

Euro Tax Flash from KPMG's EU Tax Centre

KPMG feedback on the European Commission Tax Omnibus proposal

Issue 589 - November 5, 2026

At a glance: KPMG member firms in the EU have submitted feedback on the European Commission's Tax Omnibus proposal, broadly welcoming its simplification measures while identifying areas where further changes or clarifications may needed.

Taxpayer impact: The Tax Omnibus could reduce tax-related costs and compliance burdens for businesses operating across the EU, although the extent of these benefits will depend on the outcome of Council negotiations.

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Background

On September 10, 2026, the European Commission (EC) launched a public consultation on its Tax Omnibus proposal, inviting interested parties to submit comments by November 5, 2026.

The consultation follows the publication, on June 24, 2026, of the Commission's Tax Omnibus proposal, which forms part of its broader agenda to simplify the EU direct tax framework, reduce administrative and compliance burdens and support the competitiveness of the EU internal market.

The proposal would amend several key EU direct tax Directives, including the Anti-Tax Avoidance Directive (ATAD), the Parent-Subsidiary Directive (PSD), the Interest and Royalties Directive (IRD), the Merger Directive and the Directive on Tax Dispute Resolution Mechanisms (DRM). Key measures include:

- removing withholding taxes on qualifying intra-EU dividends, interest and royalties and introducing a simplified procedure for accessing withholding tax relief;
- introducing a carve-out from EU Controlled Foreign Company (CFC) rules for groups within the scope of Pillar Two;
- further harmonizing the ATAD interest limitation rules, including by making certain currently optional relief provisions mandatory and introducing additional carve-outs;
- introducing a common minimum standard for R&D tax incentives;
- extending the Merger Directive to certain cross-border conversions; and
- amending the DRM with the aim of facilitating access to dispute resolution procedures and strengthening taxpayers' procedural rights.

KPMG member firms[1] in the EU have submitted feedback on the Commission's Tax Omnibus proposal. The submission builds on recommendations made by KPMG member firms in response to the Commission's earlier call for evidence and provides comments on the specific measures included in the Tax Omnibus proposal.

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.

For more information on the Tax Omnibus proposal and KPMG's earlier recommendations, please refer to Euro Tax Flash Issue 582 and Issue 577.

KPMG feedback

We welcome the ambition of the Tax Omnibus proposal and its focus on simplifying the EU direct tax framework, reducing compliance burdens and supporting the competitiveness of the EU internal market.

In particular, we welcome the proposed removal of withholding tax barriers on intra-EU payments, the CFC carve-out for groups subject to Pillar Two, targeted changes to the ATAD interest limitation rules and the proposed common minimum standard for R&D tax incentives and we believe that they send the right signal to enhance the EU's attractiveness as a place to invest.

In the submission, we acknowledge Member States' concerns regarding the potential budgetary impact of certain measures but consider that the potential short-term revenue impact should be weighed against the longer-term benefits of reducing barriers to cross-border investment, lowering compliance costs and supporting the competitiveness of the EU internal market.

[1] Throughout the submission, "we", "KPMG", "KPMG member firms", "us" and "our" refer to the network of independent member firms operating in the EU.

As Council discussions progress, we encourage Member States to preserve the overall ambition of the Commission's proposals and to ensure that additional anti-abuse safeguards or conditions do not significantly reduce the practical benefits of the proposed simplification measures.

In our submission, we also highlight areas where further changes or clarification could help ensure that the proposals deliver meaningful simplification in practice. Key observations with respect to the different Tax Omnibus building blocks include:

Withholding tax relief for intra-EU payments

We welcome the proposed removal of withholding taxes on qualifying intra-EU dividends, interest and royalties and the move to a common and simplified relief procedure based on self-assessment, which could reduce compliance costs and cash-flow constraints for businesses. We also welcome the proposed extension of the dividend withholding tax exemption to EU pension funds and suggest considering similar treatment for certain investment funds and other entities that are tax-exempt for genuine public-policy reasons. We consider that the current participation thresholds create an arbitrary distinction between economically comparable investments, rather than serve as an effective anti-abuse filter. Potential abuse can instead be addressed through existing anti-abuse rules and targeted ex-post controls.

The submission therefore stresses that any notification, documentation, anti-abuse or ex-post review requirements should be clear and administrable and operate within appropriate deadlines. We also recommend greater clarity on the proposed safeguard for interest and royalty payments to recipients in zero-tax jurisdictions, including a common EU approach to identifying the jurisdictions concerned and clarification of its application where the income is effectively taxed elsewhere in the ownership chain.

