaria, Denmark, France, Germany, Ireland, the Netherlands, Poland, Spain and Sweden —finalized technical negotiations on a Multilateral Convention establishing the International Tax Dispute Resolution Commission (ITDRC). The new framework is aimed at providing permanently available arbitration panels supported by a professional Secretariat. The next step is the signing of the Convention, which will be open for other States to join.

[14] Independent persons of standing are appointed where a dispute is not resolved during the mutual agreement procedure (MAP) and the case is referred to an Advisory Commission (or alternative dispute resolution body), which includes representatives of the Member States concerned and independent experts drawn from a list maintained by the EC. This amendment aims to provide greater certainty and prevent late challenges that could delay or undermine the outcome of the procedure.

At the same time, certain practical issues identified in the application of the DRM are still unresolved by the Omnibus or appear to remain only partially addressed. In particular, differences in how Member States grant access to the procedure – especially where penalties are imposed ,may continue to create uncertainty for taxpayers. Under the DRM, Member States may deny access to the dispute resolution procedure under Article 6 in cases where penalties were imposed in that Member State in relation to the adjusted income or capital for tax fraud, willful default and gross negligence. In practice, this derogation is applied inconsistently, creating uncertainty and uneven access to the procedure across the EU. The issue is particularly problematic because it can force taxpayers to first litigate to challenge the penalties, before accessing mutual agreement procedures (MAP), delaying the resolution of double taxation. In line with the KPMG's response to the EC's public consultation on the Omnibus, this has been observed, in particular, in relation to disputes on the existence of a permanent establishment (PE) in a Member State, where penalty assessments linked to the existence of a PE can block access to DRM.

Furthermore, the positive impact of the DRM could be heightened if the scope of Directive would be extended to also cover issues related to double taxation in relation to VAT.

In addition, the Directive does not address situations where taxpayers may incur additional costs (e.g. interest) during lengthy procedures, even where double taxation is ultimately eliminated. This typically occurs after a MAP outcome reallocates taxing rights: one state refunds tax previously paid, while the other charges additional tax and applies interest retroactively. As a result, taxpayers can face a net interest cost despite the dispute being resolved. This effect can be particularly material in jurisdictions with high interest rates and long MAP timelines, and where refunds do not carry equivalent interest.

Overall, while the proposal represents a step toward a more effective DRM framework, its impact will ultimately depend on its practical application by Member States, as well as on how these parallel initiatives interact with and complement the DRM. It is a welcomed development that the EC closely monitors the functioning of the directive and will also carry out an evaluation in 2030 and every five years thereafter, in order to continuously improve the functioning of the Directive.

FASTER Directive

The Explanatory Memorandum to the Tax Omnibus acknowledges that, although the proposal extends the withholding tax exemptions under the PSD and the IRD, practical challenges may arise where securities are held through financial intermediaries and nominee accounts. In such cases, the paying company often lacks sufficient information on the identity of portfolio investors to determine, at the time of payment, whether the conditions for the exemption under the PSD or the IRD are met. As a result, exemptions cannot be applied at source and recourse to refund mechanisms remains necessary. Recourse is therefore made to the procedures laid down in the FASTER Directive (Council Directive 2025/50 on faster and safer relief of excess withholding taxes), which introduces a harmonized EU framework aimed at improving the efficiency of withholding tax relief procedures on cross-border investment income[15].

The Directive seeks to reduce administrative burdens, improve legal certainty for investors, and strengthen safeguards against tax abuse. Under the current text of the FASTER Directive, Member States are allowed to exclude from the fast-track procedures cases where a full exemption is claimed. To address this limitation in the context of the proposed changes to the PSD and IRD, the proposal amends the FASTER Directive to require fast-track procedures to also apply, on a mandatory basis, to refund claims in respect of income qualifying for withholding tax exemptions under the PSD and the IRD, provided the payments would also fall within the scope of FASTER.

