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Simplifying EU rules on direct taxation – omnibus

1. Executive Summary

The private equity and venture capital ecosystem is a critical driver of economic growth, innovation, and competitiveness in Europe. By providing long-term risk capital to startups, scale-ups, and SMEs, the industry plays a central role in financing the green and digital transitions, supporting productivity growth, and strengthening Europe's strategic autonomy.

However, the effectiveness of the European investment ecosystem is increasingly affected by the complexity and fragmentation of the EU direct tax framework. While recent EU tax directives have advanced crucial policy aims, their combined effect, layered implementation, and inconsistent application across Member States have inadvertently created obstacles for cross-border investment. These challenges hinder the ability of private capital to support businesses and innovation throughout Europe and across the borders.

Invest Europe welcomes the European Commission's initiative to simplify EU rules on direct taxation through an Omnibus package. This is a timely and constructive step towards a more efficient and competitive European investment landscape.

Representing the European private equity and venture capital industry, Invest Europe strongly supports the Commission's aim to reduce administrative burdens and strengthen the Single Market. In the context of this consultation, we believe the initiative should:

- Simplify and streamline EU tax legislation
- Reduce compliance burdens and legal uncertainty
- Address overlaps between EU tax rules and international frameworks
- Improve consistency in the transposition of directives
- Ensure tax neutrality for cross-border investment funds

Drawing on the insights developed in Invest Europe's White Paper on Taxation prepared by a group of industry experts focusing on the investors' perspective on getting EU tax rules right, as well as on broader analysis and engagement by Invest Europe on EU tax policy, this paper outlines recommendations to improve the EU direct tax framework in a way that supports investment, strengthens competitiveness, and facilitates sustainable economic growth across Europe.

2. The Current EU Direct Tax Framework

Over the past decade, the EU has introduced several major legislative initiatives in direct taxation aimed at addressing tax avoidance and strengthening the integrity of the tax system.

In addition, new initiatives such as Business in Europe: Framework for Income Taxation and the implementation of the global minimum tax under the Organisation for Economic Co-operation and Development Inclusive Framework have significantly changed the international tax landscape.

While these initiatives pursue legitimate and important policy objectives, the cumulative impact of successive tax reforms has significantly increased the complexity of the EU direct tax environment. In practice, investors operating across multiple Member States must navigate a dense framework of EU legislation, national tax rules, administrative guidance, and international standards that do not always interact seamlessly.

For investors engaging in cross-border investment, such as private equity and venture capital funds that regularly deploy capital across several jurisdictions, this complexity creates several practical challenges.

First, the implementation of the Anti-Tax Avoidance Directive has led to significant complexity and legal uncertainty. As a directive, ATAD allows for discretion in national transposition, which has resulted in divergent interpretations across Member States. Differences in definitions, scope, thresholds, and administrative procedures can lead to significant variations in how similar investment structures are treated for tax purposes. For investors seeking to allocate capital throughout Europe, this lack of harmonisation leads to the creation of tailored investment structures for each jurisdiction to accommodate varying national interpretations of EU regulations. Additionally, the layering of multiple tax initiatives over time has resulted in overlapping requirements. Measures designed to address tax avoidance risks may interact with other international tax frameworks or domestic rules in ways that were not fully anticipated when the legislation was discussed and adopted. This can create duplicative compliance obligations and additional reporting requirements, increasing both administrative burdens and operational costs for investors and the companies in which they invest.

Second, the lack of consistency in the implementation of EU tax directives more broadly continues to create fragmentation within the internal market. Even where common policy objectives exist, variations in national rules, administrative practices, and interpretative guidance can significantly affect the tax treatment of cross-border investments. This inconsistency complicates the allocation of capital across Member States and undermines the objective of a more integrated and efficient European investment environment.

Third, the growing administrative burden associated with EU, national and international tax frameworks represent a key challenge for investors and businesses. The layering of multiple initiatives over time has resulted in overlapping compliance requirements, duplicative reporting obligations, and increased operational complexity. These burdens are particularly pronounced for cross-border investment structures and can lead to higher transaction costs, delays in execution, and the need for extensive legal and tax analysis.

