Policy Note n°11

July 2026

Three Lessons on the Interaction Between CFC Rules and Pillar 2

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Executive Summary

The implementation of Pillar 2 represents a major step forward in international tax cooperation. However, this policy note finds that the Global Minimum Tax does not necessarily make Controlled Foreign Company (CFC) rules redundant. First, the two regimes only partially overlap. Pillar 2 applies exclusively to multinational groups with annual revenues above €750 million, while CFC rules cover a much broader range of firms and specifically target low-taxed passive income that remains vulnerable to profit shifting. Second, empirical evidence suggests that CFC rules are effective in limiting aggressive tax planning. Studies consistently find that weaker CFC regimes are associated with higher levels of profit shifting toward low-tax jurisdictions. Third, Pillar 2 contains important limitations. Substance-based carve-outs, tax incentives, and recent international compromises can significantly reduce its effective tax floor. In several EU Member States, existing CFC rules impose higher effective tax thresholds on foreign profits than Pillar 2 itself. These findings suggest that Pillar 2 should be viewed as a complement to, rather than a substitute for, CFC rules. As the EU considers future simplification of its tax framework, policymakers should preserve and strengthen CFC rules, pursue greater harmonization of their design, and continue efforts to improve the effectiveness and ambition of the global minimum tax and international tax .

1 Introduction

The implementation of Pillar 2 marks a major milestone in international tax cooperation. By introducing a global minimum effective tax rate of 15% for large multinational enterprises, the OECD/G20 agreement seeks to reduce incentives for profit shifting and curb harmful tax competition. Within the European Union, these rules have applied since 2024 through the EU Minimum Tax Directive.

The arrival of Pillar 2 in the EU has prompted questions about the future role of existing anti-avoidance instruments, particularly Controlled Foreign Company (CFC) rules. Introduced through the Anti-Tax Avoidance Directive (ATAD), CFC rules allow Member States to tax certain low-taxed income earned through foreign subsidiaries and have long been a central component of the EU's anti-avoidance framework. As the European Commission advances efforts to simplify EU tax legislation, some stakeholders have argued that Pillar 2 could reduce the need for these rules, while others contend that removing or weakening them could create new opportunities for profit shifting. Understanding the extent to which CFC rules and Pillar 2 overlap is therefore not only a technical question, but an increasingly important policy consideration for the future design of the EU corporate tax framework.

This policy note examines the interaction between CFC rules and Pillar 2 in the European Union.

Drawing on OECD country-by-country reporting data, outward foreign affiliate statistics, and administrative tax data, it evaluates the scope, effectiveness, and limitations of both frameworks.

2 Background

2.1 CFC rules in the EU

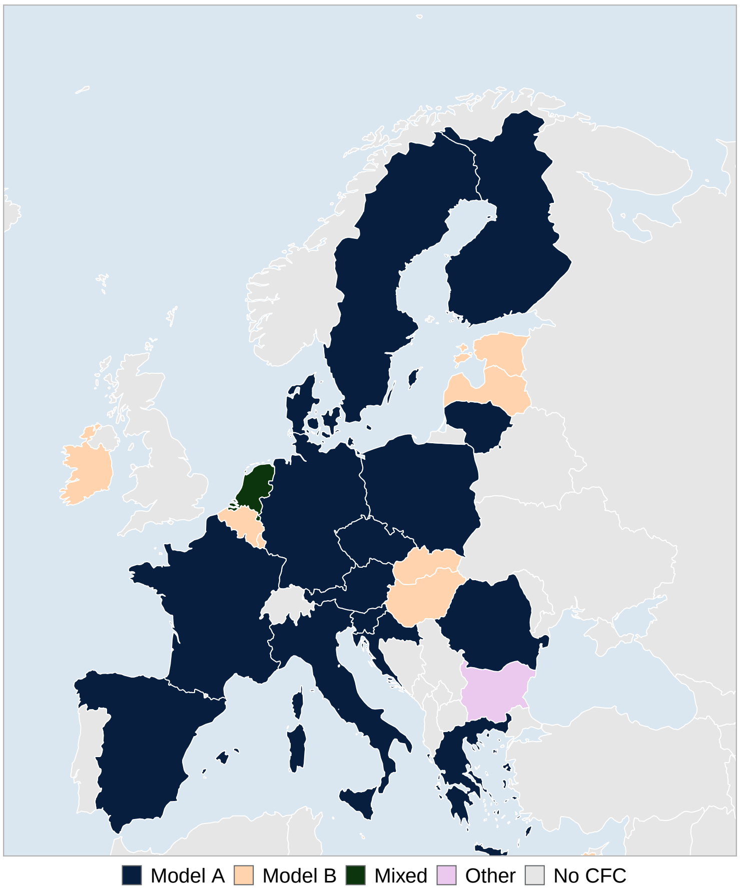
The Anti-Tax Avoidance Directive (ATAD, 2016/1164) was the EU's first attempt to set a common minimum standard against corporate tax avoidance. Adopted in the aftermath of the OECD/G20 BEPS project, it introduced a series of binding measures for Member States, including interest limitation rules, exit taxation, hybrid mismatch rules, a general anti-abuse rule, and, crucially, Controlled Foreign Company (CFC) rules. CFC rules seek to counteract the practice of shifting profits to low- or no-tax jurisdictions through subsidiaries or permanent establishments. By allowing the parent company's jurisdiction to include certain types of income from these foreign entities in its own tax base, CFC rules are meant to limit the benefit of booking profits offshore. The directive established two alternative approaches, Model A and Model B, between which Member States could choose when implementing CFC rules. This choice remains central to the diversity of EU anti-avoidance regimes today.

