First published in Tax Journal on 28 March 2025. Reproduced with permission.

Briefing

International review for March

Speed read

This month's update is a case study in the growing divergence in ideology between two of the world's most powerful blocs, the US and the EU, and illustrates how tax is a key lever in achieving each region's policy aims. While the EU reinforces its commitment to the green transition, using a mixture of 'carrots and sticks' and harmonisation of national tax policy, the US is advancing its protectionist and unilateralist approach, focusing instead on tax incentives for domestic industry and retaliatory measures internationally. Finally, Singapore's 2025 Budget contains various corporate tax incentives to encourage investment and innovation.

Tim Sarson
KPMG
Tim Sarson is a Tax Partner at KPMG and the UK Head of Tax Policy. He has worked in the international tax and transfer pricing field since 1998, in both practice and industry. Email: tim.sarson@kpmg.co.uk.

US tax update

Following my February update (*Tax Journal*, 28 February 2025), two further Memorandums (also referred to as Executive Orders) in respect of tax have been issued in the US.

Memorandum on China

On 21 February 2025, President Trump signed a Memorandum entitled America First Investment Policy stating that the US will use all necessary legal instruments to further deter US persons from investing in China's military-industrial sector. The Memorandum specifically states that the Trump Administration will review whether to suspend or terminate the 1984 US-China income tax treaty, however no further details have been provided regarding the timing of such a review.

Memorandum on Digital Services Taxes

Also on 21 February 2025, the White House issued the *Defending American Companies and Innovators from Overseas Extortion and Unfair Fines and Penalties Memorandum*. This sets out the Trump Administration's plans to respond to overseas digital service taxes (DSTs) and digital services regulations targeted at US companies.

As explained in the accompanying White House fact sheet the Administration will consider responsive actions such as tariffs in respect of DSTs, fines, practices and policies that foreign governments levy on US companies. The Memorandum specifically refers to conducting investigations into the DSTs of Canada, France, Austria, Italy, Spain, Turkey and the UK, and says the Administration will scrutinize EU regulations such as the Digital Markets Act and the Digital Services Act.

The Treasury Secretary is directed to report the results of these investigations by 21 March 2025, therefore you can expect an update on the outcome of these investigations, and no doubt additional US tax announcements, in next month's review.

President Trump addresses Congress

In his address to a joint session of Congress on 4 March 2025, President Trump reiterated his support for making the tax provisions of the Tax Cuts and Jobs Act (TCJA) 2017 permanent. He also restated his desire that Congress pass many of his tax-related campaign promises, including:

- exclusions of income from tips, overtime pay and social security;
- a tax deduction for interest on financed purchases of domestically manufactured automobiles;
- full expensing of tangible business assets, applied retroactively from 20 January 2025; and
- a reduced rate of tax on income from domestic manufacturing.

The President also mentioned new 'special tax incentives' for US ship building.

As reported in my February update, Congress is currently working on budget reconciliation legislation that could include an extension of the TCJA tax provisions beyond 2025. It could also include the other proposals mentioned by President Trump above. However, a budget reconciliation Bill cannot pass until it is agreed by both chambers of Congress, and with the House and Senate currently on different pages on how to address the US tax agenda, the saga of budget reconciliation may have a long way to run.

Update on EU direct tax developments

Following the release of the European Commission's 2025 work programme outlined in my February article, this month has seen a number of EU direct tax developments, building on the Commission's priorities of simplification and boosting EU competitiveness.

CBAM simplification package

On 26 February 2025, the EC published a Carbon Border Adjustment Mechanism (CBAM) simplification package. The accompanying press release explains that the main changes on CBAM will:

- exempt small importers, mostly SMEs and individuals, from CBAM obligations. These are importers who import small quantities of CBAM goods, representing very small quantities of embedded emissions. This will be done by introducing a new CBAM cumulative annual threshold of 50 tonnes which the Commission estimates will eliminate CBAM obligations for approximately 90% of importers, while still covering over 99% of emissions in scope; and
- the rules will be simplified for those companies that remain within the CBAM scope in areas such as the authorisation of CBAM declarants, the calculation of embedded emissions and reporting requirements.

Longer term, the CBAM will be extended to other Emissions Trading Scheme sectors and downstream goods. The EC aims to present a comprehensive CBAM review in the second half of 2025 and a legislative proposal on the extension of CBAM in the first quarter of 2026.

Clean Industrial Deal Communication

On 26 February 2025, the EC published its *Communication on a Clean Industrial Deal* ('the Communication') providing for a joint roadmap for competitiveness and decarbonisation in the EU.

According to the Communication, corporate tax policies are considered to be a key measure to reach the objectives of the Clean Industrial Deal. As such, the Commission intends to issue recommendations for Member States to adopt tax incentives to support the Clean Industrial Deal. This may include:

- shorter depreciation periods for certain technology assets, allowing businesses to quickly write off costs and

First published in Tax Journal on 28 March 2025. Reproduced with permission.

benefit from tax incentives that offset high initial investments; and
- the use of tax credits for businesses in strategic sectors for the clean transition, to make it more financially attractive to invest in decarbonised practices.