CFC rules and overlaps with Pillar Two

We welcome the proposed carve-out from EU CFC rules for groups within the scope of Pillar Two as an important step towards reducing overlapping anti-avoidance rules and associated compliance obligations. We also suggest considering whether similar simplification could be extended to the ATAD anti-hybrid mismatch rules. The submission notes, however, that the proposed carve-out includes specific limitations for groups headquartered in jurisdictions operating a qualified Side-by-Side regime and calls for these provisions to be clarified to avoid uncertainty and differences in implementation across Member States. At the same time, we consider that the existing flexibility for Member States to apply either Model A or Model B under the ATAD CFC rules should be retained.

GAAR

With respect to the proposed extension of the ATAD General Anti-Abuse Rule (GAAR) to Pillar Two Top-up Taxes, we recommend taking into account the ongoing OECD work on Pillar Two integrity measures to ensure that the two sets of rules are compatible and do not overlap.

ATAD interest limitation rules

We support the proposed changes to the interest limitation rules, including making the 30 percent EBITDA threshold, the indexed EUR 3 million de minimis threshold, the group escape clause and the carry-forward of non-deductible interest mandatory across Member States. We also welcome the proposed additional carve-outs, including for qualifying third-party debt and significant reductions in EBITDA. However, the conditions attached to the third-party debt carve-out could limit its practical benefit, particularly where groups borrow externally through centralized treasury functions. We also suggest reconsidering the proposed removal of Alternative Investment Funds from the carve-out for financial undertakings.

R&D tax incentives

We welcome the proposed introduction of a common minimum standard for R&D tax incentives, while allowing Member States to maintain or introduce more favorable domestic incentives. We note, however, that the proposed allowance may provide limited benefit to loss-making businesses, including early-stage innovative companies, where domestic rules restrict the use of tax losses. We therefore suggest considering additional mechanisms, including the possibility of allowing losses generated by the R&D allowance to be surrendered in exchange for cash tax credits. We also recommend considering whether the EU State aid framework should be updated to facilitate incentives that qualify for favorable treatment under the Pillar Two Substance-based Tax Incentive Safe Harbour.

Cross-border reorganizations

We welcome the proposed alignment of the Merger Directive with developments in EU company law, including the extension of tax neutrality to cross-border conversions. We consider that further attention should be given to the treatment of carry-forward losses and other tax attributes, particularly where losses could remain trapped in the departure jurisdiction or be lost following a reorganization. The submission also calls for further guidance on divisions by separation and the interaction between cross-border conversions and EU exit taxation rules.

Dispute resolution procedures

We welcome the proposed clarifications to the scope of the Directive on Tax Dispute Resolution Mechanisms, including changes that would make it easier for taxpayers to access the procedures and reduce the risk of complaints being rejected on procedural grounds. We note, however, that taxpayers may continue to incur late-payment interest even where double taxation is ultimately eliminated and that differences between Member States in the treatment of penalties may affect access to the procedure. The submission also calls for greater clarity where a complaint is accepted by one Member State but rejected by another.

ETC Comment:

Following the release of the Tax Omnibus proposal end of June, Member States subsequently submitted initial questions and comments to the European Commission. In addition, several discussions covering the individual elements of the package have been held at Council level (in the so-called Antici Group composed of foreign affairs ambassadors with tax experts contributing to the discussion where appropriate).

The public comments from Member States, dated July 27 and July 31, indicate that several elements of the proposal remain under debate based on a number of concerns that can be grouped as follows:

- *Sovereignty*: Several Member States consider in their comments that parts of the package go beyond administrative simplification and amount to substantive harmonization of direct tax policy (e.g., through the proposed introduction of anti-derogation clause). This is particularly relevant in relation to ATAD, which was originally designed as a minimum standard and currently allows Member States to apply stricter domestic anti-avoidance rules.
- *Budgetary concerns:* According to the comments from some Member States, the proposed withholding tax changes, amendments to the interest limitation rules and the common R&D allowance could all have potentially significant budgetary effects. Some countries have therefore requested country-by-country impact assessments from the EC, or have commissioned local assessments, rather than relying only on EU-wide estimates of compliance savings and economic benefits.
- *Tax avoidance concerns:* According to some Member States' comments, simplification should not weaken enforcement or existing anti-abuse protections. This concern arises, for example, in relation to the removal of ex-ante WHT relief controls, proposed new carve outs from the interest limitation rules, and the suggested exclusion of Pillar Two groups from the EU CFC rules.

It will therefore be important for stakeholders to engage with the process to ensure the final rules are workable in practice and achieve their intended objectives without being diluted during the Council negotiations.

This is similarly true for the public consultation on the Directive on Administrative Cooperation (DAC) recast proposal, which is being conducted by the EC in parallel and that closes on December 1, 2026 – see E-News Issue 237 for more details.

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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