Two models of CFC rules

Model A: Transaction-based approach. Under Model A, CFC taxation applies only to defined categories of "passive" or highly mobile income earned by a low-taxed foreign subsidiary. These include interest, royalties, dividends, capital gains, leasing income, and certain financial or service income where the CFC contributes little economic value. Model A contains several exceptions, such as substance carve-outs (where the CFC demonstrates genuine economic activity), de minimis thresholds (excluding small amounts of passive income), and exemptions for financial undertakings operating primarily with third parties.

Model B: Entity-based approach. By contrast, Model B applies to the non-distributed income of the CFC as a whole, insofar as it arises from "non-genuine arrangements put in place for the essential purposes of obtaining a tax advantage". The test for whether arrangements meet this condition focuses on whether the CFC has the staff, assets, and decision-making capacity needed to substantiate its income. Similar to Model A, Member States may include thresholds, for example, excluding CFCs with annual profits below €750,000 or with low levels of non-trading income.

Figure 1: CFC Models by EU Country



Note: This figure shows the geographic adoption of CFC rules within the European Union by type of model.

2.2 Pillar 2

The global tax landscape has been reshaped by the OECD/G20 Inclusive Framework's agreement on a two-pillar solution to modern tax challenges. Pillar 2, the Global Anti-Base Erosion (GloBE) framework, introduces a worldwide minimum effective tax rate of 15% for large multinational groups with annual revenues greater than €750 million. It operates by imposing a top-up tax on profits taxed below this minimum, thereby reducing the incentive to shift profits to low-tax jurisdictions. Within the EU, this commitment was transposed into law through the EU Minimum Tax Directive (2022/2523), which began applying in 2024. While Pillar 2 represents a step toward coordinated global taxation, it is deliberately limited in scope, focusing only on the largest multinational enterprises and applying a uniform minimum rather than addressing specific income types.

Recent international developments have further shaped the implementation of the global minimum tax. In particular, the "Side-by-Side" arrangement agreed within the Inclusive Framework allows the United States to continue applying its domestic minimum tax regime—formerly known as GILTI and now Net CFC Tested Income (NCTI)—alongside Pillar 2 rather than fully aligning with the GloBE rules. Unlike Pillar 2, this regime applies on a worldwide blending basis rather than on a country-by-country basis, which can allow low-taxed profits in some jurisdictions to be offset with higher-taxed income elsewhere. The arrangement also limits the application of certain Pillar 2 enforcement mechanisms, notably the Undertaxed Profits Rule (UTPR), to US multinationals.

The side-by-side compromise also modified the treatment of certain tax incentives. It introduced a category of "substance-based tax incentives"—including some R&D-related tax benefits—that may be granted without reducing the effective tax rate for Pillar 2 purposes, provided they remain within defined caps. With the recent implementation of Pillar 2 in the EU, its interaction with CFC rules and the potential redundancies emerging from it, has become a central policy issue. Both aim to reduce profit shifting, but they do so through different logics: CFC rules target low-taxed income in foreign subsidiaries, often below the Pillar 2 threshold, while Pillar 2 seeks to impose a global floor on effective taxation for the largest firms. Understanding how these two frameworks overlap—and diverge—is critical to designing a coherent EU anti-avoidance architecture.