In addition, the Communication indicates that these tax related measures will be paired with further actions to scale down and phase out fossil fuel subsidies.

Recommendations to Member States regarding tax incentives are scheduled to be issued in the second quarter of 2025, and taxpayers operating in the EU should closely monitor how individual Member States choose to make use of the EC recommendations.

Clean Industry State Aid Framework proposal

On 11 March 2025, the EC launched a consultation on its draft Clean Industry State Aid Framework (CISAF) proposal. This sets out the conditions under which State aid for certain investments – including allowing Member States to provide support in the form of qualifying tax incentives under the Clean Industrial Deal above – would be considered compatible with the internal market without unduly distorting competition.

The CISAF proposal also touches on cases where Member States implement general tax incentives to the benefit of users of clean technology, which directly contributes to the transition towards net-zero economy by reducing or removing greenhouse gas emissions. Such measures, which do not favour certain undertakings specifically, would in principle not fall foul of the EU State aid rules.

By contrast, where the incentives are selective and therefore involve State aid, the CISAF proposal outlines the requirements for such aid measures to be considered compatible with the internal market:

- Qualifying tax incentives: the aid needs to be granted in the form of aid schemes that consist in accelerated depreciation, up to full and immediate expensing, of costs incurred for the acquisition of eligible assets.
- Eligible assets: Eligible assets are defined as relevant equipment for the transition towards a net-zero economy, namely batteries, solar panels, wind turbines, heat pumps, electrolysers, and equipment for carbon capture usage and storage (CCUS).
- Additional conditions: Eligible assets must be used primarily for the activities of the benefitting company and remain associated with these activities for at least five years (or three years for SMEs). They must be depreciable (immediate expensing is not allowed for assets depreciable over a period of more than 15 years) and must be purchased under market conditions from third parties unrelated to the buyer. Eligible assets must be included in the assets of the company that receives the support.

The requirements would apply to all measures notified as from the date of entry into force of the CISAF. They would also apply to measures notified prior to this date, including those notified under the current Temporary Crisis and Transition Framework (TCTF) that was adopted on 9 March 2023.

It is proposed that the CISAF will replace the existing TCTF and will be in force until 31 December 2030. The costs eligible for accelerated depreciation must be incurred, and the accelerated depreciation must start, no later than that date of expiry.

Interested parties are invited to respond to the consultation by 25 April 2025. Simultaneously, the proposal will be discussed in a multilateral meeting with the Member States. The Framework is scheduled to be adopted by June 2025.

EU Council reaches political agreement on DAC 9

On 10 March 2025, the Council of the EU reached political agreement on a further amendment of Directive 2011/16/EU on administrative cooperation in the field of taxation (DAC 9), just five months after the European Commission (EC) presented its proposal and following the opinions of the European Parliament and the European Economic and Social Committee.

DAC 9 complements the Pillar Two Directive by streamlining filing obligations for multinational enterprise groups (MNEs) that are within its scope. It introduces a centralised framework for the exchange of the information contained in those filings, and in doing so provides significant simplification for business, enabling MNEs to file only one top-up tax information return, at central level, for the entire group, as opposed to multiple filing being made by each constituent entity of the MNE group, at local level.

This simplification is largely expected to be the main tool used by MNEs to comply with their filing obligations under the Pillar Two Directive. Member states need to implement the directive into national legislation by 31 December 2025. MNEs are expected to file their first top-up tax information return by 30 June 2026, as required under the Pillar Two Directive. The relevant tax authorities must exchange this information with each other by 31 December 2026, at the latest.

Singapore Budget 2025

Finally, Singapore's Budget for 2025 contains various tax measures designed to reinforce the region's position as a key hub for investment and innovation. Some of the key corporate tax measures are set out below.

There are various direct and indirect tax incentives for entities listed on Singapore equity exchanges. In particular, there will be a new Corporate Income Tax (CIT) rebate for new corporate listing in Singapore. Open for award until 31 December 2027, a 20% CIT rebate will be available for primary listing, and 10% CIT rebate for secondary listings with share issuance, to companies and registered business trusts that are tax resident in Singapore.

Section 13W, which provides upfront certainty of non-taxation of companies' disposal gains, will be enhanced by: removing the sunset date of 31 December 2027; expanding the scope of eligible gains to include gains from the disposal of preference shares that are accounted for as equity by the investee company; and allowing the assessment of the shareholding threshold condition to be done on a group basis

There will also be an extension of the Mergers and Acquisitions (M&A) Scheme (which allows an M&A allowance on the purchase consideration of the acquisition of qualifying shares by Singapore company in another company) by another five years until 31 December 2030.

To encourage innovation, a 100% tax deduction will be available for payments made by companies under an approved Cost Sharing Agreement innovation activities starting from 19 February 2025. The Singapore Economic Development Board will provide further details by 30 June 2025. ■

For related reading visit taxjournal.com
- International review for February (T Sarson, 28.2.25)
- The Trump effect: US foreign tax policy (T Velling, 22.1.25)