Fourth, the current framework does not always ensure tax neutrality for investment funds, which can distort investment decisions. Where tax rules differ across jurisdictions or impose additional layers of taxation at the level of the fund or intermediary entities, investment structures may be driven by tax considerations rather than underlying economic fundamentals. This can increase the cost of capital and reduce the efficiency with which capital is allocated across the EU.

Fifth, limited legal certainty for commonly used investment structures, such as special purpose vehicles and fund-level holding companies, creates additional challenges. These entities are essential for facilitating cross-border investments, yet they may be subject to disproportionate compliance obligations or unclear tax treatment due to evolving regulatory initiatives. This uncertainty can discourage their use or lead to overly complex structuring approaches.

Sixth, the current tax framework does not always align with the EU's broader competitiveness and capital market objectives. Barriers to cross-border investment and regulatory complexity can hinder the mobilisation of private capital and weaken the EU's attractiveness as a destination for global

investment. This misalignment risks undermining efforts to deepen capital markets and support innovation and growth across the European economy. The cumulative compliance burden can disproportionately affect smaller and growing companies that rely on private capital financing. Startups and scale-ups backed by venture capital frequently expand across borders early in their development. Complex tax rules and administrative procedures can create additional barriers for these companies when structuring investments, reorganising corporate structures, or raising capital from international investors.

As recognised in the evaluation work undertaken by the European Commission, the combined effect of these developments has been a significant increase in administrative complexity and compliance costs for businesses operating across multiple jurisdictions. While the policy objectives of the EU's tax initiatives remain important, the current framework would benefit from greater coherence, simplification, and alignment with evolving international standards.

Addressing these challenges is particularly important for investors that play a key role in financing innovation and growth across Europe. A more streamlined and predictable tax framework would facilitate cross-border investment, reduce administrative burdens, and help ensure that capital can flow efficiently to businesses across the Single Market.

3. Policy Recommendations

To address the complexity, fragmentation, and compliance burdens identified in the current EU direct tax framework, the private equity and venture capital industry recommends a set of targeted measures aimed at improving coherence, efficiency, and predictability for cross-border investment.

3.1 Simplify and Streamline ATAD

The Commission should undertake a comprehensive review of the Anti-Tax Avoidance Directive to identify opportunities for simplification, clarification, and harmonisation, with particular attention to the practical challenges faced by private equity and venture capital investors. While the policy objectives of ATAD are broadly supported, the cumulative effect of divergent national implementations has created legal uncertainty, compliance burdens, and in some cases unintended tax consequences for multijurisdictional investment structures.

A review of ATAD should address the following specific areas:

- Controlled Foreign Company (CFC) Rules and Overlaps with Pillar Two
  The interaction of ATAD with the OECD Pillar Two Global Minimum Tax has created duplicative obligations and interpretive complexity for cross-border investment structures. Harmonising CFC rules and clarifying their interaction with Pillar Two would reduce administrative burdens and prevent inconsistent outcomes.

- Interest Limitation (Earnings Stripping) Rules
  The implementation of Article 4 of ATAD I has introduced significant divergences in scope, thresholds, exemptions, and relief mechanisms across Member States. Variations in EBITDA thresholds, safe harbour levels, stand-alone exclusions, group ratio tests, and carry-forward/carry-back mechanisms create practical challenges for leveraged PE/VC structures. For example:
  - Safe harbour thresholds vary between €1 million and €3 million, with some jurisdictions applying no threshold at all, creating uneven treatment.
  - Stand-alone and group ratio exemptions are inconsistently applied, penalising structurally conservative funds in certain Member States.

- Carry-forward and carry-back mechanisms differ widely, limiting flexibility for long-term investment strategies.

These divergences increase complexity, compliance costs, and the risk of unintended tax consequences, particularly for private equity structures that rely on standard leveraged financing models. Streamlining these rules, while respecting the underlying anti-abuse intent, is essential to ensure proportionality and administrative efficiency.