3 Findings and key insights

3.1 Partial overlap: CFC rules and Pillar 2 address different tax avoidance risks

A central question facing policymakers is whether the introduction of Pillar 2 makes Controlled Foreign Company (CFC) rules redundant. In terms of scope, the evidence suggests that the overlap between the two regimes is only partial. Pillar 2 applies exclusively to multinational groups with consolidated annual revenues exceeding €750 million. On average, it covers about 2.3% of EU-based multinational groups, yet accounts for approximately 75% of turnover and around 80% of employment (Table 1). By contrast, most national CFC regimes apply with lower revenue thresholds, enabling them to capture a broader segment of multinational enterprises. As a result, CFC rules remain the primary anti-avoidance instrument for mid-sized multinational groups operating below the Pillar 2 threshold. While the difference in the number of firms covered does not necessarily imply an equally large difference in the share of profits captured across the EU, in some Member States, Pillar 2 still covers a minority of multinationals economic activity (e.g. Slovenia and Bulgaria in Table 1), suggesting the continued relevance of CFC rules.

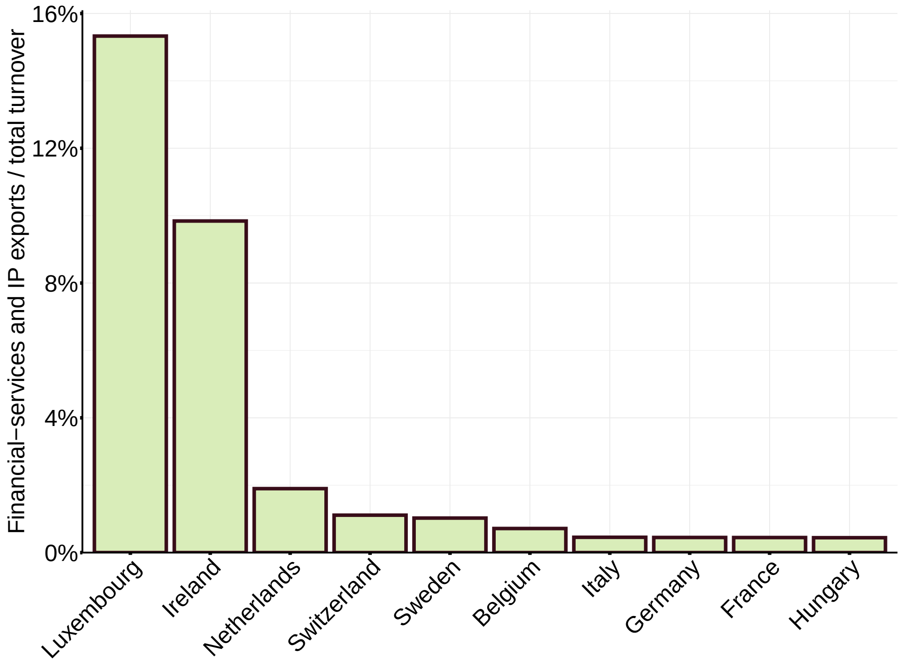
Table 1: Coverage of Pillar 2

Country	Activity Abroad			Share Covered by Pillar II		
	Nb. Employees (Thousands)	Revenue (€bn)	Nb. MNEs	Employees	Revenue	MNEs
Germany	6,190.6	2,679.7	16,775	93.3%	74.1%	2.5%
France	7,140.1	1,889.3	7,873	78%	70.2%	3.1%
Italy	1,659.7	477.0	7,585	55.3%	71.6%	2%
Sweden	1,525.2	407.5	5,415	82.8%	70.9%	2.2%
Finland	490.0	332.0	1,690	83.7%	90.4%	2.9%
Denmark	1,192.2	318.5	3,895	87.9%	73.3%	2%
Portugal	238.1	65.0	1,337	69.8%	73.5%	1.8%
Lithuania	72.5	11.4	967	19.5%	17.7%	0.7%
Slovenia	39.6	8.9	952	30.8%	31%	0.6%
Latvia	14.8	4.5	872	20.1%	50%	0.3%
Bulgaria	17.9	3.9	1,078	8.9%	43.6%	0.3%
All	18,580.8	6,197.8	48,439	81.7%	73.2%	2.3%

Notes: This table shows for each country and as an average of those countries the number of persons employed by MNEs headquartered in the given countries abroad as well as the revenues they generated abroad, the number of subsidiaries that they own abroad and the number of MNEs headquartered in each country. The last four columns are the shares of this foreign activity that is covered by Pillar II. It is a snapshot of year 2021. *Sources:* OECD aggregated country-by-country reports, Eurostat Outward Foreign Affiliates Survey and the EuroGroups register (EGR) database.
See Appendix A.1 for the construction of each share.
Sample of countries: Sample based on the quality of Outward Foreign Affiliates survey.

