

D.C. DISPATCH

Europe's tax policy enters a new phase

Transcript

DAVID SITES 00:06

Welcome to the D.C. Dispatch. I'm David Sites with Grant Thornton's Washington National Tax Office. Today, we're turning our attention to Europe, where the tax policy debate may be entering a new phase. Following years of anti-avoidance measures and the implementation of Pillar 2, the European Commission has proposed a broad Taxation Omnibus and a recast of the Directive on Administrative Cooperation. The stated objective is to simplify the EU tax framework, which is something we haven't heard a lot about in recent years. They want to also reduce compliance burdens and strengthen competitiveness without weakening the transparency or revenue protection that they've previously gained with those particular measures.

This creates an important question for multinational businesses. Is Europe genuinely pivoting towards tax simplification and competitiveness? Or is this just really a recalibration of how it protects revenue in a post-Pillar 2 environment?

I have two great European tax experts joining me today to discuss this topic. Shane McCarthy is the head of Tax Knowledge and Policy at Grant Thornton Ireland. He advises on Irish, EU and international tax developments. He's a recognized commentator on tax policy, competitiveness and investment. Shane works closely with businesses and policymakers to help organizations navigate an increasingly complex global tax environment. Shane, welcome to the podcast.

SHANE MCCARTHY 01:31

Thanks very much, David. Great to join you.

DAVID SITES 01:35

Also joining me today is Faisal Janjua. Faisal is a partner at Grant Thornton Netherlands. He advises corporates and large international companies on Dutch, EU and international tax questions. Faisal specializes in Dutch corporate tax, dividend withholding tax and treaty application. He's also a specialist in EU tax legislation and how this affects foreign corporations investing in the EU.

Faisal, welcome to the podcast.

FAISAL JANJUA 02:00

Thank you very much, David.

DAVID SITES 02:01

I am so excited to have you both here to talk about these topics today. And I want to start before we get into the details of what the proposals are, and I want to stress for the audience, everything we're going to talk about today are proposals. These are not rules that are in effect. And I think we can all agree these proposals are very unlikely to become rules in effect as they are proposed today, but it certainly points to a direction of travel.

So, Shane, maybe I'll start with you. I want to establish kind of the context. What's changed, right, in European tax policy to make simplification and competitiveness a topic of conversation and so prominent in the discussion now, as opposed to, say, past you know, decade or so?

SHANE MCCARTHY 02:46

Thanks, David. The last decade saw a major focus on closing gaps. Providing protections against tax avoidance was the primary aim of EU Commission proposals and directives. However, some feel that it's gone a little bit too far in terms of the regulation.

And if you indulge me a little by way of background, this really stepped up this time two years ago by the major Draghi report. Now, Mario Draghi, former Italian Prime Minister, and prior to that, actually, president of the European Central Bank, who

famously is credited with saving the euro back in 2012. He published a 400-plus-page report, which can be neatly summed up as saying Europe is dying competitively. The key focus of his report was that massive investment was needed in Europe and that we have a competitiveness problem, and part of that is to do with the detailed regulatory requirements.

So regulatory simplification was a core tenet of his report. Another area is ... from a U.S. point of view, another key area of his report was that he sees that there is a major innovation gap between Europe versus the U.S. and China. Where are all the innovative companies coming from Europe compared to the U.S. and China? So that's a bit of a long way around, David, but that's where the focus has come from, and from that, the tax simplification Omnibus, and indeed the DAC recast, have come into view.

DAVID SITES 04:43

So the Draghi report kind of was the basis for, "Hey, we're simply not competitive because there's so much regulation, we're not attracting the innovative businesses." So, Faisal, I want to pull you in. Where precisely do multinational groups feel this burden directly? I've heard from a lot of multinational groups that operate in the EU and, you know, where do they feel this kind of anti-competitiveness, this regulatory burden? And how does the Dutch, what's the Dutch perspective on all this?

