

## **European Commission presents proposal for Direct Tax Omnibus**

On 24 June 2026, the European Commission published the Direct Tax Omnibus proposal. This Omnibus proposal aims to simplify existing EU tax legislation and introduce measures that are beneficial to taxpayers. The proposal includes broader tax exemptions for interest, royalties and dividend payments within the European Union, an amendment to the Merger Directive, broader interest deduction under the earnings stripping rules, and an R&D facility. In this newsflash, we discuss these measures that, based on the proposal, would come into force on 1 January 2029 at the earliest.

### **Interest and Royalties Directive: exemption for all intra-EU payments between companies and no upfront administrative formalities**

At present, not all interest and royalty payments between companies established in the EU are exempt from withholding taxes, as the scope of the Interest and Royalties Directive is limited to interest and royalty payments between *associated* companies within the EU. The Omnibus proposal proposes to remove the requirement of the companies being 'associated' (in short: a direct equity interest of 25% or more) as from 2037. The result of the proposal would be that the exemption from withholding tax for interest and royalty payments would apply to any interest or royalty payment between companies within the EU, without any form of shareholding or affiliation being required. To prevent double non-taxation, a scheme is proposed for interest and royalty payments to companies that are resident in a non-EU country with no corporate income tax or where interest and royalty payments are subject to a 0% rate (and the recipient is also not subject to Pillar 2 taxation). Payments to companies in such non-EU countries should be subject to withholding tax, or otherwise not deductible, as of 2037.

The proposed directive also proposes that as of 2037 – unlike now – no upfront (administrative) procedures may be required for the application of the exemption. This should (considerably) reduce the administrative burden for taxpayers.

### **Parent-Subsidiary Directive: exemption for all intra-EU dividends between companies**

The benefits of the 'Parent-Subsidiary Directive' in the form of the withholding exemption and participation exemption (or a credit for taxation at the level of the subsidiary) are currently limited to dividend payments between companies in the EU where the shareholder holds an interest of at least 10% in the distributing company. In addition, it is required that the companies concerned are subject to taxation. Tax-exempt companies, such as pension funds, are not entitled to the benefits of the directive, e.g. an exemption from withholding tax on dividends.

The Omnibus proposal proposes to abolish the required minimum shareholder percentage of 10% in the capital from 2037 and to further grant the directive benefits to exempt pension funds as defined in EU law. As a result, the withholding exemption and participation exemption (or tax credit mechanism) would apply to all dividend payments between taxpayer companies within the EU (except in cases of abuse, or if the payments are deductible for the payer) and to dividend payments to exempt pension funds.

The minimum shareholder percentage of 10% in the capital is still relevant in the tax treatment of costs related to the participation in the subsidiary. Member States are

given the option to disallow deduction of costs associated with such a participation of 10% or more.

### **Merger Directive: reorganisations covered will be brought in line with the Mobility Directive**

In 2023, the EU Mobility Directive (Directive (EU) 2019/2121) entered into force, which allows various forms of cross-border reorganisations such as mergers, demergers and conversions of legal forms to take place within the EU for company law purposes. The tax counterpart to ensure that such reorganisations within the EU can take place tax-neutrally – known as the Merger Directive – was last amended in 2013 and does not yet provide for all the possibilities for reorganisations offered in the company law Mobility Directive. The Omnibus proposal proposes align the Merger Tax Directive with the reorganisation options offered by the Mobility Directive from 2029 onwards. This includes for example mergers without a share issuance by the acquiring company, partial demergers, and cross-border conversions of legal forms.

### **Change in earnings stripping scheme (interest deduction limitation)**

The ATAD1 Directive contains an interest deduction limitation on the basis of which the net interest deduction is limited to the highest of (i) a maximum of 30% of the taxable EBITDA and (ii) a maximum of € 3 million. The 30% limit and threshold of € 3 million are currently maximum limits, where Member States have the option to implement the rules more strictly by applying a lower limit and/or threshold. The Netherlands, for example, has opted for this by applying a 24.5% EBITDA-limit and a threshold of € 1 million. The Omnibus proposal prescribes stricter implementation: it is proposed to make the 30% limit (from 2029) and threshold of €3 million (from 2032) (with indexation of the latter amount) mandatory for Member States. If this proposal is adopted on this basis, the Netherlands would have to raise the 24.5% limit and the threshold of €1 million.

