

Euro Tax Flash from KPMG's EU Tax Centre

European Commission publishes its 2027 work program

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At a glance: the Commission is streamlining its EU direct tax agenda, prioritizing the Tax Omnibus and clearing out several long-standing Directive proposals that have failed to secure sufficient Member State support – including BEFIT, HOT and the Corporate taxation of a significant digital presence.

Taxpayer impact: the work program provides a useful indication of where the Commission's focus will lie in the year ahead, with tax simplification as the key priority for EU direct tax policy.

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European Commission – Tax Omnibus proposal – 28th legal regime – EU Inc. – BEFIT – Head office tax system – Significant digital presence – EU digital services tax – Gold-plating – Simplification

Background

Following the 2024 European Parliament elections, the new European Commission took office on December 1, 2024 for a five-year term. In January 2025, the Commission presented its Competitiveness Compass, setting out its policy priorities for the new legislative cycle. Building on the report on the future of European competitiveness by Mario Draghi (the Draghi Report), the Compass placed a strong emphasis on strengthening EU competitiveness and simplifying the regulatory environment, including a target to reduce reporting burdens by 25 percent for companies generally and by 35 percent for SMEs.

This focus on simplification was subsequently reflected in the Commission's 2026 work program. In the field of direct taxation, the program announced the Tax Omnibus initiative, which resulted in the Tax Omnibus and DAC recast proposals published on June 24, 2026 – for more details, please refer to Euro Tax Flash Issue 582 and Issue 583.

At the same time, the Commission announced the withdrawal of several pending direct tax initiatives that it considered no longer aligned with its priorities or unlikely to progress. These notably included the following initiatives.

- *Rules to prevent the misuse of shell entities for tax purposes (Unshell) - 2021:* The initial proposal set out a list of indicators to filter entities at risk of being misused for tax purposes. High-risk entities were supposed to be required to report on a series of substance indicators through their annual tax return. Companies failing to meet the substance indicators would have been deemed to be 'shell' entities, potentially triggering tax consequences.
- *Enhanced cooperation in the area of financial transaction tax (FTT) - 2013*: Proposed introduction of a tax on qualifying financial transactions.
- *Debt-equity bias reduction allowance (DEBRA) - 2022*: The proposal provided for an allowance in respect of equity increases in a given tax year. In addition, the DEBRA initiative proposed the introduction of a new limitation on interest deductibility, which would apply alongside the interest limitation rules under the Anti-Tax Avoidance Directive (ATAD).
- *Transfer Pricing Directive – 2023*: The proposal aimed to incorporate common transfer pricing principles into EU law – specifically the OECD arm's length principle and a reference to the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administration.

The withdrawal of these initiatives was published in the Official Journal of the European Union on October 29, 2026, formally closing the respective legislative procedures. For more details on the Commission's 2026 work program, please refer to E-News Issue 220.

Commission 2027 work plan

On November 4, 2026, the Commission published its work program for 2027. The program includes a list of new initiatives that would be tabled by the EC in 2027, a list of pending priority proposals, as well as list of proposals that will be withdrawn or repealed.

New and pending initiatives

The 2027 work program does not announce any new initiatives specifically in the field of taxation. However, one pending tax-related proposal has been identified as a priority, namely the Tax Omnibus. The proposal was published on June 24, 2026 and is aimed at simplifying EU tax rules, reducing compliance burdens for businesses, and strengthening the competitiveness of the Internal Market by proposing updates to the EU legislative framework for corporate taxation (including the Parent-Subsidiary Directive, Interest and Royalties Directive, Anti-Tax Avoidance Directive, Dispute Resolution Directive and Merger Directive). The proposal is currently being discussed by Member States in the Council, with a political commitment to reach agreement by the end of 2027. As amendments to EU direct tax legislation require unanimous agreement, the final scope and timing of the package will depend on the outcome of those negotiations.

On a related note, the "28th regime corporate legal framework – EU Inc." was also included in the in the list of priority proposals. The regulation provides for a voluntary, EU-wide corporate form called 'EU Inc.' as part of its broader '28th Regime' initiative. The proposal aims to establish a single, optional and harmonized set of corporate rules covering the entire lifecycle of a company. This new regime would not replace existing national company law frameworks. Instead, it would operate as a parallel system alongside the national regimes of the 27 Member States. The proposal does not introduce an EU-level corporate tax system, i.e., the tax rules of the Member State of incorporation would generally apply. Nevertheless, the proposal includes a tax-relevant feature, i.e., the taxation of qualifying EU Employee Stock Option Plans (EU-ESO).

On October 23, 2026, EU Member State ambassadors in the Committee of Permanent Representatives (COREPER) agreed on the Council's negotiating mandate on the proposed 28th regime corporate legal framework, paving the way for negotiations with the European Parliament.