FAISAL JANJUA 05:15

Yes, thank you very much, David. And if we can maybe take you a little bit back to my university times. There was the time when there was discussion about Starbucks and about those international structures. And there were also a lot of EU countries involved in these kind of structures. And since then, we had a lot of EU legislation, proposals, ATATs, DACs, that combat these structures.

And I think this is like a new good simplification process, good legislation to help simplify everything. And I think the most important thing that companies struggle with in the EU is about the different legislation in each country, how each country in the EU implements the EU legislation, the proposals. And it's really like struggling for companies

to like fulfill all the compliance burdens for each country, also with financing, like how much interest can you deduct. It also differs in each EU country. So I think that will help foreign countries to have more overview and to help them with their compliance burden.

DAVID SITES 06:25

Yeah, I think we saw that with Pillar 2. We've seen that with various things that were implemented. The themes are the same across the EU, but the implementation is often different in meaningful ways. And it causes a real compliance and planning burden, right, on companies trying to navigate how is it different in country A versus country B? Where one of the promises of some of this EU stuff was that it was supposed to be consistent EU law, right, across countries.

And so with that policy backdrop, I want to turn to the first proposal that we're going to talk about, and that's the Taxation Omnibus. And Shane, maybe at a high level, can you walk us through the Omnibus and what are some of the most consequential elements that are in this Omnibus?

And just for the listeners' background, the Omnibus that we're going to talk about really deals with direct tax proposals, right? And kind of discussing and implementing new rules about how some of these direct tax mechanisms would work. So these impact the substantive direct tax rules, correct?

SHANE MCCARTHY 07:43

Sure. I think it's important to point out that the aim here is not to reduce tax or indeed to lessen the transparency stronghold that has been built up in recent times. What's interesting and significant about the tax simplification Omnibus is not so much that there's any one single amendment, but it's that the EU Commission is now revisiting several major directives at the same time.

In broad terms, the key focus, maybe for businesses to understand, is that it aims to remove barriers to cross-border investment, particularly around withholding tax issues, it also looks at simplification of cross-border reorganizations through the Tax Mergers

Directive. There's improved access to dispute resolution, which is always a big issue and a big concern for businesses, we find.

Then when we break it down a little bit further, you're looking at recalibrating the Anti-Tax Avoidance Directive, the "ATAD" as we call it. There's major simplification between controlled foreign company rules and how they interact with Pillar 2. I think you alluded to it there. David, Pillar 2 runs behind all of the proposals and is somewhat of a backstop.

Other significant reforms are around interest limitation rules — again, as you said, a big issue when dealing with European legislation. Yes, you're dealing with one European Union, but you're dealing with 27 countries. Terms like "fragmentation" and "gold plating" are often put around the place. What do we mean by fragmentation? A directive passes, that's the direction of travel, but each country has the freedom to an extent to set the journey, set the rules, and these can be very, very different in different countries. For example, in terms of interest deductions, there is now going to be mandatory set levels, whereas before, certain countries could set them lower, perhaps to their advantage in gathering revenues, which of course is going to lead to the trade-off between what businesses want to see and what governments and member states are worried about in terms of giving up, or a perception that they may be giving up, revenues.

One interesting piece that came true that wasn't expected actually in the Omnibus is that it sets a minimum framework for research and development deductions in the EU. Now, I'm not so sure this is going to have a major impact because Ireland and other countries have their own R&D rules in place at the moment. And from what I understand, they still have the freedom to set those into the future. But it's maybe a signpost that, look, we want to encourage R&D, we want to bring investment into Europe, come and do business in Europe.

DAVID SITES 10:56

Yeah, it's interesting. So you brought up, you said a lot of good stuff there. First, I know that the withholding tax portion of this, which would kind of expand the EU directive,

right, which would allow withholding tax exemptions, I think, for distributions from companies, there's no minimum share ownership requirement, things like that. That's one of the huge revenue-raisers ... or revenue cuts, sorry, in the bill. I think, like, 80% of the proposed tax cuts are attributable to that withholding tax.

