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Union des Entreprises Luxembourgeoises

Proposal for a Council Directive amending Directives 2003/49/EC, 2009/133/EC, 2011/96/EU, (EU) 2016/1164, (EU)2017/1852, (EU) 2025/50 as regards the simplification of the Union framework on direct taxation and supporting growth and competitiveness of the EU

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UEL feedback

In July 2026, the European Commission published a proposal for a directive on the simplification of the European Union ("EU") direct tax framework (the "Direct Taxation Omnibus" or "proposal"). The initiative forms part of the Commission's broader commitment to reduce the administrative burden by at least 25% for all EU businesses and by at least 35% for small and medium-sized enterprises ("SMEs") in the EU, to bring savings of approximately EUR 8 billion annually, of which €3.25 billion in administrative savings. The Commission has opened a feedback period on the proposal.

The proposal responds to repeated calls from the European Council and the European Parliament to simplify the regulatory environment and modernize the EU's direct tax framework, thereby helping to attract foreign direct investment and limit relocation of businesses outside the EU.

Investment is essential to Europe's prosperity: it supports innovation, quality employment, rising wages and sustainable public finances. A clear and predictable tax framework can help unlock that investment, while unnecessary complexity, fragmentation and uncertainty increase the cost of doing business in Europe.

Against this background, simplification should form part of a broader, evidence-based review of the existing tax framework. Rules and reporting obligations should be assessed against their purpose, effectiveness and continued relevance in today's economic, political and fiscal context. Provisions that no longer meet these tests should be simplified, repealed or, where appropriate, replaced with better-targeted rules.

The proposal should be considered in its entirety to ensure that simplification achieved in one area is not undermined by additional complexity elsewhere, whether in the course of Council negotiations or through national gold-plating. Existing rules that remain effective should be maintained, while any new measure should respond to clearly established risks and be carefully targeted and proportionate.

The proposal also introduces an EU-wide minimum standard for a research and development ("R&D") allowance. If designed to complement, rather than disrupt, effective national R&D regimes, this framework could provide a boost for research, innovation and sustainable productivity growth across the EU. If this framework does not

qualify for Pillar Two purposes, however, its potential benefits for groups within the scope of those rules may be significantly reduced.

UEL and the Luxembourg business sectors it represents welcome the Commission's ambition to foster a modern, fair and predictable business environment. In general, the Direct Taxation Omnibus is a positive step towards a simpler framework. However, the proposal presents notable shortcomings in being capable of achieving the stated goals and, in a number of instances, even risks resulting in additional complications. Therefore, as discussions on the Direct Taxation Omnibus progress, targeted elements of the proposal should be carefully revisited to ensure that they do not create unintended adverse effects or additional complexity for certain jurisdictions or taxpayers, while strengthening the proposal's contribution to a more efficient, coherent and competitive EU tax system.

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Detailed comments

UEL welcomes the opportunity to provide feedback on the Direct Taxation Omnibus and submits the following comments:

Simpler taxation can strengthen competitiveness

Against a background of overlapping requirements, divergent national practices and growing complexity for cross-border businesses, the Commission's commitment to reduce administrative burdens by at least 25% for all businesses and 35% for SMEs is particularly welcome. The Tax Simplification Package can make a meaningful contribution to these objectives.

Achieving genuine simplification requires more than reducing forms or shortening procedures. Existing rules should be systematically reviewed to determine whether they remain necessary, effective and proportionate: rules that work should be preserved, unnecessarily burdensome provisions simplified, obsolete measures repealed and any replacements better targeted. Reducing avoidable compliance costs would also allow businesses to devote more resources to innovation, productivity and growth.

Any new requirement should address a demonstrated risk, be supported by a robust impact assessment and remain targeted and proportionate, while preserving effective safeguards against abuse.

1. Proposals partially welcomed

a) Scope of the withholding tax exemption of Council Directive 2011/96/EU (" Parent-Subsidiary Directive")

The proposed simplification of the conditions for withholding tax exemptions is a welcome development. In particular, removing participation thresholds under the Parent-

Subsidiary Directive should reduce administrative burdens, limit fragmentation in the application of EU tax directives and facilitate cross-border investment.

