

# Corporate tax: hybrid mismatches with third countries

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The Committee on Economic and Monetary Affairs adopted, following the Parliament's consultation procedure, the report by Olle LUDVIGSSON (S&D, SE) on the proposal for a Council directive amending Directive (EU) 2016/1164 as regards hybrid mismatches with third countries.

The committee approved the Commission proposal subject to amendments.

The Commission proposal lays down measures to tackle the issue of hybrid mismatch arrangements with third countries. These arrangements exploit differences in the tax treatment of an entity or instrument under the laws of two or more tax jurisdictions to achieve double non-taxation. These types of arrangements are frequently created with the sole purpose to reduce corporate taxation, resulting in a substantial erosion of the taxable bases of corporate taxpayers in the EU. Hence, it has been necessary to lay down rules against these types of arrangements.

Members stated that it is of great importance to establish rules that **neutralise hybrid mismatches and branch mismatches** in a comprehensive manner. They also stressed the need to include other rules set out in the Commission proposal, such as those on hybrid transfers and imported mismatches and address the full range of double deduction outcomes, in order to prevent taxpayers from exploiting remaining loopholes.

In order to provide for a framework that is consistent with, and no less effective than, **the OECD BEPS report** on hybrid mismatch arrangements, it is essential that Directive (EU) 2016/1164 includes rules on hybrid transfers and imported mismatches and addresses the full range of double deduction outcomes, in order to prevent taxpayers from exploiting remaining loopholes. Those rules should be **standardised and coordinated** to the maximum extent possible between Member States. Member States should consider the introduction of penalties against taxpayers that exploit hybrid mismatches.

According to Members, the rules on hybrid mismatches shall apply automatically whenever a payment **comes across a border** having been deducted at the paying end, without having to prove a tax avoidance motive.