I also wanted to talk about, there's a proposed CFC carve out, right, in there. And when you look at it, it seems to make a lot of sense. When you didn't have Pillar 2, the CFC rules were really important. Do you have subsidiaries in the group that have potentially low-taxed income? Should CFC rules jump in and attempt to tax that income?

But there's a carve out, as I understand it, proposed in the Omnibus, which would apply to groups that are otherwise covered by Pillar 2. But there's some concerns about that. Can you talk a little bit about why companies would be concerned? Isn't Pillar 2 enough that, you know, we're going to make sure everybody's taxed at that 15% minimum rate?

SHANE MCCARTHY 12:06

The EU Commission's logic around this is that if a group is subject to Pillar 2, the CFC rules create an overlapping compliance and potentially overlapping tax.

DAVID SITES 12:18

Yeah.

SHANE MCCARTHY 12:19

Controversy, I feel, concerns the perimeter of the relief, especially whilst there is a proposed carve-out for Pillar 2 entities, there is a restriction around U.S.-headquartered groups under the side-by-side system. And insert ... the detail needs to be hammered out a little bit, David, but it remains to be seen in what circumstances these entities will be able to avail of it.

The disagreement is over how broadly the relief should apply. U.S. business groups argue that the relief drafted by reference to the formal Pillar 2 framework ... they don't fully recognize the equivalent side-by-side outcomes. Maybe they don't really get how thorough side-by-side is. Whereas on the EU side, many member states regard CFC as

addressing rules beyond low taxation, so beyond Pillar 2, including certain income streams or profit diversion structures. So domestic ... and remember, even if this were to come in ... domestic CFC measures may still remain. So there's going to be, there's still a potential for overlap. Maybe it's one we really have to keep an eye on, I think.

DAVID SITES 13:46

Yeah, certainly one of the most interesting of the proposals. I mentioned the withholding tax one and Faisal, I want to come to you. So there are some member states that are concerned about the proposed withholding tax changes. Can you talk a little bit about what those concerns are? Is it purely like a, "Hey, this is a lot of revenue for us and getting rid of this is going to really hurt the coffers of potentially our member state revenue." Is that the primary concern here with this?

FAISAL JANJUA 14:18

Yeah, that's, I think, one part of the problem, because I think all EU countries agree that the proposal should be simplified, that there should be less burden, compliance burden. However, when countries start losing revenues, that's where the political discussion starts. And one of the revenue generators is indeed withholding taxes. And when countries lose that, and then they will start discussing about it.

And also on the other hand, I think it's also important to note how these changes will correspond to the local taxation, because we already have an exemption in place, for example, in the Netherlands, and that starts from a 5% threshold. We also have like anti-abuse rules that apply.

So it's a big question how these rules were implemented in the Dutch local legislation and how also there's also like a discrimination part with it. Like for example, if you have like no threshold to foreign EU countries for dividends, then that same 0% threshold should also be applied to net domestic situations so you cannot have any discrimination between those situations. So that will also be interesting to see how they will tackle that and how this will evaluate in the discussions.

DAVID SITES 15:36

Yeah, so guys, as a U.S. tax professional, I'm always ... Shane, you touched a little bit on the side by side, but maybe talk a little bit about which of these provisions, and you've already talked about the CFC provisions and the carve-out for Pillar 2 companies, but which provisions should U.S. headquartered groups be focused on the most? And Shane, maybe I'll start with you. Give me a couple, and then, Faisal, I'll come to you.

SHANE MCCARTHY 16:06

From a U.S. point of view, the CFC and Pillar 2 side-by-side treatment has got to be probably number one, along with the withholding tax on dividends, interest and royalties, as Faisal has discussed. Now, one issue there, David, is that the time scale on that particular aspect: some of these proposals that we're talking about will come in from 2028 onwards, but it's quite significant that the ones around, the key factors around withholding taxes, 2037 is the suggested date.

And, obviously, that is in some way an acknowledgement of the difficulty of reaching unanimity among 27 nations. But it also is a way of allowing nations that are worried about loss of revenue to come up with alternatives in that 12-year, 11-year time frame.