- Hybrid Mismatch Provisions under ATAD II
  Rules on reverse hybrids, third-country mismatches, and "acting together" can create practical difficulties for funds with investors spread across many countries. For example, reverse hybrid rules can unintentionally impose tax on fund structures that were previously treated as tax-transparent, and third-country mismatch rules can apply to funds with non-EU investors even when there is no abusive intent. Providing clear, EU-wide guidance, such as explicitly stating that investors in widely held investment funds are not automatically considered to be "acting together" unless there is evidence of control or abuse, and to support a consistent interpretation across the EU, for example, of the existing Collective Investment Vehicle (CIV) exemption for the purpose of reverse hybrid rules, would reduce uncertainty, simplify compliance, and support legitimate investment activities. As well as guidance, amendments to the scope of the Directive, to offer more appropriate exemptions for private funds and their investment structures would also be helpful. The original design of these rules looked to be intended to pick up intentional structuring specially designed to allow investors with a significant ownership percentage in an investment, or input into its design, to benefit unfairly from hybridity in structures. As a result of the divergent application of the 'acting together' concept and the lack of clear exemptions for funds, it is now being operated in practice in such a way that very detailed tax related information is being required to be supplied, often as regards very small minority investors in widely held fund structures. Currently certain entities within (or owned by) the fund structure may be required to disclose detailed information on limited partners or underlying beneficial owners. In practice, it can be very administratively burdensome, or simply not possible, for a widely held fund to source and provide this information, particularly where multiple layers of very small minority LPs or UBOs exist. In some jurisdictions, tax administrations have begun requesting this information directly through tax returns, creating uncertainty and potentially discouraging investors from committing capital to structures located in those jurisdictions.

- Consistency and Harmonisation of Key Provisions
  Greater consistency in the application of safe harbour thresholds, group ratio exemptions, and the treatment of stand-alone entities across Member States would level the playing field for cross-border investment. Harmonisation would ensure that legitimate fund structures are not penalised due to national divergences and would facilitate cross-border capital flows into European businesses.

The objective should be to maintain robust anti-avoidance protections while ensuring that rules remain proportionate and administratively efficient.

3.2 Improve Consistency Across Member States

To reduce fragmentation, the Commission should encourage greater consistency in the implementation of EU tax directives.

Key measures should include:

- Providing clearer legislative definitions to remove ambiguities that give basis to divergent interpretations, particularly for concepts such as "beneficial ownership", "tax advantage", or "associated enterprise", which currently give rise to divergent interpretations across jurisdictions.
- Issuing more detailed implementation guidance to support both tax administrations and investors in applying rules consistently.
- Enhancing coordination between national tax authorities, promoting common approaches and joint guidance where possible.
- Developing common administrative tools, such as multilateral rulings, coordinated tax audits, or a platform facilitating cooperation between Member States' tax administrations.

Improving consistency across Member States would reduce legal uncertainty and enable investors to deploy capital efficiently across borders without facing disproportionate administrative hurdles.

3.3 Reduce Administrative Burdens

The Omnibus initiative should aim to reduce administrative complexity wherever possible. Measures to achieve this include:

- Simplifying reporting obligations for cross-border investments to limit duplicative submissions. Investors often face multiple reporting requirements for the same transaction in different Member States, creating unnecessary administrative burdens and delays in investment execution.

- Eliminating redundant compliance requirements that add little value for tax authorities but generate significant costs for investors. The inconsistent implementation of interest limitation and hybrid mismatch rules under ATAD often requires funds to produce extensive documentation, even where the underlying structures are legitimate and transparent. As mentioned above, clear, proportionate, and harmonised rules governing investor-level disclosure obligations would help ensure that funds and the structures can remain compliant without placing a disproportionate administrative burden on fund managers and investors.

- Promoting digitalisation of tax processes, including standardised electronic filings and exchanges between administrations, to streamline interactions and reduce manual compliance. Adopting harmonised, digital reporting platforms would improve efficiency for both investors and tax authorities, reduce errors, and accelerate the granting of Directive benefits such as under the Parent-Subsidiary and Interest and Royalties Directives. Shared tools such as multilateral rulings, coordinated procedures, and potentially a European Tax Agency could provide common interpretations of EU tax legislation, improve cooperation between national tax authorities, and facilitate joint audits.

