Euro Tax Flash from KPMG's EU Tax Centre

European Commission publishes work program for 2025

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On February 11, 2025, the European Commission published its work program 2025 outlining its ambition to boost competitiveness, enhance security, and bolster economic resilience in the EU.

From a direct tax perspective, key takeaways include:

- announcement of a so-called “Omnibus simplification packages” aiming to reduce reporting burdens by 25 percent for all companies and 35 percent for SMEs;
- announcement of a proposal for a so-called "28th legal regime," which would allow innovative companies to operate across the EU under a single set of rules, simplifying corporate law, insolvency, labor law, and also taxation;
- finalization of the ATAD evaluation is expected in the fourth quarter of 2025;
- previous Directive proposals including DAC 9, BEFIT, Transfer Pricing Directive, DEBRA, Unshell, Digital Services Tax proposal, Significant Digital Presence proposal, and the Financial Transaction Tax continue to be listed as pending files.

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Background

Following the European Parliament elections in June 2024, the new College of Commissioners was appointed and started its five-year term on December 1, 2024. Ursula von der Leyen remains President of the European Commission for a second term. Key appointments include:

- Wopke Hoekstra as the new Commissioner for Climate, Net Zero and Clean Growth, also responsible for taxation,
- Valdis Dombrovskis as the new Commissioner for Economy and Productivity, who will also support in taxation matters, and
- Maroš Šefčovič as new Commissioner for Trade and Economic Security, who will be the main person to engage on tariffs.

On September 9, 2024, former European Central Bank President, Mario Draghi, presented his Report on the future of European competitiveness including recommendations for the EU centered on innovation, decarbonization, and security (hereinafter "the Draghi Report"). Building on the Draghi Report, the European Commission recently published its Competitiveness Compass on January 29, 2025 as a roadmap for policymaking during the current legislative term, emphasizing these core areas along with measures to simplify the regulatory environment.

In addition, EU Finance Ministers participated in a policy debate focused on enhancing Europe's global business competitiveness through simplification, decluttering, and reducing regulatory burdens during the ECOFIN meeting on January 21, 2025. The discussion was not public, however, according to the Council press release, the ministers strongly endorsed the idea of easing and streamlining reporting requirements for businesses and expressed a united commitment to taking meaningful steps toward regulatory simplification, recognizing it as an effective approach to boosting the competitiveness of the EU economy.

For more information, please refer to E-News Issue 206.

European Commission's work program 2025

On February 11, 2025, the European Commission (EC or the Commission) published its work program 2025 outlining its ambition to boost competitiveness, enhance security, and bolster economic resilience in the EU.

Competitiveness

As part of the European Commission's effort to enhance business competitiveness, the work program includes plans to issue new initiatives, including:

- *28th legal regime:* the work program makes reference to an upcoming proposal to establish a so-called 28th legal regime. According to the work program, this 28th legal regime initiative particularly focuses on new and growing businesses and aims to create a unified legal framework that would apply across the entire EU, operating alongside the 27 national legal systems. The framework seeks to simplify compliance for businesses and reduce administrative burdens operating across multiple Member States by offering a single set of rules in areas such as corporate law, insolvency procedures, labour regulations, as well as tax law. More details are expected to be published in the course of an Innovation Act proposal that the Commission will present later in the mandate. It is currently not clear what tax-related measures may be included in this initiative and whether there is a relationship with the EC's BEFIT proposal for a new legislative framework for corporate taxation in the EU.
- *Clean Industrial Deal initiative:* the work program further announces the upcoming Clean Industrial Deal initiative aiming to boost industrial competitiveness while supporting decarbonization. According to the work program, this will include the development of a new State aid Framework to accelerate the roll-out of renewable energy, strengthen industrial decarbonisation and ensure sufficient manufacturing capacities for clean tech. The Clean Industrial Deal initiative is expected to be published in the first quarter of 2025.

Simplifying rules and effective implementation

Accompanying the work program, the EC published a [communication] on implementation and simplification setting out how the Commission plans, over the next five years, to make implementation of EU rules easier in practice, and to reduce administrative burdens and simplify EU rules.