DAVID SITES 17:11

Faisal, what do ...

SHANE MCCARTHY 17:12

Otherwise, the interest deduction reforms is one I think we need to keep a close eye on.

DAVID SITES 17:18

Yeah, yeah, certainly intergroup financing is a huge deal for U.S. multinationals. And a lot of that stuff is in place and companies will need to kind of pull out their crystal ball, so to speak, as they renegotiate loans and have financing structures in place. Faisal,

what about it? What are you hearing from U.S. multinationals? On this, what are the concerns? Anything outside of what Shane talked about?

FAISAL JANJUA 17:41

Yeah, I think the last part that we discussed about the financing and the interest deduction, because I see a lot of U.S. clients who are like investing in the EU through a debt. And if, for example, look at the Netherlands, they have implemented the earnings stripping rules really strictly. So like only with the 1 million thresholds and 24.5% of the EBITDA.

So when U.S. corporates are considering to refinance or converting into equity, I would really recommend to take a look at this proposal, how this will evolve in the future and what the next steps are. I think that's really important there.

DAVID SITES 18:22

Yeah, well, we will certainly keep our eyes on the Omnibus. And this Omnibus deals with, like I said, the substantive tax rules, but there was kind of a companion piece, and this is the DAC or the Directive on Administrative Compliance. And it asks a related question, but, you know, more focused on reporting. Can the EU preserve some of the transparency that it's gained over the last decade with the DACs, but reduce kind of some of the duplicative compliance effort that goes on? And so, Faisal, I want to come to you. The DAC maybe has received a little less attention than the Omnibus, but do you want to talk about it and what's probably most important for multinationals to consider in the proposed DAC recast?

FAISAL JANJUA 19:09

Yes, sure. As mentioned before, David, we have a lot of decks starting from DAC1 to DAC9. And each deck has its own subject and combating their own situations. So on one hand, you have those different DACs, but there's also an overlap in all those DACs. If it comes to reporting, deadlines, any penalties. And where on the point there is overlap, it's really important to harmonize them.

And I also use one example, for example, if we look at DAC6. Then the Dutch tax authorities, for example, have their own software, their own tooling in which we should report our DAC6 reports. And the Dutch tax authorities have the connection with the EU database. So each country has now has their own tooling, their own systems to gather that information. And I think, for example, if we can use one, if we can have one connection between the taxpayer and the EU database and leave out the local tax storage, for example, that could lead to efficiency.

So the more we can harmonize, the more we can eliminate any overlaps, the more it will help in the overall less compliance burden.

DAVID SITES 20:23

Yeah, that's a great example. Shane, what are some other examples, right, that U.S. multinationals or other groups are looking at, saying, "Hey, maybe a recast of the DACs could help us to achieve better outcomes, eliminate some duplicative reporting?" I mean, there's clearly some stuff that has to stay. Some of the CARF rules that are in place. But there's, like you said, Faisal, there's clearly a lot of overlap.

So Shane, talk to me a little bit about how much opportunity is there here to reduce kind of some of the administrative burden without giving up transparency, which I think is very important. Transparency, I think, is very important for trust and the tax system. I think it's very important for keeping companies planning kind of above-board, so to speak. But at the same time, as we've said several times already on this podcast, you can't compliance people to death, right? It just makes for a really difficult business environment. So Shane, what's the promise here of some of the other DAC rules?

SHANE MCCARTHY 21:22

Well, within the DAC6, there's a major carve out proposed that Pillar 2 entities would be exempt from DAC6, again with the same caveat around the SBS rule, I hasten to add. One particular area where recalibration is welcome, would be (where there is) an overlap between the DAC4 country-by-country reporting notifications and the DAC9 Pillar 2 notifications. So a lot of the same information with different timelines, so there is

a repetitive nature to that. So that's one thing that has been mentioned.

Again here's different national formats, there's different deadlines, there's different interpretations, there's different penalties, and there can be starkly different penalties depending in which country you are caught out in.