Beyond differences in coverage, the two regimes also target distinct components of the tax base. Pillar 2 operates as a systemic minimum tax, applying uniformly to all forms of income once the effective tax rate falls below 15 percent. CFC rules, by contrast, are designed to focus on high-risk income streams—like royalties, interest, dividends, and certain service income. These income types are particularly susceptible to artificial profit shifting through the use of low-tax or no-tax entities, often located in jurisdictions with limited economic substance requirements. The distinction is important because these risks do not disappear when a minimum tax is introduced. A multinational group may be subject to Pillar 2 while still using low-tax subsidiaries to channel passive income, particularly where carve-outs, tax credits or alternative minimum tax regimes reduce the effective reach of the global minimum tax. Conversely, a group operating below the Pillar 2 threshold may still engage in precisely the types of arrangements that CFC rules were designed to address. Figure 2 shows that, in some jurisdictions, royalty and interest payments received account for a persistently large share of multinational firms' total revenues, indicating the continued relevance of CFC rules targeting cross-border passive income flows within the EU.

Figure 2: Passive income across countries



Note: The figure shows, for the ten countries with the highest share, cross-border exports of financial services and charges for the use of intellectual property (royalties and licence fees) relative to total business turnover, in 2021. See Appendix A.2 for sources and construction.

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From this perspective, Pillar 2 and CFC rules operate at different levels of the anti-avoidance framework. Pillar 2 seeks to establish a minimum level of taxation across large multinational groups, while CFC rules act as a targeted anti-abuse instrument aimed at specific forms of profit shifting.

3.2 CFC rules can be effective at restraining tax avoidance

Empirical evidence suggests that CFC rules are relatively effective at deterring aggressive tax planning, particularly with respect to passive and mobile income. One of the clearest illustrations comes from the consequences of the Cadbury Schweppes judgment. In 2006, the Court of Justice of the European Union limited the application of CFC rules within the EU to wholly artificial arrangements lacking economic substance. This effectively weakened the scope of CFC enforcement and created a natural experiment for evaluating their effectiveness.

Subsequent research finds that this relaxation led to greater profit shifting toward low-tax jurisdictions. Schenkelberg (2020) shows that weaker CFC rules resulted in higher levels of pre-tax profits being booked in low-tax jurisdictions. Similarly, Bricongne et al. (2023) document a significant reallocation of value added by French multinational groups toward tax havens following the weakening of CFC enforcement.

Firm-level evidence points in the same direction. Using data covering the period 2010–2020, Hansen et al. (2023) serve as an effective check on profit shifting, particularly for affiliates with little or no substantial economic activity. One study showed that firms respond strategically to CFC thresholds by relocating income away from low-tax subsidiaries subject to inclusion. These findings are consistent with the fundamental logic of CFC regimes, which seek to target low-taxed profits that are not supported by genuine business operations.

Administrative data also suggests that CFC rules continue to generate meaningful tax adjustments. In France, for example, the additional tax base attributed to CFC enforcement increased from approximately €35 million in 2017 to more than €500 million in several recent years (2026 Budget Report), yielding tax revenues of around €125 million. As a comparison, according to the French government's 2026 budget bill, Pillar 2 is expected to bring in €500 million in tax revenue for 2026. At the same time, the literature highlights an important limitation. CFC rules do not necessarily result in the repatriation of profits to the parent company's jurisdiction. Instead, firms often respond by reallocating income towards jurisdictions where they have greater economic substance (Egger and Wamser (2015): Hansen et al. (2023)). As a result, the effectiveness of CFC rules should primarily be understood in terms of reducing profit shifting, and revenue estimates do not include these "avoided losses". In the absence of CFC rules, the loss of revenue for the state budget would not be limited to the amounts recovered through these adjustments, but would include the losses from greater tax avoidance by multinational groups.

3.3 Both systems have weaknesses

While both CFC rules and Pillar 2 play an important role in limiting profit shifting, neither regime is free from weaknesses. In practice, fragmentation in national implementation, extensive carve-outs, and recent international political compromises reduce their ability to fully curb base erosion and tax avoidance.

3.3.1 Fragmentation of CFC rules across EU Member States

For CFC rules, the main limitation lies in their fragmented implementation across the European Union. Although the Anti-Tax Avoidance Directive (ATAD) established a common minimum framework, Member States retain wide discretion in designing their national regimes. This discretion extends to key elements such as control thresholds, low-tax benchmarks, definitions of passive income, and the scope of exemptions. As a result, enforcement remains uneven across the Union. This heterogeneity creates a risk of fostering inversions and relocation within the EU, and, as a result, open the doors to a race-to-the-bottom in the stringency of CFC rules. On top of that, this fragmentation also creates legal uncertainty and administrative complexity for both tax administrations and taxpayers.

