

28th Regime – Enough to Boost Innovation in EU?

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1. Introduction

The EU has fallen off the innovation wagon. We have all the right ingredients for success (e.g. talent, skilled workforce, large pool of private capital, stable and predictable legal environment, rule of law and a unique social market economy) but have also longstanding barriers and structural weaknesses holding us back. The biggest hurdle of all: the ingredients of success are spread around 27 EU Member States and subject to different national rules. The regulations are fragmented and complex and complying with them is costly. Secondly, we innovate and establish businesses but fail to grow them. These are the issues the European Commission aims to tackle in its [Competitiveness Compass](#) published on 29 January 2025.

The Competitiveness Compass translates the following three necessities identified in the [Draghi report](#) into more concrete measures for the European Union to boost its competitiveness:

- ▶ closing the innovation gap;
- ▶ decarbonizing our economy; and
- ▶ reducing dependencies.

One measure to close the innovation gap is the [EU start-up and scale-up strategy](#), which aims to create a friendly environment for young companies to start and grow. Currently, start-ups in the European Union face many regulatory barriers within the single market that hinder or even prevent them from growing their business and expanding it within the European Union or globally. The introduction of a so-called 28th regime would be a game changer for these problems.

2. 28th Regime – Ideas So Far

The idea of a regime that enables companies, especially SMEs, to operate under a single set of rules within all 27 EU Member States originates from the [Letta report](#) published on 10 April 2024. The Competitiveness Compass embraces the idea of a 28th regime, which would introduce a new set of harmonized rules for companies, especially innovative companies, applicable in all 27 EU Member States. Opting in to the single set of rules, operating in parallel to national rules, would be voluntary and would enable start-ups to focus on developing and growing their business while minimizing the time and funds needed for administrative and regulatory issues. According to the Commission, the new rules would include any relevant aspects of:

- ▶ corporate law;
- ▶ insolvency;
- ▶ labour law; and
- ▶ tax law.

Details of the different aspects are still on the drawing board but several ideas have already been brought forward.

The [workshop](#) on the 28th regime organized at the request of the European Parliament's Committee on Legal Affairs (JURI) on 5 June 2025 addressed possible different aspects of the regime. One of the recommendations is to apply a modular approach under which certain aspects of the regime would be open to all companies (and not just innovative ones), whereas some aspects would only apply to certain companies. Indeed, rather than focusing on defining an innovative business, the focus should be put on the needs of such businesses. What we consider innovative today, might not be that tomorrow. Other recommendations, inter alia, are:

- ▶ establishing a single European-level company register with full lifecycle functionality, a multilingual interface and interoperability with national systems;
- ▶ implementing the Once-Only Principle by interconnecting the EU register with tax, social security and financial institutions; and
- ▶ creating fair and uniform model documents, such as shareholder agreements and articles of association.

The European Parliament has [welcomed](#) the Commission's plans on the 28th regime for innovative companies but with some constraints. The Parliament proposes naming the corporate form covered by the 28th regime "European Start-Up and Scale-Up company" (ESSU). The Parliament would, however, require that an ESSU is:

- ▶ a legal entity with legal capacity that is automatically recognized in all Member States on the date of its registration;
- ▶ a limited liability company in which the owners' liability for the company's debts is limited to the amount of their contributions;
- ▶ not a listed company;
- ▶ established by one or more natural or legal persons that reside in or are established in a Member State;
- ▶ able to serve as an autonomous single company or as a subsidiary company of an ESSU parent company; and
- ▶ has its registered seat located in one of the Member States.

The Parliament also states that if an ESSU intends to list itself on the stock market, it should first convert into a public limited company. Furthermore, the 28th regime should focus mainly on company law rules. The Parliament highlights the need to simplify company formation and registration; the registration procedure for creating an ESSU should not take longer than 48 hours and it should be possible to submit company documents online. The Parliament also supports the Once-Only Principle for the registration of an ESSU, as suggested in the workshop.

The Commission has opened a [consultation](#) on the 28th Regime between 8 July and 30 September 2025. The interest to comment has been high: so far 690 have submitted their comments, out of which 30.58% are from Germany.

3. Tax Aspects Still Unclear

One of the major obstacles for cross-border operation is tax fragmentation. Each EU Member State has their own rules to comply with and the level of harmonization reached in taxation has been relatively minimal. Differences exist in corporate income tax regimes, R&D incentives, VAT treatment, transfer pricing and withholding tax procedures, which cause significant compliance costs and legal uncertainty. This applies to all companies and not only innovative start-ups.

The Competition Compass mentions tax law as one aspect included in the 28th regime. In its [response](#) to a [parliamentary question](#), the Commission has stated that it remains to be seen whether and what tax law elements could be included in the 28th regime. Options basically are either a European legal form or a new harmonized national legal form for companies. Nevertheless, in either case, these rules would apply in all Member States and company founders could choose whether to adopt a legal form under the 28th regime or whether to adopt an existing national legal form.

In July 2025, the Parliament published an in-depth analysis, ["Identification of hurdles that companies, especially innovative start-ups, face in the EU justifying the need for a 28th Regime"](#). The analysis also acknowledges that tax fragmentation is a problem for all EU companies. Hence, it recommends opening the 28th regime to all companies, regardless of size or sector. The regime should, however, be designed so that it provides specific tools and legal models especially beneficial to innovative and cross-border businesses. As full harmonization would be politically sensitive, the 28th regime could provide a simplified, common reporting baseline for eligible firms. The goal would be to simplify procedures and reduce duplicative administrative burdens, maybe even by introducing a single tax return model. The different aspects could also be rolled out gradually, for example starting with corporate law changes, followed by optional extensions in insolvency, labour and tax.

4. Future Steps

The public consultation on the 28th regime continues until 30 September 2025. The Commission's ambitious plan is to adopt the 28th regime in the first quarter of 2026.

5. Conclusion

The success of the 28th regime depends on its different aspects. In other words, will it be attractive and comprehensive enough for companies to opt in? The desire to include corporate law, insolvency, labour and tax law aspects in it is ambitious, to say the least. The first hurdle will be the political will needed to enact it. The second one is whether it will be sufficient to boost innovation and create more innovative hubs than the current ones in Amsterdam, Paris, Stockholm and Berlin. Nevertheless, the 28th regime is a step towards further deepening the internal market and greater European integration. As the former French Foreign Minister, Robert Schuman, stated in 1950: "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity." The introduction of the 28th regime will not make the European Union perfect, but it is likely to be a step forward.

IBFD references:

- > EU tax law developments are reported on the daily IBFD [Tax News Service](#) page.
- > For an overview of the legislative initiatives at the EU level on direct tax matters, see the [EU Direct Tax Law Initiatives Dossier](#).
- > For a more detailed analysis of the direct tax directives and initiatives, see section 3., on [Harmonization of Corporate Taxation](#), in C. Valério & D. Arsenovic, Direct Taxation, Global Topics IBFD.