So it would be great to see a little bit of consolidation around that, which would give everybody, not just U.S.-headquartered companies, but would get everybody that little bit more certainty and reduce the compliance burden at the same time. So, you know, it will be interesting to see what happens.

There's also issues around DAC7, which is aimed at platform operators. One thing that we would like to see, perhaps, in the DAC is longer deadlines. Now, as we know, deadlines, we work a lot to deadlines in our business, but longer deadlines may improve the accuracy and the consistency of some of the reporting and could actually lead to stronger quality data and improve the usefulness of the information. As you said, David, we're not trying to reduce transparency. We're just trying to make it a little bit more efficient to do business in the EU.

DAVID SITES 23:15

Yeah, it's interesting. You know, it'll be really fascinating to see how the U.S. responds to many of these measures not applying to side-by-side carve-outs for Pillar 2, because that was the spirit of the deal, right, was that the side-by-side was as good as Pillar 2? That's why Pillar 2 kind of exempted the side-by-side. But what you see is the EU saying, "Well, listen, people that have kind of what I'll call real Pillar 2, as opposed to the side-by-side carve-out, you're going to get some benefits here on CFC reporting and on DAC compliance and things like that. But people that are falling under the side-by-side, i.e. US multinationals, you're not going to see the same benefits." I can't believe the U.S. is going to respond positively to that type of legislation. We'll see how that goes, if that in fact is the way that things progress. Faisal, any thoughts on that?

FAISAL JANJUA 24:08

Yes, I would just like to add that with all these complex rules, we as advisors are

struggling, the taxpayers struggling, but also the local tax authorities, because they also have less resources to do the audits. And I think with this simplification, then they can be more effective in the audits, be more effective in the overviews. So I think overall it will also then help transparency for this legislation. So I think it's a good job that we are going there and that the Tax Authority also helps with this legislation.

DAVID SITES 24:43

Shane.

SHANE MCCARTHY 24:44

I think as well, we can't ignore that we were all freshly wounded from the first round of Pillar 2 reporting that took place. And we saw clearly evident the different levels of preparation of tax authorities in different countries and the struggles that taxpayers, tax authorities, and of course, people like ourselves had in coming to terms with the complexity of that. So the less of that we have to look forward to, I think the better we'll agree.

DAVID SITES 25:22

Yeah, yeah. So all this sounds like, you know, pros and cons, but a lot of pros, a lot of promise here to make the business environment more friendly. But I want to ... not to be the dark cloud over this ... but I want to turn attention to, in order for something to happen like this in the EU, you guys have to get to, you know, 27, right, member states agree. You got to have unanimity amongst. So, I mean, realistically, what are the chances that you're going to find something that's acceptable to 27 member states? Something that can gain that unanimous support and that, you know, doesn't stretch out until 2045 until you can get there? You know, I want to just kind of test the simplification agenda. Is it possible? What are your thoughts on, you know, how do these proposals work?

And maybe Faisal, I'll come to you, like, you know, which are the biggest points of concern? Which, you know, which ones have rose up and countries have said, hey, wait

a minute, this is encroaching a little bit on our sovereign right to do things the way we want to do things. And, you know, which have broadest support maybe?

FAISAL JANJUA 26:43

Yeah. So I think what we already touched base on earlier about the withholding tax, I think that would be one point of concern, also for the Dutch government, to have that implemented. But I think the most favorable one is the R&D investment, that you get the innovation box or an R&D incentive in all the EU countries. Because for example, at the moment, I think those Ireland and the Netherlands have acquired a broad R&D incentive. And that can also lead to competition within the EU about where the company will establish and where not.

So I think that might have a broader support for our R&D investments and incentives. But it will be interesting to see how they will tackle that withholding tax point and to what extent the countries will agree on that part.

