

Simplifying the “Older” Corporate Taxation Directives: Can the Omnibus Deliver on Such a Complex Task?

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1. Introduction

On 24 June 2026, the European Commission [adopted](#) a tax simplification package to streamline compliance and enhance competitiveness of the Single Market: the “[biggest review of EU tax law ever, with a modernisation and simplification of 16 Directives](#)”.

The package comprises the [Taxation Omnibus](#) and the [Recast of the Directive on Administrative Cooperation \(DAC\)](#) and is part of the Commission's simplification agenda, aiming to reduce administrative burdens by at least 25% (35% for SMEs) by 2029 (for an overview of how the tax simplification and decluttering movement has taken shape in the European Union and a summary of the most concrete actions taken in the area of direct taxation up to June 2025, see O. Popa, [Simplification and Decluttering of EU Direct Tax Legislation](#)).

The Taxation Omnibus introduces amendments to six major directives:

- [Interest and Royalties Directive \(2003/49\)](#), hereafter the IRD;
- [Merger Directive \(2009/133\)](#), hereafter the MD;
- [Parent-Subsidiary Directive \(2011/96\)](#), hereafter the PSD;
- [Anti-Tax Avoidance Directive \(2016/1164\) \(ATAD\)](#);
- [Tax Dispute Resolution Mechanisms Directive \(2017/1852\)](#); and
- [Directive on Faster and Safer Relief of Excess Withholding Taxes \(2025/50\)](#) (FASTER) amended to ensure that its scope accommodates updates to the PSD and IRD.

Due to space constraints, this ETF note focuses on the proposed changes to the “older” Directives: the IRD, PSD and MD. Further ETFs on the remaining proposed amendments in the Simplification Package will follow.

2. Proposed Amendments

In the field of direct taxation, before the launch of the BEPS Action Plan (2013), only three directives were adopted and transposed by the Member States: the PSD, which aims to, inter alia, eliminate tax obstacles to cross-border distributions of intra-group profits; the IRD, which aims to eliminate withholding taxes on cross-border interest and royalty payments between associated companies; and the MD, aimed at eliminating tax obstacles to cross-border corporate reorganizations. Partial harmonization combined with differences in implementation, interpretation and enforcement contribute to the complexity created by these directives and to their gradual misalignment with evolving economic and legislative reality.

The Taxation Omnibus seeks to amend several aspects of these Directives, as detailed below.

2.1. Parent-Subsidiary Directive and Interest and Royalties Directive

2.1.1. Material scope

The benefits of the IRD apply subject to direct holdings of 25% in capital or voting rights and the benefits of the PSD are subject to holdings, either direct or indirect, of 10% in capital or voting rights. According to the [Impact Assessment Report](#): “Missing alignment between the IRD and PSD regarding holding requirements will also continue to result in higher than necessary compliance costs for companies involved in cross-border operations. This will continue to produce incongruous results.”

The Taxation Omnibus proposes to extend the material scope of both Directives by removing the minimum holding requirement applicable under the concept of “associated companies” for the IRD and “parent company” for PSD. As a result, dividends, interest and royalties payments between in-scope companies within the European Union would benefit from withholding tax exemption irrespective of the level of participation held between them.

2.1.2. Procedural aspects

According to the Impact Assessment Report: “In practice, the majority of Member States have not implemented any upfront requirement or procedure for companies to benefit from the tax exemptions under the IRD and the PSD”, leading to “excessive procedural complexity in certain Member States in order to gain entitlement to the withholding tax exemption of dividends, interests and royalties under the IRD and the PSD.”

The Taxation Omnibus proposes that Member States will no longer be able to require prior authorization or administrative procedure for verifying whether the conditions for the exemption are fulfilled at the time of payment. Therefore eligibility for applying the withholding tax exemption will be self-assessed by the taxpayer, subject to ex-post controls and the application of anti-abuse rules by Member States if needed.

When the taxpayer is not able to verify eligibility at the time of payment, either FASTER procedures or domestic refund procedures within a reasonable time will apply.

2.1.3. Annexes

The annexes in both directives, with the list of companies that can benefit from the exemptions, are amended to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered.

2.1.4. Other scope amendments

The proposal clarifies that the IRD applies to payments which are attributable to the activities of a permanent establishment, irrespective of whether those payments are tax deductible in the Member States in which the permanent establishment is situated.

The scope of the PSD is also further extended to pension funds, irrespective of their legal form. To that end, the proposal introduces a derogation from the subject-to-tax condition applicable under the Directive.

