Finnwatch ry's submission to
European Commission
26th October 2026

Subject: Commission's Proposal for Tax Omnibus Directive

Introduction

Finnwatch is a Finnish business and human rights NGO investigating sustainability of business operations globally. We appreciate the opportunity to present our views for the European Commission's consultation on the proposed Tax Omnibus Directive. We are also happy to provide additional information if needed (saara.hietanen@finnwatch.org / +358 44 240 8500).

In our submission, we focus on certain amendments proposed to the Anti-Tax Avoidance Directive (ATAD), Parent-Subsidiary Directive (PSD) and Interest and Royalty Directive (IRD), and highlight the effects that those amendments would have in Finland (the same obviously applies to many other member states as well). To summarize, the proposed amendments would lead to large tax revenue losses and increased profit shifting. Further, the amendments would further increase the tax benefits gained by the HNWIs through the use of personal investment holding companies. Since none of these results are desirable, Tax Omnibus Proposal should be withdrawn.

Weakening the Interest Limitation Rules would lead to increased profit shifting

Several amendments are being proposed to the Anti-Tax Avoidance Directive. The proposed amendments to the Interest Limitation Rules (ILRs) are among the most concerning ones.

In case of ILRs – which serve to curb profit shifting – the proposed changes would affect, among other things, the EBITDA and de minimis thresholds included in the regulation. Currently, the thresholds set out in the directive serve as a minimum standard for the national legislation implemented in member states. Tax Omnibus Directive would make these thresholds mandatory. In other words, member states would no longer be able to set limits stricter than those in the directive, even if they deemed it justified for the purpose of preventing profit shifting. For Finland, this would mean that ILRs would have to be significantly relaxed.

Currently, a company in Finland may deduct net interest expenses annually up to an amount equal to 25 percent of its EBITDA. Under the proposal, the threshold would be set at 30 percent of EBITDA. As a result of this change, large international corporations – particularly those with strong earnings – would have greater opportunities to shift profits generated in Finland to jurisdictions with lower tax burdens. At the same time, interest expenses paid to third parties would be completely exempted from the restrictions, subject to certain exceptions. Although the risks of profit shifting associated with conventional bank loans may be considered low, the proposed amendment also poses significant problems. The change would open the door for arrangements in which, for instance, loans effectively drawn from

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group owners are structured in a way that they do not meet the definition of a related-party loan. Such loan arrangements were by no means exceptional in the period preceding the Anti-Tax Avoidance Directive, when ILRs in Finland applied only to related-party loans. For example, the owners of one of the biggest electricity transmission companies in Finland financed the company's operations with high-interest loans totaling hundreds of millions of euros, structured through separate holding companies to circumvent the definition of a related-party loan. This arrangement is described in more detail in an article published by Finnwatch in 2020[1]. Similar arrangements would very likely become widespread quickly if loans obtained from third parties were exempted from the restrictions.

For smaller companies, the Commission's proposal would, in practice, lead to a complete exemption from ILRs, as it would require Member States to set the de minimis threshold to 3 million euros. Under the current framework, countries have had the option to include a similar de minimis exemption in their regulation, but this has been voluntary, and the 3-million-euro threshold has represented the highest possible limit. In Finland, the threshold for related-party interest payments is set lower, at 500,000 euros. For interests paid to external parties, Finland applies the 3-million-euro limit, in line with the directive's upper limit.

When researching Finnish ILRs, Finnwatch has found that even the current entity-level threshold of 500,000 euros leaves room for profit shifting. For instance, foreign investors investing in Finnish forests have structured their investments in a manner that allows them to shift all their investment returns abroad[2]. The entity-level limit has also made it possible for larger groups to deduct remarkably high related-party interest expenses. A Finnwatch case study on a large real estate investment company operating in Finland revealed that the company had multiplied the amount of deductible interest expenses by splitting the group's loans from the parent company's balance sheet into balance sheets of its numerous subsidiaries[3]. In this way, the interest paid to the group's Luxembourg-based owner was made fully tax-deductible in Finland, and the taxes paid by the group in Finland remained minimal.

In Finland, raising the de minimis threshold for related-party interest payments to 3 million euros would most likely result in foreign-owned companies shifting an even larger share of their profits beyond the reach of Finnish tax authorities. Other proposed changes to the ILRs would likely have similar effects. These include, among other things, exempting the defense industry from the limitations, transforming the equity escape clause into a mandatory

[1] Finnwatch. (2020). Sähkönsiirtoyhtiöt välttävät veroja korkojärjestelyillä. https://finnwatch.org/fi/tutkimukset/saehkoensiirtoyhtioet-vaelttaevaet-veroja-korkojaerjestelyillae
[2] Finnwatch. (2023). Tapaustutkimus: kansainvälisten metsärahastojen ja -sijoitusyhtiöiden verojärjestelyt. https://finnwatch.org/images/pdf/Tutkimusartikkeli_Tapaustutkimus_kansainvalisten_metsarahastojen_ja_sijoitusyhtioiden_verojarjestelyt.pdf
[3] Finnwatch. (2020). Aggressiivista verosuunnittelua kiinteistöalalla. https://finnwatch.org/fi/tutkimukset/aggressiivista-verosuunnittelua-kiinteistoealalla