DAVID SITES 27:35

So just so I understand the R&D one, just as a follow-up question. So today it matters where you might decide to develop intangibles, own intangibles, license intangibles from. Is the promise that tomorrow every EU country will provide a substantially similar type outcome, so it won't really matter which EU country you choose as your intangible holding location? I mean, aside from DEMPE (Development, Enhancement, Maintenance, Protection and Exploitation) and all the other things that go on, because today there is a bit of a calculus. You know, where do I want to own this? What does the benefit look like? Who has the innovation box? Who doesn't? Is the part of the simplification that everybody would look very similar? Or is there still going to be major differences after, assuming this were to pass in current format?

SHANE MCCARTHY 28:21

I think there will still be differences, David. I think that this EU-wide R&D allowance sets a

base level across the 27 countries. I think it's unlikely that you're going to have the same rules applying across the board.

DAVID SITES 28:44

Interesting. So there still will be a little bit of calculus to be done about who might be the best? And for countries that are struggling to attract investment, right, this could be a lever for them to look to and say, maybe we make our, if I'm hearing this correct, maybe we make our R&D incentives a little bit more rich. Maybe that brings some investment, maybe that brings some jobs, maybe that brings some long-term potential for innovation, which is so important that we've talked about that.

Would the ... and maybe this question is too deep, and I know we got a long timetable here ... would the R&D incentives be kind of Pillar 2 compliant? The way that they're structured, or would there be a risk that a company, a country at some point would increase their R&D incentives so much that Pillar 2 might recoup some of that?

SHANE MCCARTHY 29:30

That is an interesting question. In Ireland, the R&D rules were tweaked to align with the introduction of Pillar 2. So countries are obviously cognizant of having it as effective as possible, but unfortunately, the saying that it remains to be seen runs throughout our conversation.

DAVID SITES 29:53

Okay. All right. So let's talk a little bit. We mentioned this. I want to just touch briefly on timetable and Shane, maybe I'll start with you. So if I'm a business leader, you know, CFO, tax director, controller, and I'm looking at this, how should the businesses realistically be thinking about the timetable? And what is the likelihood that this thing moves forward? And what's the risk that this is substantially kind of narrowed down and maybe doesn't have as much impact as we think? I'm not asking you to predict the future, but I'm going to ask you to predict the future a little bit if you can.

SHANE MCCARTHY 30:27

Let's not hide from the fact that it's going to be difficult. There's going to be horse trading, there's going to be negotiations. Some of the proposed measures that have the largest commercial benefit and are most welcomed by businesses may also be perceived to have the greatest impact on national revenue or discretion or sovereignty. So immediately we have a sticking point there.

I think from a U.S. business point of view, treat this as a direction of travel. It's not current law. It requires unanimity. If you like, the trajectory is clear, but the landing point is very unclear at this particular point. Significant negotiations are going to go on over this year and all throughout 2027. So measures might be amended, conditioned, delayed, or removed completely, and it may move at different speeds. So the timetable that has been set out should be seen for what it is. It's a guideline timetable.

Similarly, all of these things, if they land, will not land at once. The implementation is deliberately phased rather than immediate. And the proposed dates, as I said, they're aims rather than a settled commencement at this point. But, at the same time, it's important that the commentary, the feedback from all of the meetings that are going on behind closed doors and open doors, the people are aware of them and they're just cognizant of where things are moving.

DAVID SITES 32:02

Yeah. So, all right. I want to shift gears a little bit. This has been a largely a discussion about the recast of some of the direct tax proposals that are out there, some of the information reporting and transparency stuff that's in place. But even before that, there's this discussion of the EU budget and what the EU would like to do between now, I think, and 2038 from a budget perspective. And this topic of kind of the EU's own resources. So an EU-level source of revenue has kind of come up.

And Faisal, maybe I'll come to you first. Can you explain a little bit what's going on with kind of this EU-owned resources, including core or this concept of kind of a corporate-level tax that the EU would impose. And what's it trying to accomplish? And maybe I misspoke, maybe the budget only runs through 2034, but it's out there. So what's going

on on that front? Because this was quite startling to me when I started reading about this. This is something quite new. The EU itself proposing to collect revenue. Surely that's caused some discussion, I imagine. It's probably a pretty controversial topic. Faisal, you want to weigh in on that?