3.3.2 Pillar 2 has structural weaknesses and it is too soon to assess its efficacy

Although Pillar 2 could represent a major step toward international tax coordination, several design features and recent political developments limit its ability to fully eliminate profit shifting and tax competition.

First, the substance carve-outs allow MNEs to shield part of their profits from the effective tax rate threshold computation, based on payroll and asset expenditures. These carve-outs are pushing down the ultimate effective tax rate below which the Pillar 2 becomes binding (see Figure 3), from 15 to 10% on average. As we expect firms to relocate some substance in low-tax countries to take advantage of these carve-outs, the effective threshold might be lower.

Second, the treatment of tax incentives—particularly refundable tax credits—creates new avenues for tax competition. Under the GloBE rules, qualified refundable tax credits are treated as income rather than as a reduction in covered taxes when calculating effective tax rates. This accounting treatment can artificially inflate the effective tax rate used for Pillar 2 calculations, allowing firms to benefit from substantial fiscal incentives while remaining formally above the 15 percent threshold. In practice, this creates incentives for governments to redesign corporate tax systems around tax credits and other base-narrowing measures that remain compatible with the global minimum tax. Ducept and Godar (2025) show that tax competition in Europe has already been shifting away from statutory rate cuts toward reforms that narrow the tax base, including R&D incentives, investment allowances, and preferential intellectual property regimes. Between 2014 and 2022, nearly 300 corporate tax reforms were implemented across EU Member States, the majority of which modified the tax base rather than statutory rates. In this context, Pillar 2 risks accelerating a broader shift in international tax competition—from competition over tax rates to competition over tax bases and fiscal incentives.

Third, recent amendments linked to the "Side-by-Side" agreement with the United States further weaken the discipline imposed by the minimum tax. The agreement introduces a category of "substance-based tax incentives" that can be granted without lowering the effective tax rate for Pillar 2 purposes, provided they are linked to real economic activity and remain within specified caps. In practice, multinational groups may therefore continue to benefit from generous national tax incentives without triggering top-up taxation. While intended to preserve policy flexibility, these provisions risk widening the space for tax competition through targeted incentive regimes.

Lastly, the Side-by-Side arrangement effectively limits the geographical application of one of Pillar 2's key enforcement mechanisms: the Undertaxed Profits Rule (UTPR). Under the agreement, US multinationals are largely shielded from the UTPR and remain subject instead to the domestic US minimum tax regime—formerly known as GILTI and now Net CFC Tested Income (NCTI).

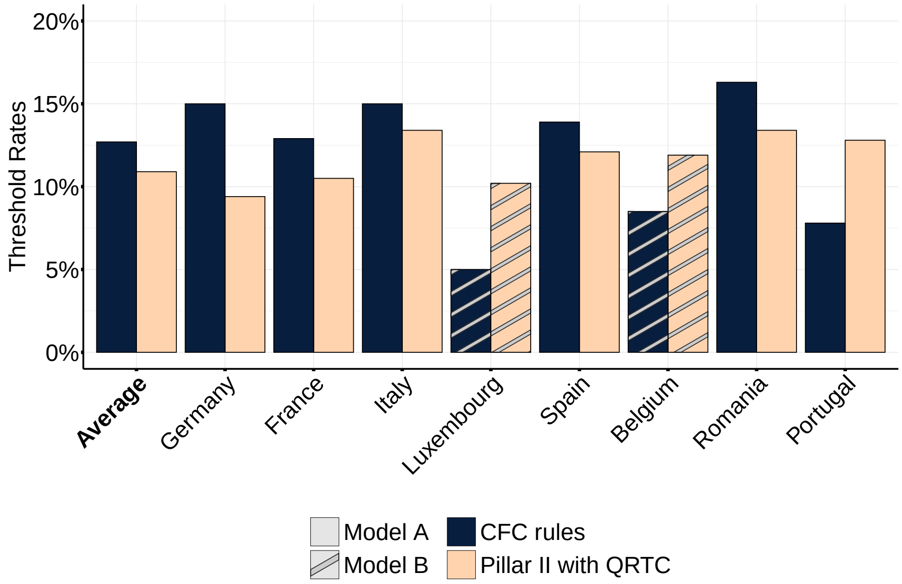
Unlike Pillar 2, this regime applies on a worldwide blending basis rather than on a country-by-country basis. As a result, low-taxed profits in some jurisdictions can be offset with higher-taxed income elsewhere, allowing certain profit pools to escape minimum taxation.