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provision, expanding the so-called infrastructure project exclusion, and exempting companies that have experienced a significant decline in earnings compared to the previous year from the ILRs. In Finland, the equity escape clause has already been deemed problematic to such an extent that the aggressive tax planning it enables has been addressed at the national level by imposing additional conditions on the application of the provision[4]. It is clear that the other exemptions listed above would also open up significant opportunities for profit shifting – especially in a situation where interest paid to third parties would, in any case, be exempt from the limitations. In that case, the aforementioned exemptions would, in practice, apply exclusively to loans between related-party loans. The directive does not explain why, for instance, the defense industry or infrastructure projects should be granted the right to deduct unlimited interests paid to foreign group companies or group owners, rather than just those paid to (third party) financial institutions.

A large number of companies would be entirely excluded from the scope of controlled foreign company rules

Significant relaxations are also being proposed for controlled foreign company (CFC) rules, which are designed to curb the use of foreign low-taxed entities. The most significant ones are the proposed limitations on the scope of the rules. The Commission proposes that all companies subject to the international minimum tax framework (the so called Pillar Two rules) would be exempted from CFC rules, with the exception of certain special circumstances. In other words, Pillar Two companies registered in the EU could no longer be taxed on the profits of their low-taxed foreign subsidiaries. The rationale for this exclusion is that the Pillar Two framework includes an income inclusion rule (IIR), which in many respects functions similarly to CFC rules. However, the two sets of rules are not identical, and the calculation of the tax base differs substantially (including, but not limited to the fact that the CFC rules focus on individual entities, whereas the minimum tax framework aggregates all operations of a corporate group within a single jurisdiction). Consequently, situations will inevitably arise where a company is not required to pay a top-up tax under the IIR, but could under the current CFC rules be obligated to pay tax on the income of the low-taxed foreign subsidiary.

An even less justifiable change would be to exclude all small and medium-sized corporate groups, as well as independent micro, small, and medium-sized enterprises, from the scope of controlled foreign company rules. The reasoning given for this amendment is that, according to tax authorities in several member states, there have been only a few CFC cases involving companies of this size. This justification entirely overlooks the fact that CFC rules – like many other regulations designed at curbing profit shifting – are primarily preventive in nature. In other words, the aim of the regulation is to prevent holding companies from being established in low-tax jurisdictions for tax-avoidance reasons in the

[4] See f.ex. Finnwatch. (2025). Loppu korkokikkailulle? Verolakimuutosten vaikutukset sähkönsiirtoyhtiöiden verovälttelyyn. https://finnwatch.org/images/pdf/Loppu_korkokikkailulle.pdf

first place. The small number of cases that have come to the attention of tax authorities may therefore be a sign that the regulation has worked as intended. On the other hand, smaller companies are also less likely to report their CFC income to tax authorities as compared to large groups, which means that such arrangements may also more easily go unnoticed by the tax authorities. For instance, the Finnish Tax Administration only intervened in the CFC arrangements of a Finnish forest investment manager after Finnwatch brought the matter to light[5]. Regardless of the reason why the number of identified CFC cases involving smaller companies has remained low, it is clear that exempting such companies from CFC rules would likely lead to an increase in the use of controlled foreign entities.

In addition to the aforementioned exclusions, the Commission proposes that, moving forward, companies deriving no more than one-third of their income from so-called passive income should no longer be classified as controlled foreign companies. This change would also affect Finland's CFC legislation, under which the amount of passive income has not previously been a decisive factor. On the other hand, the Commission's proposal to abandon the option to choose so called "Model B" would improve the CFC rules in some member states. In Finland, this change would however have no impact.

Including an R&D deduction in the Anti-Tax Avoidance Directive would be a rather exceptional solution

The Commission proposes adding new mandatory R&D deduction provisions to ATAD. Under the proposal, acquisition costs for fixed assets related to R&D activities could be deducted in full in the year of acquisition or, at the taxpayer's discretion, over the five years following the acquisition. Typically, such expenditures are capitalized on the balance sheet and depreciated over a significantly longer period. This means that the new deduction would allow for a much faster write-off of in-scope R&D expenses, thereby significantly reducing the tax burden on companies in the coming years.

The proposal raises several questions. A common R&D incentive is unlikely to serve the differing needs of all Member States very well, which raises the question of whether we should create such an instrument on EU level. Furthermore, including R&D incentive into the Anti-Tax Avoidance Directive is, in itself, an unusual solution, since unlike the other provisions of ATAD, an R&D incentive is completely unrelated to tax avoidance. If it is deemed necessary to regulate this new R&D instrument at the EU level, it would be more appropriate to do so through a separate directive.