FAISAL JANJUA 33:21

Yeah, sure. So on the one hand, David, we have been talking about simplification, about more simplification in this case in this sense. However, we also have the CORE proposal. And the CORE proposal in principle says that you have a different, a separate EU taxation for companies, I think a bit more than 100 million revenues. And that, I think, is also a bit of a discussion point on the sovereignty of countries, whether they still have their own say in the direct taxes.

And I would like to make a small connection to the European taxation that we have been talking about for some like five or six years, and about the BEFIT (Business in Europe: Framework for Income Taxation) in which we have, like, one direct tax base.

So it looks a bit like that, that you have, like, one taxation of the EU. However, there's also a main difference. And that is that BEFIT, for example, the European tax base, has an allocation key. So it gathers all the direct taxes and it allocates to every country. However, the CORE (Corporate Resource for Europe), on the other hand, is just a lump sum tax on the revenues without any allocation key. So in that sense, in my view, the CORE will be less politically motivated or discussion points than the European tax base. And I'm interested to see how this will develop and how this will evolve in the later years and whether this will be a starting point for the European consolidation tax.

DAVID SITES 34:59

Yeah, so Shane, we talk a lot about competitiveness, right, and simplification. This seems, I got to tell you, this seems to be at odds, right, with competitiveness and simplification. Another EU layer of taxes, which presumably would be enforced and administered by the member states, because I don't think the EU has their own tax

authority to collect to collect revenues. Can you talk a little bit about how does this play into the overall discussion? I mean, is this something that's going to hurt competitiveness? Is this something that is seen as something that can coexist with simplification and competitiveness?

SHANE MCCARTHY 35:37

There's no getting away from the fact, David, that this is highly political and ideological, if you like. Five own resources proposals were put out there, including CORE. Three of them, including CORE, I think, have very little chance of seeing the light of day. The one that has backing, the Carbon Border Adjustment Mechanism, it applies a carbon cost to imports of steel, aluminium (aluminum) and cement entering the EU market. Seventy-five percent of that tax would go into the owned resources. That seems to be the only one that EU countries are OK about. But you may have seen reports recently, this was attacked heavily from the U.S. side, who were saying, "Well, you're complaining about us putting tariffs. This is a tariff." And then there was a whole pedantic debate about, well, is it a tariff? Isn't it a tariff? Now, that's just to give you some little background of what is going on.

The EU budget is meant to be 2 trillion euro. Large countries already resent the net contribution that they have to make to the EU budget. So to a certain extent, EU officials are saying, "Well, we've got to find the money somewhere." So this is what's on the table.

Interestingly, the EU Parliament saw the way the wind was blowing on CORE, and they suggested, very helpfully suggested, a number of extra own resources, the most controversial one, which would be the digital services levy which would target major digital platforms on the basis that they benefit from the EU single market. I think you can think of the kind of companies that would be in the firing line there. It would be a major revenue generator. It's not supported by many, many countries.

From an Irish point of view, this would be seen as something that could really affect us in terms of U.S. investment. And it's no secret that U.S. investment is very, very important in Ireland.

So what I would say about wait and see, this has got to come to a head quite soon. Ireland is currently holding the six-monthly EU presidency. That ends on the 31st of December. Ireland has been told in no uncertain terms, we want the bones of a deal on the budget complete by the 31st of December. I think we'd like to hand it on to the next country, but we're going to have to hammer out a bit of a deal on this one.

DAVID SITES 38:17

As in, like, 2½ months from now, right? That seems awfully ambitious, given the political undertones of this. As you can imagine, a digital services tax ... and I will admit the first time I read about the carbon tax, I also kind of thought, "Boy, this looks a lot like a tariff, right?" Specific products, a tax on imports, right? It's got all the, say what you want, call it what you want. But if it walks like a dog, talks like a dog, and barks like a dog, it seems like a dog. But very interesting. I think that's incredibly ambitious to think that this is going to come together in 2½ months.

