

European Commission publishes Tax Omnibus proposal

25 June 2026

In brief

What happened?

The European Commission has published a [Tax Omnibus proposal](#) that would amend six EU direct tax Directives: the Interest and Royalties Directive (2003/49/EC), the Merger Directive (2009/133/EC), the Parent-Subsidiary Directive (2011/96/EU), the Anti-Tax Avoidance Directive (ATAD) (2016/1164), the Dispute Resolution Mechanisms Directive (2017/1852), and the FASTER Directive (2025/50).

The package is intended to simplify the EU direct tax framework, reduce compliance burdens, improve legal certainty, and support EU competitiveness. According to the Commission's impact assessment, it could reduce compliance and related financial costs by approximately EUR 6.6 billion per year, of which roughly EUR 2 billion relates to recurrent administrative burden. The IRD/PSD full-exemption measures alone are estimated to save taxpayers around EUR 5.34 billion annually.

Why is it relevant?

The proposal introduces significant changes to withholding tax relief procedures, cross-border reorganisations, and dispute resolution mechanisms. It removes longstanding barriers such as minimum holding requirements, shifts from prior authorisation to self-assessment with ex post controls, and links IRD/PSD exemptions to FASTER relief-at-source and quick refund procedures.

Actions to consider

The Tax Omnibus should be read alongside the separately proposed DAC Recast. This alert focuses on the non-ATAD direct tax measures; ATAD changes are addressed separately in an alert available [here](#). An alert covering the DAC changes can be accessed [here](#). Businesses with EU cross-border operations should assess the impact on withholding tax processes, reorganisation planning, and dispute strategy.

In detail

Interest and Royalties Directive (IRD)

The proposal would remove the current 25% minimum holding requirement for ‘associated company’ status, allowing withholding tax exemption on interest and royalty payments regardless of participation level. It also would remove the option for Member States to replace the capital participation criterion with a voting rights criterion. A double non-taxation safeguard would require source states to levy withholding tax or deny a deduction where the recipient is established in a third-country jurisdiction with no or zero corporate income tax on interest and royalty income and no withholding tax is levied at source. This safeguard would not apply where the recipient is subject to a QDMTT (without refund or financial benefit) or is part of an MNE group within the scope of the Pillar Two Directive or, for third-country recipients, the OECD Model Rules. However, the safeguard may still apply where the UPE of the MNE group is in a jurisdiction with a qualified side-by-side regime.

The proposal also would clarify that the exemption applies to permanent establishment-attributable payments and would update the annex of eligible company forms. The current prior-authorisation model would be replaced by self-assessment, with FASTER or domestic refund procedures applying where eligibility cannot be confirmed at the time of payment. The FASTER link is framed as a derogation from the standard IRD refund mechanism, improving legal certainty on which procedure takes priority.

Observation: Removing the holding threshold would significantly broaden the scope of relief, particularly for minority EU investments, joint ventures, debt investments, IP licensing arrangements, and intra-EU financing flows. Intra-EU interest and royalty flows would not be caught by the double non-taxation safeguard, reducing compliance burdens for EU groups. However, the side-by-side regime qualification means that US-parented MNE groups still could be exposed to the safeguard on outbound interest and royalty payments, even where the group is within the scope of Pillar Two. While self-assessment should reduce front-end compliance burdens, Member States would retain ex post control and anti-abuse powers. It’s critical for businesses to retain timely and consistent supporting documentation.

Parent-Subsidiary Directive (PSD)

The PSD amendments would broadly mirror the IRD changes. The minimum holding requirement for ‘parent company’ status would be removed, and the option to use a voting rights criterion would also be eliminated. The scope would be extended to pension institutions regardless of legal form. Member States’ option to deny a deduction for participation-related costs would be limited to participations of at least 10% where management costs are actually incurred. Self-assessment would become the default mechanism. The proposal explicitly preserves national anti-abuse measures aimed at preventing the avoidance of wealth or income tax liabilities through the use of holding companies.

The proposal also would introduce standard refund timelines: investors would have at least two years to file a refund claim, and refunds generally would have to be paid within one year, with interest applying if that deadline is missed.

Observation: The removal of holding thresholds and the extension to pension institutions could simplify fund structuring and reduce barriers for institutional investors. The explicit preservation of national anti-abuse measures targeting holding company structures means businesses should review whether existing structures could be challenged under domestic rules even under the broadened PSD scope. Defined refund timelines also would address a longstanding practical concern, although timely and consistent supporting documentation would remain essential.