To fully support the proposal's simplification and competitiveness objectives, however, the scope of the exemption should be broadened. As currently drafted, it would remain limited to qualifying EU entities and EU pension funds, thereby excluding many investors established outside the EU, notably third-country pension funds investing in European assets directly or through alternative asset managers.

This limitation risks leaving payments to non-EU pension funds among the principal investment flows still subject to withholding tax, without a clear justification in light of the measure's objective. It could also discourage a significant source of long-term investment into the European Union. Consideration should therefore be given to extending the exemption to non-EU pension funds.

In addition, the exemption should also be extended to Undertakings for Collective Investment in Transferable Securities ("UCITS"), European Long-Term Investment Funds ("ELTIF"), and other regulated investment funds. Recognising the tax-neutral character of these regulated investment vehicles would help remove tax obstacles to cross-border investment and ensure the proposed simplification reaches widely used investment structures.

Should an extension of the exemption to UCITS, ELTIF and other regulated investment funds not be considered feasible at this stage, the exemption should, at a minimum, apply to investments made by EU and non-EU pension funds through UCITS, ELTIF and other regulated investment funds. This targeted extension would preserve appropriate safeguards while strengthening the proposal's contribution to a simpler and more attractive EU investment framework.

b) Coordination between the proposal and the Pillar Two rules

The proposed amendment to the Parent-Subsidiary Directive should also be aligned with the Pillar Two framework. Under the Pillar Two rules, the exclusion of dividends remains subject to a 10% minimum ownership threshold. A dividend could therefore be exempt under the amended Parent-Subsidiary Directive and yet, remain included in the Pillar Two effective tax rate calculation and potentially trigger top-up tax.

Other inconsistencies may arise whether the ultimate parent entity is located in a jurisdiction with a qualified "side-by-side" regime or in a jurisdiction applying the Pillar Two rules. Pillar Two groups should be excluded from the proposed protective measure applying to certain cross-border payments of interest and royalties (cf. section 2.b)) whereas groups whose ultimate parent entity is located in a jurisdiction which operates a qualified "side-by-side" regime should not, unless the direct recipient is itself subject to a qualified domestic minimum top-up tax. Similarily, the proposed Controlled Foreign Company ("CFC") carveout should apply to Pillar Two groups except where the group is headquartered in a jurisdiction which operates a qualified "side-by-side" regime, unless the direct recipient is itself subject to a qualified domestic minimum top-up tax.

By focusing solely on the direct recipient, this condition disregards taxation higher up in the ownership chain, including US CFC or US Global Intangible Low-Taxed Income (also known as "GILTI") inclusions, as well as payments involving transparent entities. Therefore, this may result in double taxation.

Applying different treatment to US-headquartered groups, which, at present, are the only groups qualifying for the side-by-side safe harbour, would create additional complexity and increase the risk of double taxation. Such an outcome would run counter to the proposal's simplification and competitiveness objectives and could ultimately weaken a major source of investment into the EU. Therefore, reviewing these interactions would improve consistency and help prevent unintended tax consequences.

Overall, broadening the withholding-tax exemption and ensuring the effective coordination with the Pillar Two framework would strengthen the proposal's impact. These targeted improvements would enhance coherence and legal certainty, while supporting a simpler and more attractive EU tax environment for investment.

Finally, the proposal also presents an opportunity to deliver more immediate and tangible simplification for groups subject to the Pillar Two rules through a broader carve-out encompassing CFC, interest and royalties protective measures, anti-hybrid and interest limitation rules.

2. Proposals raising concerns

Before introducing new obligations, policymakers should clearly identify the cross-border risk concerned, assess whether existing rules already provide an effective response and consider less burdensome alternatives. Supported by a robust impact assessment and designed in a targeted and proportionate manner, a new rule can preserve effective safeguards while contributing to a more streamlined and consistent EU tax framework.

Against this background, the provisions discussed below require reconsideration to ensure that they remain necessary, proportionate and aligned with the objective of a simpler and more coherent EU tax framework.

a) Removal of Model B from the CFC rules

Exempting companies in scope of Pillar Two and SMEs from the CFC rules would deliver immediate and tangible simplification, saving SMEs an estimated EUR 90 million in compliance costs each year. However, the proposed removal of Model B from the CFC rules requires careful consideration.