3.3.3 In numerous countries, CFC rules ensure higher minimum effective tax rates

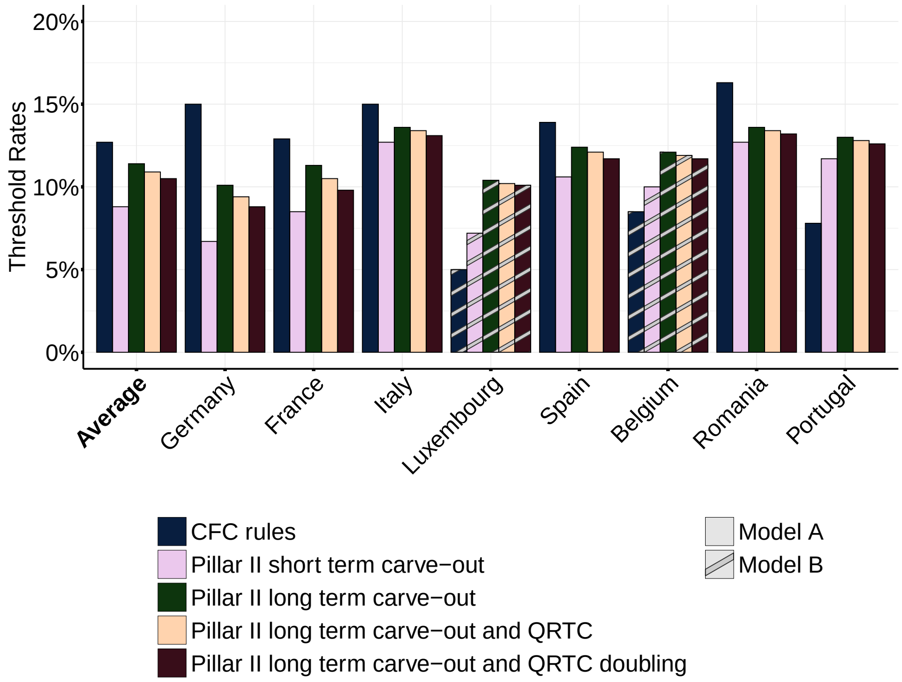
Effective tax rates (ETRs) thresholds may remain below the 15% of Pillar 2. When compared against existing CFC thresholds in Member States, it becomes apparent that Pillar 2 alone does not always guarantee comprehensive coverage of low-taxed profits. In 7 of the 8 countries we analysed, the application of Pillar Two alone results in a lower minimum ETR than under the CFC rules (Figure 3). For the 8 analysed countries, on average, the minimum ETR under Pillar 2 is projected to be 10%, while the CFC one is 12% - two points higher.

Figure 3: Effective tax-rate thresholds under CFC rules and Pillar II

(a) Figure 3: CFC rules vs. Pillar II with QRTC



(b) Figure 3: CFC rules and all Pillar II scenarios



Note: The figure reports, for each EU headquarter country, the effective tax-rate threshold (as a share of profit before tax) enforced by its CFC rules and by the Pillar II income inclusion rule on the profits its multinationals book, in 2021, in jurisdictions taxed below 15%. The Pillar II bars correspond to an alternative substance-based carve-out and qualified refundable tax credit (QRTC) scenarios. Bars are shaded by CFC model and ordered by the profit booked in low-tax jurisdictions; ``Average'' is the profit-weighted mean across the sample. Data sources, sample restrictions, and the construction of each threshold are described in Appendix A.3.

Moreover, CFC rules are characterized by considerable heterogeneity in their design and implementation (see “Background”). When comparing effective tax rates under Pillar Two with those under CFC rules (as currently observed), according to the type of CFC regime applied, we find that parent-jurisdiction countries applying Model B are typically more lenient than a Pillar Two regime, unlike countries applying Model A. Indeed, for parent-jurisdiction countries applying Model A, the implementation of Pillar Two would increase the taxation of foreign subsidiaries in only 3 out of the 10 simulated cases. Taken together, these weaknesses indicate that Pillar 2—while an important coordination instrument—cannot by itself provide comprehensive protection against base erosion. Without complementary enforcement tools, significant portions of multinational profits may remain outside effective taxation. In this context, strengthening and harmonizing CFC regimes remains essential to ensure that low-taxed offshore income is effectively captured.