2.1.5. Safeguard for IRD (protective measure)

A safeguard to prevent situations of double non-taxation is added where the recipient of the payment is

established in a jurisdiction that does not levy corporate income tax or applies a zero tax rate to income flows of interests and royalties, while the Member State of source does not levy withholding tax either. Then Member States would be required either to levy withholding tax or deny the deductibility of interest and royalty payments at source. This safeguard would not apply where the recipient is subject to a QDMTT for the tax period and receives no refunds or direct or indirect financial benefits in this connection or is part of an MNE group that falls within the scope of the rules laid down in the [Minimum Taxation Directive](#), or as regards third-country jurisdictions, the OECD Model Rules.

2.1.6. Related targeted amendment to FASTER

Article 6 of the Taxation Omnibus proposal adjusts the scope of the [Directive on Faster and Safer Relief of Excess Withholding Taxes \(2025/50\)](#) (FASTER) to ensure that it covers refunds in respect of income qualifying for withholding tax exemptions under the PSD and the IRD, where such exemptions were not granted at source.

2.2. Merger Directive

The aim of the MD is to ensure tax neutrality for cross-border corporate reorganizations. However, more recent forms of cross-border reorganizations are not covered by the current scope of the Directive. Therefore, the Omnibus proposes to: (i) include “simplified merger” and “division by separation” within the scope of MD; (ii) introduce a new chapter regarding rules applicable to cross-border operations, which includes the transfer of office of a company; and (iii) amend the list of company forms that can benefit from the Directive, included in the Annex, to ensure that all entities which, by their nature, should fall within the scope of the Directive are explicitly covered.

3. Initial Observations

Most of the proposed measures are expected to benefit, and be broadly welcomed by, both the business community and Member States.

If adopted in the current form, Member States have to transpose the amendments by the end of 2028, with most measures applicable from 1 January 2029. However, the removal of the minimum holding requirements for PSD and IRD would apply from 1 January 2037, reflecting their more controversial nature (and giving Member States extended time to adjust).

Under current rules, many Member States derive tax revenue from withholding taxes levied on dividends, interest and royalty payments in situations not meeting the Directives’ holding requirements (for an analysis of all applicable WHT rates in EU bilateral situations, see section 4 of respective country chapters in the IBFD [Corporate Investment Income](#) publication). The proposal would therefore represent an important change for these Member States. The impact assessment mentions that the benefit for companies from the WHT exemption would be EUR 5.34 billion per year (out of a total of EUR 6.6 billion per year from all provisions in the Taxation Omnibus). However, the budgetary impact on Member States’ revenue is not included, so depending on how Member State will assess this impact (and the need to amend their current (participation exemption) regimes) will influence their position during negotiations for unanimous adoption in the Council of the European Union.

The initial material scope of the PSD and IRD has traditionally played an important role in limiting the risk of unintended use of the Directives’ benefits. The removal of the holding requirement might unintentionally facilitate profit shifting towards lower taxed jurisdictions (in particular for groups outside the scope of Minimum Taxation Directive). The IRD safeguard, beneficial ownership requirements, the revised wording of the ATAD GAAR to cover withholding taxes, and Pillar Two measures are all relevant protective mechanisms; however, it remains to be assessed whether they can fully offset the risks arising from the removal of the holding requirements.

The proposed amendments to the “older” corporate taxation Directives constitute a major shift in EU direct tax policy. According to the Impact Assessment, the Taxation Omnibus has a singular overarching objective: simplification; it simplifies and modernizes the Union direct tax acquis, while preserving the original objectives of the Directives. The initiative represents a significant and ambitious effort by the European Commission to advance the simplification agenda in direct taxation, and it should be recognized as such. It also underscores that simplification is inherently complex. Accordingly, the complexity of the task should be acknowledged as the proposal progresses through the legislative process towards eventual adoption.

IBFD references:

- > EU tax law developments are reported on the daily IBFD [Tax News Service](#) page.
- > C. Valério & D. Arsenovic, [European Union - Direct Taxation](#), Global Topics IBFD.
- > O. Popa, [Navigating the Complexity of EU Rules in Direct Taxation: Legislative Clutter, Institutional Initiatives and Steps Toward a Sustainable Framework](#), 66 Eur. Taxn. 8 (2026), Journal Articles & Opinion Pieces IBFD
- > For an overview of all applicable WHT rates in EU bilateral situations, see section 4 of the respective country chapters in the IBFD [Corporate Investment Income](#) publication.