[15] The FASTER Directive applies to in-scope Member States with respect to dividends from publicly traded shares. In addition, in-scope Member States may opt to apply the provisions of the Directive in respect of interest from publicly traded bonds.

ETC Comment:

The amendment addresses a key practical limitation in the FASTER Directive by ensuring that situations where PSD or IRD exemptions were not granted at source could still benefit from the harmonized fast-track refund procedures.

If approved, the impact could be significant in certain Member States where withholding tax refunds often take longer than six months in practice. For illustrative purposes, based on insights from a survey of KPMG member firms in Europe conducted by KPMG's EU Tax Centre, in the specific case of intra-group payments, in nine EU Member States withholding tax refunds currently take more than six months in practice, whilst in twelve Member States the refund process may extend beyond twelve months. For more details, please refer to a blog post focused on "Beneficial ownership, governance and substance trends across the EU".

Next steps

The legal basis for the EC's Tax Omnibus proposal is Article 115 of the Treaty on the Functioning of the EU (TFEU), which requires unanimous approval in the Council, following non-binding opinions by the Parliament and any relevant Committees.

According to the roadmap to achieve 'One Europe, One Market', the European Parliament, the Council of the EU and the European Commission have set a target to agree on the Tax Omnibus proposal by Q4 2027.

The EC proposes that Member States should transpose the Tax Omnibus proposal into domestic law by December 31, 2028 and the provisions of the Directive should apply as of January 1, 2029. However, Member States will only be required to apply certain amendments starting with:

- January 1, 2037, for a significant number of amendments to the PSD and the IRD. This later application date covers the removal of the shareholding threshold and minimum holding period requirements under both Directives, the extension of the PSD withholding tax exemption to payments made to pension funds, the introduction of streamlined withholding tax relief procedures under both Directives, and the IRD protective clause targeting payments to non-EU jurisdictions that do not levy / apply a zero corporate income tax on interest/royalty income;
- January 1, 2032, for the changes to the *de minimis* threshold related to the IRL under ATAD.

ETC Comment:

Together with the Tax Omnibus proposal, the European Commission also published the proposal for a recast of the Directive on Administrative Cooperation (the DAC). With respect to the Mandatory Disclosure Rules (MDRs) under DAC6, the proposal aims to narrow and clarify the framework to keep it proportionate and more consistently applied across Member States. The proposal introduces a targeted carve-out from reporting for entities subject to the Pillar Two Directive, limited to cases where no group member benefits from arrangements reducing effective taxation below 15 percent. The concept of reportable cross-border arrangements is narrowed to cover only arrangements that are actually implementable, and the "relevant taxpayer" is now only the taxpayer that starts implementing the arrangement. The reporting period now starts when the first concrete, verifiable implementation step is taken (e.g., signing binding contracts), and the reporting deadline is extended from 30 to 90 days.

Hallmark category A (generic hallmarks) is deleted, whilst the reference in Hallmark C1 is aligned with the EU list of non-cooperative jurisdictions as assessed by the Code of Conduct Group, and the substance criteria in Hallmark D2 are to be further developed in a Council implementing act to ensure legal clarity and consistent application.

These and other proposed changes to the DAC will be analyzed and reported on by the EU Tax Centre in a separate upcoming edition of the Euro Tax Flash publication.

* This Euro Tax Flash edition was updated on June 26, 2026 to clarify the proposed changes to the carry forward mechanism under the ATAD Interest Limitation Rules.

Join the EU Tax Perspective webinar dedicated to the Tax Omnibus – June 29, 2026, starting 4 pm CET

Against this backdrop, we invite you to join KPMG's EU Tax Centre's June 29 webcast, where we will:

- Unpack the Commission's proposals.
- Consider the wider EU tax policy context, including interactions with Pillar Two.
- Discuss practical considerations for multinational groups operating across the EU.
- Anticipate timing and next steps, including the legislative process ahead and the likelihood of securing Member State approval.

To register please access this link.

Should you have any queries, please do not hesitate to contact KPMG's EU Tax Centre or, as appropriate, your local KPMG tax advisor.

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