- Improving the efficiency of withholding tax procedures, including through the effective implementation of initiatives such as the FASTER Directive to enable digital and accelerated relief procedures. Despite the existence of directives such as the Parent-Subsidiary Directive and the Interest and Royalties Directive, investors often face complex and lengthy procedures to obtain relief from withholding taxes on dividends, interest, and royalties. In many Member States, the current systems rely on refund-based mechanisms, which require investors to pay withholding tax upfront and subsequently apply for reimbursement. These processes can involve extensive documentation, multiple intermediaries, and processing times that may extend over several months or even years. Standardised procedures across jurisdictions would

reduce the need for multiple documentation processes and minimise the risk of divergent interpretations of eligibility for treaty or directive-based relief. In the longer term, further progress could be achieved by promoting fully digitalised and harmonised withholding tax procedures across the EU, allowing investors to access relief through streamlined, automated systems.

- Simplifying DAC 6 compliance. In the context of investment fund structuring, the relevance of DAC 6 is often limited, as fund arrangements typically do not present the types of cross-border tax planning features targeted by the directive. However, service providers are still required to conduct formal DAC 6 assessments, which can result in lengthy, costly, and often disproportionate reporting analyses. This adds friction to the onboarding process and increases administrative burdens without delivering corresponding tax-transparency benefits. More specific guidance tailored to investment funds, and, where appropriate, simplified or exempted procedures, would enable compliance efforts to focus on genuinely high-risk arrangements while making fund establishment and onboarding more efficient.

3.4 Preserve Tax Neutrality for Investment Funds

Investment funds play a central role in mobilising capital across Europe and should continue to operate as tax-neutral intermediaries. Tax neutrality ensures that investment decisions are guided by economic fundamentals, such as business prospects, growth potential, and risk-return considerations, rather than by distortions created by tax treatment. A neutral tax environment reduces the cost of capital, fosters fair competition across jurisdictions, and prevents unintended penalties for certain fund structures.

Maintaining tax neutrality is particularly critical in the context of private equity and venture capital, where investment funds often operate across multiple Member States and rely on complex financing structures. Earlier sections highlighted how divergences in ATAD I and II implementation, including interest limitation (earnings stripping) rules, hybrid mismatch provisions, and reverse hybrid rules, can inadvertently tax otherwise legitimate fund structures or create uncertainty for cross-border investments. These inconsistencies risk distorting investment decisions and undermining the flow of capital into productive economic activity.

To safeguard tax neutrality, several measures are essential:

- Avoiding unintended taxation of fund structures
  Tax rules should not penalise collective investment vehicles for acting as conduits of investment capital. For example, reverse hybrid provisions or inconsistent application of interest limitation rules can lead to fund-level taxation even when no abuse exists. Harmonised, proportionate rules would prevent such distortions and preserve the economic neutrality of investment decisions.

- Ensuring consistent treatment of cross-border investment vehicles
  Differences in national interpretation of key Directives, including the Parent-Subsidiary Directive, Interest and Royalties Directive, and ATAD, can force funds to restructure investments unnecessarily. Aligning interpretations and providing clear EU-wide guidance—such as codifying exceptions for widely held funds under "acting together" rules—would reduce legal uncertainty and support efficient cross-border investment.

- Maintaining efficient withholding tax procedures
  Divergent withholding tax regimes across Member States can slow down the repatriation of dividends, interest, and royalties, increasing compliance costs and operational complexity.

Simplified, harmonised withholding tax processes, supported by digital reporting and multilateral coordination, would facilitate smoother cross-border capital flows and reinforce neutrality.

- Integrating proportionality safeguards in anti-abuse rules
  Fund-level exceptions, such as uniform safe-harbour thresholds and group ratio exemptions under ATAD I, and appropriate carve-outs for widely held PE/VC funds under ATAD II, would protect legitimate investment structures from unintended tax consequences. This ensures that regulatory objectives are achieved without penalising productive capital deployment.