In this context, the releases indicate plans to present so-called Omnibus packages as simplification proposals addressing interactions between different pieces of EU legislation. According to the accompanying communication, the Omnibus proposals are designed to address the priority sectors identified by stakeholders and mentioned in the Draghi report. With the Omnibus packages the Commission wants to contribute to its goal of reducing reporting burdens by 25 percent for all companies and 35 percent for SMEs.

Whilst the communication notes that the first two omnibus packages on "sustainability" and "investment simplification" are to be issued in the first quarter of 2025, it does not refer specifically to any direct tax measures.

ATAD evaluation

The work program further includes an annual plan for evaluations and so-called "fitness checks" of the EU acquis, ensuring continuity of the simplification and burden reduction efforts.

According to the work program, this includes the evaluation of the Anti-Tax Avoidance Directive (ATAD), which is scheduled to be finalized in the fourth quarter of 2025 (previously expected in the third quarter of 2025).

Interested parties were previously invited to provide feedback to the evaluation of the ATAD until September 11, 2024 – see Euro Tax Flash Issue 548. According to the call for evidence document, the Commission intends to conduct an evidence-based assessment of the ATAD, based on the following five evaluation criteria: effectiveness, efficiency, relevance, coherence with other EU legislation (notably Pillar Two), and the EU added value of ATAD compared to what Member States could have achieved alone.

Note in this context that during his parliamentary confirmation hearing, the new Commissioner for Climate, Net-Zero and Clean Growth, Wopke Hoekstra, committed to focus on streamlining and simplifying EU tax policy and to deliver a holistic effort to declutter tax legislation by 2026.

Existing proposals still on the table

From a direct tax perspective, the work program refers to several existing Directive proposals as "pending". This list includes:

- *Exchange of Top-up tax information returns in the EU (DAC9) - 2024:* The proposal extends the scope of the Directive on Administrative Cooperation (DAC) to establish a framework for the exchange of information under the EU Minimum Tax Directive. Note that the proposal has already been approved by Members of the European Parliament by way of a non-binding resolution that was adopted on February 12, 2025. In a next step, the Directive proposal requires unanimous approval in the Council. Where the Directive is approved in the Council, it would enter into force on the twentieth day following that of its publication in the Official Journal of the EU.
- *Business in Europe - Framework for Income Taxation (BEFIT) - 2023:* The proposal provides for common rules for determining the corporate tax base for EU-based entities that are part of a group with global consolidated revenues above a certain threshold. BEFIT would also include provisions for the allocation of profits to relevant Member States. Once allocated, profits would be subject to the corporate income tax rate of the respective Member State.
- *Transfer Pricing Directive – 2023*: The proposal aims at implementing common Transfer Pricing rules into EU law including the incorporation of the OECD arm's length principle and a reference to the 'OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations' into EU law.
- *Head Office Tax system for micro, small and medium sized enterprises (HOT) - 2023:* The Directive would allow certain EU-based standalone SMEs that operate in other EU Member States only through permanent establishments (PEs) to make a five-year election to determine the taxable results of the PEs according to the rules of the Member State of their head office.
- *Debt-equity bias reduction allowance (DEBRA) - 2022:* The proposal provides for an allowance in respect of equity increases in a given tax year. In addition, the Directive proposes the introduction of a new limitation on interest deductibility, which would need to be applied alongside the interest limitation rules under ATAD.

- *Rules to prevent the misuse of shell entities for tax purposes (Unshell) - 2021:* The initial proposal set out a list of indicators to filter entities at risk of being misused for tax purposes. High-risk entities would then be required to report on a series of substance indicators through their annual tax return. Companies failing to meet the substance indicators would be deemed to be 'shell' entities, potentially triggering tax consequences.
- *EU Digital Services Tax – 2018:* Proposed coordinated approach to taxing revenues from certain digital services to avoid potential disparities arising within the EU as a result of the unilateral application of digital service taxes.
- *Corporate taxation of a significant digital presence - 2018:* Proposed introduction of a taxable nexus for digital businesses operating within the EU.
- *Enhanced cooperation in the area of financial transaction tax (FTT) - 2013:* Proposed introduction of a tax on qualifying financial transactions.