4 Policy recommendations

The coexistence of CFC rules and Pillar 2 should not be interpreted as a redundancy but as the interaction of two instruments addressing different segments of multinational tax planning. The policy challenge for the European Union is therefore not to replace one regime with the other, but to ensure that the two operate coherently within a stable and effective anti-avoidance framework. At the same time, the interaction between these regimes—and the diversity of CFC implementations across Member States—creates complexity for both tax administrations and multinational enterprises. Diverging thresholds, definitions of passive income, and exemption rules can generate compliance costs and legal uncertainty. Addressing this complexity should therefore be a priority. A more effective approach would be to streamline and harmonize key elements of CFC regimes across the Union rather than weaken or remove them.

4.1 Short term: preserve CFC rules

EU Member States should resist calls to weaken or remove CFC rules on the assumption that Pillar 2 makes them redundant. CFC rules remain the primary anti-avoidance instrument for multinational groups below the €750 million threshold and continue to target forms of passive income that are particularly vulnerable to profit shifting. Weakening these rules at a time when tax competition is increasingly shifting toward targeted incentives and tax base engineering would risk creating significant enforcement gaps. Moreover, given the recent implementation of Pillar 2 and the uncertainty surrounding its long-term effectiveness, maintaining robust CFC regimes is essential to avoid creating enforcement gaps.

4.2 Medium term: harmonize CFC rules and monitor the effectiveness of Pillar 2

The main weakness of the current CFC framework lies not in its objective but in its fragmented implementation. Significant differences in thresholds, definitions, exemptions, and enforcement standards create opportunities for regulatory arbitrage and increase compliance costs. The European Union could therefore pursue greater harmonization of key elements of CFC regimes, including low-tax thresholds, definitions of passive income, and control requirements.

However, harmonization should not come at the expense of effectiveness. The evidence presented in this note suggests that some CFC regimes—particularly those based on Model A—often impose higher effective tax thresholds on foreign profits than Pillar 2 itself. Harmonization should therefore aim to strengthen and align Member States' rules around best practices rather than converge toward the least demanding regimes. Greater consistency would both improve enforcement and simplify compliance for businesses operating across the single market.

In parallel, policymakers should periodically reassess the efficacy of Pillar 2 and its interaction with existing anti-avoidance instruments as the international tax landscape evolves. Several developments could influence this balance, including: the emergence of new forms of tax competition through refundable tax credits and other incentive regimes compatible with Pillar 2; geopolitical pressures affecting the stability and enforcement of the global minimum tax framework; potential overlaps or administrative burdens created by the coexistence of multiple anti-avoidance mechanisms. A structured review of these interactions would allow the EU to adapt its corporate tax framework while preserving the core objectives of fairness, efficiency, and the proper functioning of the internal market.

4.3 Long term: strengthen the coherence of the EU anti-avoidance framework

Over the longer term, the European Union should continue to strengthen the coherence of its anti-avoidance framework. On the one hand, efforts to harmonize and strengthen CFC rules should continue, building on the most effective elements of existing national regimes and reducing opportunities for regulatory arbitrage. However, the EU should support reforms that aim to increase the effectiveness of Pillar 2. As highlighted in Alstadsæter et al. (2024), the 15% minimum rate was already relatively modest compared to the scale of international profit shifting and has been further weakened by carve-outs, tax credits, and other exceptions. Future reforms should therefore seek both to strengthen the effective operation of Pillar 2 and, over time, consider whether a higher minimum rate would be warranted.

Beyond Pillar 2, the EU should continue to support broader international tax cooperation initiatives. The recent experience of Pillar 2 has demonstrated both the benefits and limitations of relying exclusively on consensus-based frameworks. Complementary multilateral processes, including the ongoing negotiations for a United Nations Framework Convention on International Tax Cooperation, could provide additional avenues to strengthen international coordination, improve transparency, and address emerging forms of tax competition.

Ultimately, the objective should be a more coherent international tax architecture in which a strengthened global minimum tax, more effective and harmonized CFC rules, and broader international cooperation work together to reduce profit shifting and ensure a more stable corporate tax base.

5 Conclusion

The introduction of Pillar 2 represents a major development in international tax cooperation, but it does not render existing anti-avoidance instruments obsolete. This policy note shows that CFC rules and Pillar 2 only partially overlap, target different forms of tax avoidance, and continue to play distinct roles within the EU corporate tax framework.

The evidence suggests that CFC rules remain effective at limiting profit shifting and, in several Member States, may impose higher effective tax thresholds on low-taxed foreign profits than Pillar 2 itself. At the same time, carve-outs, tax incentives, and recent international compromises leave scope for continued tax competition under the global minimum tax.

As the European Union considers future simplification of its tax framework, the objective should not be to replace CFC rules with Pillar 2, but to ensure that both instruments operate coherently and effectively. Preserving and strengthening CFC rules, while continuing efforts to improve the design of Pillar 2 and deepen international tax cooperation, will be essential to protecting national tax bases and reducing opportunities for profit shifting.