- Ensure appropriate recognition of investment funds within the EU tax framework
  This should include extending the benefits of relevant EU tax directives to investment funds where appropriate, recognising beneficial owner status for regulated EU funds and equivalent internationally regulated funds, and introducing harmonised criteria or mutual recognition mechanisms for tax-transparent investment vehicles such as limited partnerships commonly used by private equity and venture capital funds, thereby reducing legal uncertainty and avoiding inconsistent classifications across Member States.

- Safeguarding fund structures through targeted Pillar Two carve-outs
  The implementation of Pillar Two requires clear and targeted carve-outs not just for widely held private equity and venture capital funds, but also the structures through which they invest in order to prevent unintended tax consequences for legitimate investment structures. Generally, the existing rules are a good example of how a well-crafted and targeted exemption for investment funds can be devised, which does not undermine the objectives of the legislation. However, without appropriate and consistently applied exemptions for intermediate holding companies these could inadvertently fall within scope, despite being intended to be excluded vehicles. Harmonised, EU-wide guidance could help clarify the position for such entities, in line with the administrative approach developed by the OECD in this area.

Preserving tax neutrality in this way directly supports the efficiency of the Single Market. By reducing arbitrary tax effects, harmonising procedures, and clarifying cross-border rules, the EU can enable investment funds to channel capital efficiently to innovative and growing businesses. This strengthens the overall investment ecosystem, lowers barriers to long-term financing, and enhances Europe's competitiveness globally

3.5 Provide Greater Certainty for Investment Structures

Investment structures commonly used in private equity and venture capital, such as special purpose vehicles and fund-level holding companies, are essential tools for managing investments across multiple jurisdictions. However, some regulatory initiatives risk imposing disproportionate compliance burdens on such entities despite their limited operational role.

To provide greater legal certainty, measures should be taken to:

- Introduce safe harbour provisions in future anti-abuse legislation, such as the proposed EU Shell Companies Directive, expressly excluding SPVs owned by regulated investment funds from rules designed to target artificial structures.
- Recognise that SPV shareholding activities linked to acquisitions constitute genuine economic activity, particularly for VAT purposes, enabling appropriate recovery of input VAT.
- Ensure that substance requirements remain proportionate and reflect the functional role of investment holding vehicles within legitimate investment structures.

3.6 Align Tax Policy with EU Competitiveness and Capital Market Objectives

Finally, tax policy should actively support the EU's broader economic objectives, including strengthening capital markets, mobilising private investment, and improving global competitiveness.

Several policy initiatives could contribute to this objective:

- introducing EU-wide mechanisms to reduce the debt bias in corporate taxation, such as equity allowance regimes inspired by the proposed DEBRA initiative.
- applying a harmonised Investment Management Exemption across the EU to ensure that advisory and management activities performed by fund managers do not unintentionally create permanent establishments for investment funds.
- supporting greater transfer pricing consistency, potentially through the adoption of a common EU transfer pricing framework or an EU coordination platform.
- promoting regulatory consistency (through the development of common interpretative guidance or establishment of structured cooperation mechanisms), administrative cooperation, and shared tools between tax administrations, improving legal certainty and reducing fragmentation.

A simpler, more coherent tax framework would strengthen Europe's attractiveness as a destination for global investment and support the development of deeper and more integrated European capital markets.

4. Conclusion

The cumulative complexity and fragmentation of the EU direct tax framework have created significant challenges for private equity and venture capital investors, particularly those operating across multiple Member States. Divergent national implementations, overlapping anti-abuse rules, inconsistent thresholds, and burdensome reporting obligations increase legal uncertainty, compliance costs, and operational complexity, often slowing investment decisions and disproportionately affecting smaller and growing companies. Simplifying key directives, clarifying interactions with international tax standards, streamlining administrative procedures, and preserving the tax neutrality of investment funds would enhance predictability and efficiency, allowing capital to flow more freely to innovative businesses. By fostering a more coherent and proportionate tax environment, the Omnibus initiative can strengthen cross-border investment, support the development of deeper European capital markets, and ensure that long-term financing reaches the companies that drive productivity, innovation, and sustainable growth across Europe.

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