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Rakli Kiinteistönomistajat ja rakennuttajat

Simplifying EU rules on direct taxation – omnibus

Finnish Property Owners Rakli (Transparency Register id 727236253172-92) is the association of Finland's most prominent owners of residential and commercial properties and infrastructure, property investors, largest cities in Finland, as well as construction clients. Our members include both private and public sector entities.

Finnish Property Owners Rakli welcomes the opportunity to participate in the feedback period of the adopted act. From the perspective of real estate investment, the Tax Omnibus contains several welcome reforms that could improve the predictability of the investment environment, reduce administrative burdens and strengthen the EU's competitiveness.

The changes to interest limitation rules are particularly significant for the real estate sector, which relies on long-term, capital-intensive investments typically financed through debt. At the same time, we consider it important that the rules take account of arm's-length financing arrangements and the role of private capital in delivering investments of societal importance.

1. Mandatory 30% EBITDA limit and EUR 3 million de minimis threshold

Rakli supports the proposal to harmonise the interest deduction ceiling at 30% of EBITDA and to make a de minimis threshold of at least EUR 3 million mandatory in all Member States. We also consider it justified to index the threshold to inflation. To achieve the Directive's harmonisation objective, it is important that Member States should not be able, in practice, to undermine the common rules through parallel or significantly stricter national interest limitation rules.

The real estate and construction sector needs rules that support long-term investment decisions. A harmonised 30% EBITDA limit and a uniform, inflation-indexed de minimis threshold would enable investors to assess the tax treatment of investments across Member States on a consistent basis. This would help reduce investment barriers arising from tax rules, strengthen the functioning of the internal market and support the efficient allocation of capital within the European Union.

2. Low-risk third-party loans and centralised group financing

Rakli strongly supports the proposal to exclude genuine, low-risk third-party loans from the scope of interest limitation rules. Such loans do not, as a rule, entail the base erosion or

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profit shifting risks that interest limitation rules were originally designed to address. It is therefore inappropriate to treat them in the same way as interest expenses arising through group structures used for tax planning.

However, we consider it problematic that the proposed exemption, as currently drafted, does not appear to cover situations in which external debt financing is raised centrally through a group treasury or financing function and on-lent to other group companies. Such centralised financing is an established and commercially justified practice in the real estate business, aimed at improving cash management, enhancing access to finance and reducing financing costs.

The application of the exemption should not depend on whether the same third-party loan is taken out directly by the company making the investment or through a centralised group financing entity. The economic substance of the financing does not change merely because external debt is channelled within the group to the company ultimately making the investment. The exemption for low-risk third-party loans should therefore also cover genuine on-lending arrangements implemented through a centralised treasury function, where these can be shown to be based on arm's-length external financing.

3. Affordable housing as part of the infrastructure exemption

Housing, housing development and the functioning of housing markets are, in principle, matters falling within the competence of the Member States, with solutions depending on national circumstances, market structures and public policy objectives. Therefore, exemptions should not be extended to affordable housing under EU tax rules or interest limitation rules.

In the context of the SGEI framework, this approach raises significant concerns about the functioning of the market. In practice, any subsidies, tax advantages or other special arrangements would likely primarily benefit public or non-profit providers. Research shows that public financing and public support mechanisms in housing markets crowd out private investment, at least to some extent. Extending subsidies or exemptions for affordable housing at EU level could lead to private capital withdrawing from the market and a decline in market-based housing development. In the long term, this could reduce the overall supply of housing and impair market functioning rather than improve housing availability.

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