In addition, the Omnibus proposal contains several additional measures to limit the scope of the interest deduction limitation, which measures should enter into force from 2029. These additional measures consist of:

- **An exclusion for interest on third-party loans.** A requirement for this exception is that the third-party loan is used for the own business of the taxpayer, and the exclusion does not apply if the funds are on-lent or contributed as equity within the group.
- **Mandatory implementation of the group escape rules.** Currently, the group escape rules, allowing higher interest deduction limits based on the debt-equity ratio or the EBITDA/net interest ratio of the group are optional and not implemented by the Netherlands. The Omnibus proposal makes it mandatory for Member States to implement either of these two group exceptions.
- **Broadening of the exclusion for long-term public infrastructure projects.** It is proposed to broaden the exclusion for long-term infrastructure projects to long-term public-benefit projects, which would also include e.g. social and affordable housing.

- **Exception to mitigate procyclical effects.** It is proposed that the interest deduction limitation does not apply if the fiscal EBITDA of the taxpayer decreases by 50% or more in a year compared to the previous year.
- **Temporary exclusion for defence products.** The Omnibus proposal contains a temporary five-year exclusion to the interest deduction limitation for loans taken out after 1 January 2029 that are used to fund defence products.

### **Introducing an R&D facility**

The Omnibus proposal introduces a provision that would extend the ATAD Directive to include an R&D facility that should come into effect from 2029. The idea behind it is to create a minimum standard for promoting R&D within the EU that strengthens the EU's competitive position. The proposed R&D facility introduces a deduction for investments in R&D-related tangible fixed assets, including buildings, machinery and installations that are used for at least three years. Based on the proposed R&D facility, taxpayers would be allowed to deduct qualifying R&D expenditure from taxable income either in the year in which these are incurred, or any of the four subsequent years.

### **Other measures**

In addition to the above measures, the Omnibus proposal contains the following measures that should enter into force from 2029:

- **Broadening the scope of the General Anti-Abuse Rule ('GAAR').** In its current form, the GAAR only applies to corporate income taxes. It is proposed that the GAAR should apply to all taxes to which companies are subject. As a result, the dividend withholding tax, conditional withholding tax and the minimum tax would also fall within the scope of the GAAR.
- **Adjustment and limitation of the scope of the CFC-rules.** It is proposed to amend the CFC-rules on two points. The first point is to abolish the 'Model B' approach of the CFC-rules (in short, CFC levy on the basis of transfer pricing), as implemented by the Netherlands. The second point is to exempt small and medium-sized enterprises and Pillar-2 groups from the CFC-rules.
- **Abolition of imported hybrid mismatches.** It is proposed to remove the rules related to imported hybrid mismatches of the ATAD2 Directive.
- **Clarification and simplification of the EU Dispute Resolution Mechanism Directive.** Several changes are proposed to the EU Dispute Resolution Mechanism Directive for clarification and simplification.
- **Extension of the scope of the FASTER directive.** It is proposed that the FASTER Directive also on mandatory basis covers certain refund procedures for withholding tax exemptions as a result of the Parent-Subsidiary Directive or the Interest and Royalties Directive.

### **Comments by KPMG Meijburg & Co**

The Omnibus proposal is an ambitious proposal for a directive from the European Commission that aims to reduce administrative burdens and tax burdens for taxpayers. With this directive, the European Commission is also deviating from its trend since approximately 2014 where the tax measures mainly focused on countering base

erosion and introduced administrative obligations. The underlying idea to deviate with this trend seems to be to strengthen the competitiveness of the EU internal market.

The main question raised by the Omnibus proposal is what the political feasibility will be. The Omnibus is a proposal from the European Commission. The Member States still have to negotiate and agree on this, and the directive may still change as a result. In light of the (presumably significant) budgetary impact that would be associated with the proposed measures (as a result of allowing more interest deductions, being able to levy less withholding tax and allowing an R&D facility) and the fact that the unanimous consent of the Member States is required to adopt the directive, it is to be expected that the Directive will undergo further amendments.

If you would like to know more, please contact your usual Meijburg advisor.

KPMG Meijburg & Co  
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