Model B is based on internationally recognised transfer-pricing principles and provides Member States that apply it with an established and targeted mechanism for addressing tax avoidance by reference to non-genuine arrangements. Requiring those Member States to replace that approach with Model A would entail legislative, administrative and

operational changes. This could generate significant transition and ongoing compliance costs for businesses and tax administrations.

Making Model A mandatory increases the risk of double or multiple taxation. In multi-tier ownership structures, the same undistributed passive income of a CFC may be attributed to controlling taxpayers at different levels of the ownership chain, potentially in different Member States. Further taxation may arise when that income is subsequently distributed or reflected in a disposal gain. Although Council Directive (EU) 2016/1164 as amended by Council Directive (EU) 2017/952 ("ATAD") provides certain relief for subsequent distributions and disposals, those mechanisms do not fully address overlapping CFC inclusions or mismatches in the timing, amount and calculation of the income recognised in different jurisdictions. These risks add complexity and require groups to trace CFC income, taxes and subsequent distributions throughout the ownership chain.

The proposal should therefore be revised to preserve the availability of Model B. This conclusion rests on three grounds. First, the impact assessment does not account for the additional complexity and administrative burden that replacing Model B would impose on tax administrations and taxpayers. Second, it has not been demonstrated that Model B is insufficient or ineffective in addressing the risks it is intended to tackle. On the contrary, considering the basis for Model B being transfer pricing, it generally entails less administrative burden than Model A, as groups can rely on existing transfer pricing policies and documentation. Third, its removal would run counter to the proposal's stated objective of simplification by requiring jurisdictions that currently apply it to introduce and administer a new framework. The proposal does not demonstrate that there is a net reduction in administrative burden as a result of abolishing Model B. Based on practical experience, we would expect Model B to cause less administrative burden than Model A. The co-existence of both models therefore is not expected to cause a higher administrative burden than a uniform application of Model A.

b) Protective measure applying to certain cross-border payments of interest and royalties

The Direct Taxation Omnibus proposes a protective measure for certain cross-border payments of interest and royalties following the removal of withholding taxes under the Council Directive 2003/49/EC. Where the recipient is established in a jurisdiction that does not levy corporate income tax, or applies a zero rate to the relevant income, and the specified exceptions do not apply, Member States would be required either to impose withholding tax or to deny the deduction of the payment.

The proposal requires taxpayers and tax administrations to trace payment flows and determine the tax treatment of the corresponding income at recipient level, including where payments pass through several entities or jurisdictions, to an extent that would be at least very burdensome, and in some cases, not even possible to comply with for the relevant taxpayer (e.g. public bonds). This could create substantial new documentation and monitoring requirements, uncertainty as to the treatment of payments, and risks of double taxation.

The necessity and proportionality of the measure should therefore be demonstrated, by reference to a clearly identified risk, and assessed against the safeguards already available under EU and national law, tax treaties and existing anti-abuse frameworks, including the principal purpose test and measures linked to the EU list of non-cooperative jurisdictions.

In the absence of clear evidence that existing safeguards are insufficient, the protective measure should be removed from the proposal. Retaining it would risk undermining the very simplification the proposal seeks to achieve, replacing withholding taxes with greater complexity and disproportionate compliance burdens.

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About UEL:

UEL (Union des Entreprises Luxembourgeoises) is the Luxembourg Employers' Association. UEL represents the Luxembourg private-sector businesses, except for the primary sector, and includes the Grand Duchy's professional chambers and employer federations.

UEL works for a sustainable and prosperous economy for Luxembourg, its inhabitants and those who work there. It endeavors to provide an economy that is attractive to both investors and talented individuals.

To accomplish its mission, UEL facilitates working groups and discussions with its member organizations on major inter-branch topics. It is thereby able to present joint positions to the public authorities and social partners on these topics which they can then review together.

The initiatives launched by UEL are based on the values of the social market economy, sustainable development, business ethics, good governance and dialogue.