We thank the members of the International Tax Observatory for their helpful comments and suggestions.

A Data appendix

A.1 Coverage of multinationals' foreign activity by Pillar II

Table 1 measures how much of EU multinationals' foreign activity falls within the scope of Pillar II. Aggregated country-by-country reports (CbCR) cover multinational groups with consolidated revenue above EUR 750 million (the same threshold that triggers Pillar II) so the activity they report approximates the in-scope population, while the Eurostat outward foreign affiliates statistics (OFATS) record the foreign activity of *all* foreign affiliates of domestically controlled groups. The ratio of the former to the latter therefore measures the share of foreign activity covered by Pillar II. For each headquarter country we compute this share along three dimensions: employment (employees abroad reported in CbCR over persons employed abroad in OFATS), revenue (unrelated-party revenue in CbCR over the net turnover of foreign affiliates in OFATS), and the number of groups (multinational groups in CbCR over multinationals recorded in the EuroGroups Register). CbCR revenues, reported in US dollars, are converted to euros at the 2021 average exchange rate, and all figures are a 2021 snapshot. We restrict the sample to EU headquarter countries for which OFATS adequately captures foreign employment (those where reported CbCR employment does not exceed the OFATS total) and the "All" row reports the ratio of summed numerators to summed denominators across that sample, equivalently an activity-weighted average of the country shares.

A.2 Share of passive income in turnover

To estimate the importance of mobile, "passive" income across countries, we measure, for each country, the value of cross-border financial services exports and charges for the use of intellectual property relative to total business turnover. The numerator combines the "Financial services" and "Charges for the use of intellectual property n.i.e." items of the Extended Balance of Payments Services (EBOPS) statistics, summed across partner countries; reported in US dollars, it is converted to euros at the 2021 average exchange rate. The denominator is total turnover from the Eurostat structural business statistics (SBS) for 2021. The figure reports the ten countries with the highest resulting ratio. Because the numerator records cross-border balance-of-payments flows while the denominator measures domestic business turnover, the ratio is best read as an indicator of passive-income intensity rather than as a strict accounting share.

A.3 Effective tax thresholds under CFC rules and Pillar II

For each EU headquarter country we compute the effective tax-rate threshold that its CFC rules and the Pillar II income inclusion rule impose on the profits its multinationals report, in 2021, in partner jurisdictions where the aggregate effective tax rate falls below 15%. Profits, current income taxes, employees and tangible assets come from the OECD aggregated country-by-country reports (CbCR); wages from the Eurostat outward foreign affiliates statistics (OFATS); refundable corporate tax credits from the Global Tax Expenditures Database (GTED); and corporate income tax revenues from the OECD. Dollar amounts are converted to euros at the 2021 average exchange rate (USD $1 =$ EUR 0.845). We restrict attention to EU headquarter countries and exclude those that report CbCR only on a domestic-plus-aggregate basis, since their activity in low-tax jurisdictions cannot be identified at the partner level.

For CFC rules and Pillar II, the threshold is the minimum effective rate on pre-tax profit below which a top-up tax becomes due. In CFC rules, we use the official thresholds established in each country's legislation. In the Pillar 2 regime, the substance-based income exclusion (SBIE) shields a fraction of payroll and tangible assets, this floor lies below 15%: it equals $0.15\,(\pi - S)/\pi$, where π is profit and S the carve-out, floored at zero. We report the carve-out at its long-run rates (5% of payroll and 5% of tangible assets) and at its transitional rates (10% and 8%). Qualified refundable tax credits (QRTCs) are treated, following the GloBE rules, as additional GloBE income rather than as a reduction of covered taxes; a credit of C is thus recaptured at the 15% top-up rate and worth $0.85\,C$ net, giving a threshold of $(0.15\,(\pi - S) - 0.85\,C)/\pi$. QRTCs are proxied by the refundable corporate tax credits recorded in the GTED, scaled to the corporate tax base; we also report a scenario in which they are doubled. Payroll is measured as OFATS employee compensation per employee, a labour-cost concept inclusive of employer social contributions; where a host jurisdiction is absent from OFATS we substitute the 2021 average gross wage from ILOSTAT, UNECE or national statistical offices, grossed up by 20% to the same labour-cost basis. The CFC threshold is each country's statutory trigger, entered as a fixed effective rate or as a fraction of the domestic rate, the latter proxied by the aggregate effective rate observed on profits booked in that country. Thresholds are aggregated across countries on a profit-weighted basis (the "Average" bar).

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