[5] Finnwatch. (21.5.2019). Finnfundin sijoitusrahaston hallinnointiyhtiö kiersi veroja. Uutinen. https://finnwatch.org/fi/uutiset/finnfundin-sijoitusrahaston-hallinnointiyhtioe-kiersi-veroja

Expanding the scope of the Parent-Subsidiary Directive would further reduce the tax burden on investments made through holding companies

In addition to the ATAD, amendments are proposed to directives such as the Parent-Subsidiary Directive (PSD) and the Interest and Royalties Directive (IRD). The ownership thresholds currently contained in both directives would be removed, which would significantly expand the scope of these directives. Currently, the PSD applies to dividend distributions in situations where the recipient company holds at least 10% of the distributing company. The IRD, on the other hand, covers interest and royalty payments made between associated companies, defined as having an ownership interest of more than 25%.

Removing these ownership thresholds would mean that withholding tax could no longer be levied under any circumstances on dividends, interest or royalties paid between companies registered within the EU. Furthermore, EU member states would be prohibited from applying any kind of pre-approval process designed to verify whether a recipient is in fact entitled to the withholding tax exemption provided for by the directive. Such changes could lead to an increase in arrangements where these types of income are routed through holding companies established in selected EU member states before being paid out to the ultimate beneficial owner. Other types of arrangements aimed at obscuring the identity of the beneficial owner would also become easier to implement. As a result of these changes, withholding tax revenues would decline – both due to broader tax exemptions and an increase in withholding tax fraud.

Beyond withholding taxation, the proposed changes would also affect the tax treatment of dividends received by corporations under the corporate income tax regime. In Finland, the tax exemption for dividends is already broader than what is currently required by the directive as, in addition to dividends from direct investments, all dividends between unlisted companies, as well as dividends received by listed companies, are exempt from corporate income tax. However, dividends distributed by a listed company to an unlisted company are currently considered taxable income for the recipient company, unless the ownership interest exceeds the 10 percent. In the future, such dividends would also become tax-exempt income for the recipient company. This change would further reduce the tax burden on investment activities conducted through a holding company. It would increase the incentives to carry out investment activities via holding companies and could also contribute to the widening wealth inequality – a phenomenon partly rooted in the fact that investment income is subject to relatively light taxation.

The assessment of tax revenue impacts is inadequate

The Tax Omnibus Directive proposes significant changes to EU tax legislation. Nevertheless, neither the directive itself nor the separate impact assessment contains any country-specific impact assessments. Impacts have been assessed only at the EU-level and primarily from the perspective of businesses. The assessment of tax revenue impacts is very

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limited, and the overall impact of the changes on the member states' tax revenues is not addressed at all. Furthermore, the impact assessment fails to address the scale of tax revenues losses that would arise from increased profit shifting as a consequence of relaxing the regulations. Neither does the assessment examine how the changes favoring companies engaged in international business might affect the competitive position between international and domestic firms. Overall, the impact assessment is exceptionally inadequate.

The direct benefits the Tax Omnibus Directive would bring to businesses are estimated at 6.6 billion euros in total. Although the directive is justified primarily by the aim of reducing administrative burden, the Commission estimates that the reduction in administrative burden only accounts for 2 billion euros (of the 6.6 billion euro total). The remainder appears to derive largely from the reduction in the corporate tax burden resulting from the changes. The reduction in tax burden would be particularly significant in the case of the proposed amendments to the PSD and the IRD. The Commission estimates that the changes to these two directives would yield a total direct benefit of 5.34 billion euros for companies. Based on the impact assessment, the Tax Omnibus appears to be more of a tax cut aimed at companies than an effort to reduce the administrative burdens.

The Finnish Ministry of Finance has estimated that in Finland the overall tax revenue loss caused by the proposed amendments would raise to several hundreds of millions euros annually[6]. The biggest tax revenue losses relate to the proposed PSD and ATAD amendments.

Finnwatch's recommendations

It is clear that the proposed amendments would lead to large tax revenue losses and increased profit shifting. Further, the amendments would increase the tax benefits gained by the HNWIs through the use of personal investment holding companies. Since none of these results are desirable, the Tax Omnibus Proposal should be withdrawn.

If the Anti-Tax Avoidance Directive is to be simplified, this should be done in a way that does not undermine the objective of combatting aggressive tax planning and tax avoidance. For example, eliminating the numerous optional provisions currently included in ATAD would serve the goal of simplification far better than the proposed solution, in which many of the currently optional provisions would be made mandatory. At the same time, reducing the number of optional provisions would strengthen the effectiveness of the provisions in curbing aggressive tax planning. Finnwatch's recommendations for improving the Anti-Tax

[6] Valtioneuvoston U-kirjelmä U 51/2026 vp. https://www.eduskunta.fi/asiat-ja-aanestykset/valtiopaivaasiat/asiakirjat/edktunnus/EDK-2026-AK-40709

Avoidance Directive can be found in the input we submitted for the Commission's previous consultation[7].

[7] Finnwatch. (30.3.2026). European Commission's initiative: Simplifying EU rules on direct taxation. Written input to Comission's consultation. https://finnwatch.org/images/Lausunnot/Finnwatch-ry-feedback-on-EU-Commissions-call-for-evidence-on-Tax-Omnibus.pdf