Directive proposals withdrawn

The work program notes that the proposal for a revised Interest and Royalties Directive (IRD) from 2011 has been deemed obsolete in light of the EU Minimum Tax Directive. It is noted that remaining issues will be addressed through an upcoming Omnibus act as part of the simplification process.

It is also noted that the 2020 proposal for the codification of the DAC is deemed obsolete in light of significant amendments to the DAC in the meantime. In this context, note that end of 2024, the Commission published a report providing a summary of the contributions made by stakeholders as part of a comprehensive evaluation aimed at assessing the effectiveness, efficiency, and ongoing relevance of the DAC and its subsequent amendments (DAC2 to DAC6). According to the report, the data collected from the consultation activities will from part of the final report detailing the conclusions drawn on the second DAC evaluation. This report is due to be submitted to the European Parliament and the Council in early 2025.

Note that the withdrawal of Commission proposal needs to be formally published in the EU Official Journal in order for the legislative process to end.

ETC Comment:

The EC's work program 2025 suggests that there are currently no specific plans for the European Commission to put forward new tax proposals. The focus seems to be instead on simplifying existing EU tax legislation and on reducing the administrative burden. However, the Omnibus bill mentioned in the work program in the context of the IRD withdrawal is not expected before early 2026 and it is not yet clear what the focus of that bill will be.

As regards the European Commission's upcoming Clean Industrial Deal initiative, Commissioner Hoekstra noted during a hearing before the European Parliament's Subcommittee on Tax Matters (FISC) on February 6, 2025, that this may take into consideration immediate expensing and accelerated depreciation incentives with a view to encourage businesses to invest in clean tech production. Such measures are likely to be in the form of best practices for Member States to consider rather than an EU-wide hard law initiative.

The concept of a 28th legal regime was initially proposed in the Draghi report as a means to give innovative start-ups access to harmonized legislation (including a few aspects of taxation). Whilst no further details have yet been made public, during the hearing with the FISC Subcomittee, Commissioner Hoekstra indicated considerations to apply such new regime potentially also in a broader context (i.e., not only for new and growing businesses) subject to feedback from EU Member States. The Commissioner further noted that the BEFIT initiative may further contribute to the Commission's aim of enhancing the EU's competitiveness.

At the same time, it should be noted that the Commission decided not to withdraw certain Directive proposals that have made little process since their initial release:

- *Proposal for a Transfer Pricing Directive:* The December 2024 report of the ECOFIN Council on the progress achieved during the term of the Hungarian Presidency indicated that the majority of Member States see no possibility in making further progress on the basis of the Commission proposal in its current form. However, the work program still lists the Transfer Pricing proposal as pending. In the course of the exchange with the FISC Subcommittee, Commissioner Hoekstra noted ongoing work on the proposed alternative approach in form of a new EU Transfer Pricing Platform. No formal indication has been given as to whether Member States would be required to commit to respecting the outcome of any views adopted by the Platform. Note that Article 296(3) TFEU prevents the Council from discussing and adopting acts that are considered to compete against pending Commission proposals. As such, it remains to be seen whether discussions on a new Platform will continue within the framework of the Transfer Pricing Directive proposal, or whether the Directive will ultimately be withdrawn in favor of a different instrument.
- *DEBRA proposal:* The examination of the DEBRA Directive proposal has been suspended at Council level since end of 2022. Nevertheless, the EC 2025 work program continues to list the DEBRA proposal as a pending file. This aligns with previous comments made by Commissioner Hoekstra on the DEBRA initiative in the context of solutions for removing tax obstacles for the functioning of the EU capital markets. The Commissioner had noted that he intends to discuss the future of the DEBRA proposal with the Member States.

For more information on pending EU direct tax initiatives, please refer to our year-end overview in Euro Tax Flash Issue 553.

Should you have any queries, please do not hesitate to contact KPMG's EU Tax Centre, or, as appropriate, your local KPMG tax advisor.

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