Directive proposals to be withdrawn

The work program also identifies a number of pending proposals that will be formally withdrawn within six months. From a direct tax perspective, key initiatives to be withdrawn include:

Business in Europe - Framework for Income Taxation (BEFIT) - 2023:

The proposal provided for common rules for determining the corporate tax base for EU-based entities that are part of a group with global consolidated revenues above a certain threshold. BEFIT also included provisions for the allocation of profits to relevant Member States. Once allocated, profits would have been subject to the corporate income tax rate of the respective Member States.

The Commission indicates that the file has been pending in the Council for almost three years without progress and is unlikely to obtain the necessary support within a reasonable timeframe, particularly as EU taxation matters require unanimity in the Council. The EC has been actively promoting the idea of a common consolidated corporate tax base (CCCTB) since 2011, but none of the past initiatives achieved consensus.

Head Office Tax system for micro, small and medium sized enterprises (HOT) - 2023:

The Directive proposal allowed certain EU-based standalone SMEs that operate in other EU Member States only through permanent establishments (PEs) to make a five-year election to determine the taxable results of the PEs according to the rules of the Member State of their head office.

Similar to the BEFIT proposal, the Commission indicates that the proposed withdrawal is due to the lack of progress in the Council over the past three years, with agreement considered unlikely to be reached within a reasonable timeframe.

Corporate taxation of a significant digital presence - 2018:

The Directive proposed the introduction of a taxable nexus for digital businesses operating within the EU. Significant digital presence would have covered any digital platform where annual revenue from providing digital services in a given Member State, the annual number of users of such services, or the annual number of online contracts concluded with users in a given Member State exceeds certain thresholds. The proposal would have also introduced principles to attribute profits to businesses having such significant digital presence.

The 2027 work program notes that the file is intended to be withdrawn as it has been pending with the Council for more than eight years and it is unlikely to secure support.

Next steps

The withdrawal of Commission proposal needs to be formally published in the EU Official Journal in order for the legislative process to end.

ETC Comment:

The work program does not provide a comprehensive list of pending proposals that have not been designated as priorities.

One noteworthy tax file is the EU Digital Services Tax (DST) proposal, tabled in 2018, with the aim of establishing a coordinated EU approach to taxing revenues from certain digital services and avoiding fragmentation resulting from unilateral national measures. Notably, the proposal has not been identified for withdrawal, despite the Commission's continued preference for a multilateral solution to the taxation of the digitalized economy.

The 2025 Polish Presidency progress report noted that several Member States remained open to a common EU DST in the context of a potential new own resource, although they questioned whether it could be introduced in time for the 2028–2034 Multiannual Financial Framework (MFF), while others cautioned against potential retaliatory measures by international partners. More recently, the OECD/G20 Inclusive Framework plenary outcome agreed to renew its examination of the challenges posed by digital business models under the existing international tax framework before considering the merits and practicalities of coordinated solutions, and asked the OECD Secretariat to develop a work plan by end of 2026. Against this background, it remains to be seen whether the developments at OECD level could influence the future of the EU DST proposal.

Another noteworthy tax file that has not been identified for withdrawal, but is also not included on the priority list, is the proposed revision of the Energy Taxation Directive. The initiative seeks to better align the taxation of energy products with EU energy and climate objectives and promote the use of renewable energy sources. Negotiations have been ongoing since 2021, but Member States were not able to reach agreement on a compromise text.

The withdrawal of several long-standing tax proposals reflects the challenges of reaching agreement at Council level, where unanimity is required on tax matters. One possible avenue where EU-wide agreement cannot be reached is enhanced cooperation, a procedure that allows a minimum of nine Member States to pursue closer cooperation within the EU framework without the participation of all Member States. The procedure has been successfully used in non-tax related areas. In the tax area, enhanced cooperation was pursued for the Financial Transaction Tax (FTT) after agreement among all Member States could not be reached. However, the participating Member States were ultimately unable to agree on the substance and design of the FTT, rather than being prevented from proceeding by the enhanced cooperation procedure itself. Against this background, a June 2026 report from the European Central Bank suggested that harmonizing tax rules among smaller groups of Member States could, in some cases, be more effective than seeking unanimity among all 27 EU countries.

Notably, the Commission's work program also reiterates its commitment to simplifying EU regulation and reducing administrative burdens, including by addressing the "gold-plating" at Member State level. The Commission plans to work towards a Pact against gold-plating, aimed at increasing transparency around additional national requirements introduced when EU legislation is transposed and their impact on businesses and the Single Market. The initiative would also include a 'review and remove' mechanism under the European Semester to tackle unnecessary burdens resulting from gold-plating. It remains to be seen how this approach would be applied in the tax area. The issue has already proved politically sensitive in the context of public Country-by-Country Reporting, where efforts to discourage Member States from going beyond the EU framework attracted pushback from the European Parliament.

**This Euro Tax Flash edition was updated on November 6, 2026 to clarify that the Unshell, FTT, DEBRA and Transfer Pricing Directive proposals were officially withdrawn on 29 October, 2029.*

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