But your point's well taken. If the EU budget is what it is, and the revenue doesn't come from the member states, something has to give. The money has to come from somewhere to fund the EU-wide budget, right? And I guess these are the proposals that are kind of out there. And like you said, maybe what this looks like is, hey, there's five or six things out there, maybe we can find one or two that are the least harmful or the most acceptable and maybe you can see some progress there.

That will be an interesting thing to watch. And I think that that's something I will tell you, from a U.S. multinational perspective, and when I talk to business leaders out there, the DAC recast and the Omnibus are getting a lot of play, but nobody's talking about this potential for an EU-wide digital service tax and EU-wide carbon tax. I think that's something that we need to get on people's radar screens. And for listeners, I'd encourage you guys to pay attention to this because something could come together very quickly.

And lucky for the Irish, Shane, that you guys get to be in the presidency while this has to be settled out. Who's the next presidency after the Irish?

SHANE MCCARTHY 40:01

I'm actually not certain. I should, I should know this, David. I should, I should. I was so focused on the ones before us. It was Cyprus before us. We, don't mind as long as somebody else can pass, we pass the buck on to, happily, I say in jest.

DAVID SITES 40:16

So let's close this out by transitioning into a short list of practical things that multinational tax leaders should be thinking about. And, you know, I'm going to come to each of you and I'm going to say, I know what mine is, but from your guys' perspective, what's the single biggest development that business leaders should monitor over the next several months? What should we be watching? What's the next shoe to drop? What's going to tell us if the direction of travel is sustaining or if the direction of travel is changing? And Faisal, coming to you first on this, what are you watching in the next couple of months on the EU policy front?

FAISAL JANJUA 41:56

I will be watching about how countries will react to all these new proposals, where there's discussion points, where there's unanimity. Also with regard to the earnings stripping rules, the financing activities, that's something important to me and our clients, whether the Netherlands will have more broader earnings stripping rules or not. And how this will impact the future decisions and the next steps. So that's something to consider and also to take into consideration as any for any restructurings. So I'll be watching this closely and hopefully we can help out where we can.

DAVID SITES 41:33

Shane, what are you watching?

SHANE MCCARTHY 41:31

I think it's broadly accepted that the tax simplification Omnibus, with all of its detail is

going to take a while. It's going to take ... it's going to be a longer one. But there is, in the same way that there's pressure to deliver a structure for the budget in the short term, it is the DAC recast that is to be delivered and is to be proposed and passed by the end of 2027. So I'll be looking out for progress and momentum with regard to the DAC recast. If it gets extremely bogged down and, I'll be honest, the initial signs haven't been very positive, but if that remains the case, I think we're looking at a bit of a longer time frame than espoused.

DAVID SITES 42:26

All right, all right. Well, I want to thank you guys for the insights. And I want to remind our listeners that these are just proposals. Nothing is final here, obviously, and we are far from the finish line. But they are potentially significant.

And the larger message might be that the European tax debate seems to be entering a more business-conscious phase, right? There is a focus on simplification. There's a focus on being more business-friendly, but it's only going to work if these meaningful proposals can survive this member state negotiation and get that unanimous consent that they need. And they're going to have to arrive in some sort of timetable that's not forever. You know, we've been talking about a single European tax base for my entire 25-year career, and we haven't ever seen it come. And I would also say that it's important that we don't just end up with a bunch of new revenue-raising and new complexity to replace some of the old complexity, because I don't think that really gets businesses anywhere.

I think for multinational companies, this is a time to understand what types of structures, what types of payments, what types of reporting processes could be impacted, and finding a way to continue to comply with the current law, but monitor how things might change in the future and what might be most impactful to your particular business. And certainly there is a lot to think about there, but you want to be, I think, ahead of that and understand which of these proposals you want to be vocal about.

So Faisal, Shane, this has been a great conversation. Thank you for joining us and helping explain both the opportunities and the uncertainty around the evolving EU tax agenda. And I want to thank our listeners for joining the D.C. Dispatch. We will talk to you next time.