Business in Europe: Framework for Income Taxation (BEFIT)

2023/0321(CNS) - 13/11/2025 - Text adopted by Parliament, 1st reading/single reading

The European Parliament adopted by 370 votes to 160, with 107 abstentions (following a special legislative procedure), a legislative resolution on the proposal for a Council directive on a framework for the taxation of business income in Europe (BEFIT).

The BEFIT proposal aims to better organise and harmonise the EU corporate tax framework, playing a key role in facilitating cross-border business and investment. It will reduce costs and the complexity of administrative and tax compliance for both companies and tax authorities, while also limiting opportunities for corporate tax avoidance. The BEFIT proposal applies to large cross-border companies with an annual turnover of EUR 750 million or more, which constitute BEFIT groups.

Parliament approved the Commission's proposal subject to amendments.

Significant presence

This directive should establish rules extending the concept of a permanent establishment, to include a significant economic presence through which a business is wholly or partly carried on. The underlying objective is to improve the resilience of the internal market as a whole in order to meet the challenges posed by the taxation of the digital economy.

Members consider it necessary in this regard to establish rules to ensure that these companies **pay their taxes in the jurisdictions where they make their profits** through the provision of services or the sale of products.

A significant economic presence should be considered to exist in a Member State in a tax period if total revenues derived by a BEFIT group from that Member State exceed **EUR 1 000 000**.

The Commission may issue recommendations to support adaptations to the double tax conventions of Member States with non-Union jurisdictions, in order to ensure that the concept of a permanent establishment, including a significant economic presence, and the related profit attribution rules are applied in a manner consistent with internationally agreed standards.

Structure of a BEFIT group

A BEFIT group would be formed when at least two companies or permanent establishments meet the following conditions:

(a) the company is either the ultimate parent entity of the group or any other company of the group in which the ultimate parent entity holds, directly or indirectly, at least **50%** of the ownership rights or of the rights giving entitlement to profit;

(b) the head office of the permanent establishment is either the ultimate parent entity of the group or any other member (company or entity) of the group in which the ultimate parent entity holds, directly or indirectly, at least **50%** of the ownership rights or of the rights giving entitlement to profit.

Calculation of the preliminary tax result

Where it is not reasonably practicable to determine the financial accounting net income or loss of a constituent entity based on the acceptable financial accounting standard or authorised financial accounting standard used in the preparation of the consolidated financial statements of the ultimate parent entity, the financial accounting net income or loss of the constituent entity for the fiscal year may be determined using another acceptable financial accounting standard or an authorised financial accounting standard under certain conditions.

Limitation of royalties, entertainment costs

To guarantee a minimal level of taxation of royalties, Members proposed to introduce a rule limiting royalties for BEFIT group members in accordance with the Subject to Tax Rule1a as proposed by the OECD/G20 Inclusive Framework in Pillar Two.

In addition, the financial accounting net income or loss of a BEFIT group member shall be adjusted to include 50% of the amount of expenses accrued for entertainment costs.

Controlled foreign companies

Members proposed strengthening the rules relating to controlled foreign companies to increase resilience to profit shifting within BEFIT groups.

Accelerated depreciation rules

Member States could apply accelerated depreciation to tangible fixed assets acquired by companies in the BEFIT group when these assets: (i) contribute to the climate, social and digital objectives of the European Union; (ii) support the United Nations Sustainable Development Goals for 2030; (iii) strengthen the Union's defence and resilience to threats and crises.

Tax incentives

The post-allocation adjustment should focus on **input-based tax incentives**. Member States should refrain from offering output-based tax incentives such as patent boxes and other intellectual property regimes.

Transitional allocation rule

For each fiscal year **between 1 July 2028 and 30 June 2033** at the latest (the transition period), the BEFIT tax base should be allocated to the BEFIT group members in accordance with the baseline allocation percentage. For groups that become subject to this Directive after the end of the first fiscal year when this Directive starts to apply, the transition period should be terminated by 30 June 2033 at the latest.

Before the end of the transition period, the Commission should present a legislative proposal to amend this Directive and **introduce a permanent method for allocating the BEFIT tax base,** replacing the transitional allocation formula. The permanent method for allocating the BEFIT tax base should incorporate the following four factors: sales, labour, assets, and digital presence.

One-stop shop

Members stressed that improving corporate tax compliance depends largely on the establishment of a comprehensive one-stop-shop system that enables businesses to fulfil their tax obligations across Member States through a single, streamlined interface, thereby reducing administrative burdens, ensuring consistent enforcement, and enhancing legal certainty in the internal market.