FASTER Directive

The proposal would amend Article 11 of the FASTER Directive so that Member States no longer could deny access to FASTER fast-track procedures—relief at source or quick refund—solely because a full withholding tax exemption is claimed under the IRD or PSD. As a result, investors in publicly traded securities who are entitled to IRD/PSD exemptions still could access these streamlined procedures.

Observation: This is most relevant where publicly traded securities are held through intermediaries or nominee accounts. The key point is that Member States should not be allowed to exclude such payments from the first-track relief mechanism. Eligibility for relief should instead be assessed through the applicable due diligence process. The FASTER link is expressly framed as a derogation from the standard refund procedures, which should reduce the risk of procedural conflicts between the two frameworks and help create a more integrated EU withholding tax relief system.

Merger Directive

The proposal would broaden the scope of the Merger Directive to cover simplified mergers and divisions by separation, aligning the tax neutrality framework more closely with the EU Mobility Directive. It would introduce a new chapter on cross-border conversions, which are defined broadly to include at least the transfer of the registered office from a departure to a destination Member State. The proposal also would adopt a mandatory approach for shareholders of tax-transparent entities, update the list of eligible legal forms, and seek better alignment in the treatment of tax losses.

Observation: The extension to cross-border conversions would fill an important gap in the current EU tax neutrality framework and could be particularly relevant for groups considering legal form conversions or registered office transfers within the European Union. However, outcomes still would depend on asset mapping, permanent establishment analysis, depreciation continuity, and local implementation choices.

Dispute Resolution Mechanisms Directive

The proposal would introduce several procedural improvements to the Dispute Resolution Mechanisms Directive. The definition of 'affected person' would be clarified and broadened to cover all persons whose taxation is directly affected by the same question in dispute. The current 'simultaneous submission' requirement would be replaced with a clear 30-calendar-day filing window. Taxpayers would be given 30 days to remedy deficiencies in a complaint, and competent authorities would be required to provide the general reasons for any rejection. Taxpayers could resubmit a rejected complaint provided the overall three-year time limit is respected. Competent authorities also would be required to inform taxpayers without undue delay where no agreement appears possible, rather than awaiting the expiry of the two-year MAP period.

The proposal would further extend dispute resolution commissions to admissibility disputes and suspend parallel proceedings from the date the first competent authority receives the DRM complaint, with termination only once all competent authorities have accepted the complaint. Objections to independent persons of standing must be raised before the final decision is agreed; any objection raised after that point would have no effect.

Observation: These changes should improve the accessibility and efficiency of the DRM framework. They are procedural in nature and are not expected to extend the Directive's scope to Pillar Two disputes.

What's next?

The proposal requires unanimous agreement in the Council of the EU and remains subject to negotiation and amendment during the legislative process. The European Parliament must be consulted, although its opinion is not binding. Member States would be required to transpose the Directive by 31 December 2028, with general application from 1 January 2029. However, the IRD and PSD scope extensions, self-assessment provisions, and the IRD double non-taxation safeguard would have significantly deferred application from 1 January 2037.

Observation: Initial reactions from public discussions indicate difficult negotiations. Several Member States, including the Netherlands, face fiscal pressures that may limit support for measures affecting ATAD-related and withholding tax revenues. Germany has raised structural concerns that simplification could reopen tax avoidance debates considered settled after ATAD and Pillar Two. The current level of anti-abuse rules may not be lowered. Fiscal implications of the proposals will be carefully assessed. The Irish Presidency of the Council of the EU (beginning on 1 July) will aim to 'progress work' on the omnibus, but not to set the goal of agreeing the package before the end of the calendar year (unlike the DAC Recast which is intended to be agreed by then). These dynamics suggest unanimity and progress may be difficult and the final text, if agreed, could differ materially from the Commission's proposal. Negotiations could continue well into next year. The 'One Europe, One Market Roadmap', jointly signed by the European Institutions, signals a shared target to reach agreement on the Tax Omnibus by Q4 2027.

Businesses should monitor the legislative process closely and, in parallel, review their internal tax processes in light of the proposed changes.

Let's talk

For a deeper discussion of how the proposed measures might affect your business, please contact:

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