

The EU's approach to corporate tax policy in a changing international environment

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The European Parliament adopted by 364 votes to 69, with 162 abstentions, a resolution on the EU's approach to corporate tax policy in a changing international environment.

Competitiveness in international taxation

Parliament stressed that, to attract investment and strengthen the Union's competitiveness, **the tax environment must be stable, predictable, attractive, and transparent**, while respecting the flexibility Member States have to adapt their national tax systems to national economic conditions. Due to divergences and fragmentation in corporate tax rules, EU companies face **greater complexity and higher costs** when expanding across borders or structuring their investments within the single market.

Members welcomed international efforts, such as those undertaken by the OECD, aimed at creating a level playing field by establishing a global floor for the tax obligations of multinational enterprises through a minimum effective tax rate. However, they regretted that **the implementation of Pillar Two remains incomplete globally**, with major economies such as China and India having failed to implement the reform.

Parliament is of the view that the coexistence of Pillar Two with concurrent domestic minimum tax regimes - such as the US NCTI regime and other national regimes that may qualify for safe harbour status under the juxtaposed system - leads to weakened global application and fragmentation.

The resolution notes with concern that **significant structural differences between the US NCTI regime and Pillar Two** result in different effective tax rates and reporting obligations across jurisdictions, thereby disadvantaging multinational enterprises headquartered in the EU and operating in the United States. Members therefore called on the Commission to **urgently analyse and report on the impact of this parallel system**, including potential revenue losses for Member States, and to propose solutions to address the structural imbalances created by it.

Parliament recommends that the Commission and the Member States should:

- fully deploy instruments to **combat anti-competitive tax advantages** that harm European businesses;
- develop and use EU State-aid-compliant taxation tools to attract and keep high-value-added activities within the EU;
- ensure that the implementation of Pillar Two does not penalize legitimate national tax **incentives** for innovation, research and development;
- make access to European funding instruments, research and innovation programmes and public procurement opportunities conditional on **substantive tax presence**;
- prepare an **annual report** on the differences in effective tax rates between EU and non-EU MNEs operating in the single market.

Need for simplification, transparency and clarity in EU legislation

Members noted with concern that the implementation of Pillar Two imposes a new administrative burden and significant one-off costs on corporate taxpayers in its scope.

Welcoming the OECD's efforts to introduce simplified pathways, Parliament took note of the Commission's proposal for a package of tax simplification measures, which includes measures to reduce the administrative burden on multinational enterprises covered by the Pillar Two Directive. It calls on Member States to **make rapid progress on tax simplification** by reviewing overlapping reporting and anti-avoidance measures under EU tax law and by reducing the administrative burden on companies headquartered in the Union. It stressed the need to leverage the omnibus review process in the tax field to address redundancies in current rules and to streamline and simplify the application of common rules and concepts.

Combating harmful tax practices

Members welcomed Pillar Two's contribution to reducing the number of jurisdictions applying very low effective corporate tax rates, which represents a major step towards reducing opportunities for tax avoidance. They noted, however, that the estimated revenue losses resulting from BEPS strategies employed by multinational enterprises remain substantial. The Commission is urged to play **a more ambitious role in improving the coordination of measures to combat abuse** and to intensify international cooperation to effectively address this challenge and safeguard Member States' national tax revenues. Measures to combat international tax havens must also be strengthened.

Future of international cooperation in taxation

Parliament regretted that the EU's digital services trade balance has tilted sharply towards other jurisdictions where digital technology, artificial intelligence and cloud service providers have expanded rapidly, increasing economic power and taxable profits in a small number of multinational digital companies headquartered outside the EU. This shift may require a rethinking of the reallocation of taxing rights.

Given that unilateral measures may provoke unilateral retaliation, Members stressed that a **global solution** to digital taxation should rest on measures adopted by broad international participation and implementation, thereby lowering the risks of retaliatory measures. They encouraged the Commission, nevertheless, to continue exploring possible options in the event of insufficient progress made towards a global solution.