

Euro Tax Flash from KPMG's EU Tax Centre

EU Clean Industrial Deal – Upcoming new State aid framework and recommendations on tax incentives

Issue 556

February 26, 2025

On February 26, 2025, the European Commission published its Communication on a Clean Industrial Deal providing for a joint roadmap for competitiveness and decarbonization in the EU.

From a direct tax perspective, key takeaways include:

- Intention to issue recommendations for EU Member States to adopt tax incentives to support the Clean Industrial Deal, including shorter depreciation periods for certain technology assets and the use of tax credits for businesses in strategic sectors for the clean transition.
- Proposal for a new Clean Industry State Aid Framework to be adopted by June 2025, which would build on the current Temporary Crisis and Transition Framework and outline, amongst others, conditions for tax incentives to be considered compliant from an EU State aid perspective when introduced as selective measures.



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Background

Article 107 of the Treaty on the Functioning of the EU (TFEU) generally prohibits advantages in any form conferred by national public authorities to undertakings on a selective basis (State aid¹), unless exceptionally justified. One exception is provided under Article 107(3)(b) TFEU, which considers aid compatible with the internal market where it is intended to remedy a serious disturbance in the economy of a Member State (or across the EU economy).

In this context, on March 23, 2022, the European Commission (Commission or EC) adopted a Temporary Crisis Framework (TCF) allowing Member States to provide State aid to companies impacted by the conflict in Ukraine. The TCF set out temporary State aid measures that the EC considered compatible with the EU internal market and that can be approved rapidly upon notification by each Member State.

Following several amendments and prolongations, the TCF was replaced by the Temporary Crisis and Transition Framework (TCTF) on March 9, 2023, as part of the broader Green Deal Industrial Plan for the Net Zero Age. The TCTF expanded and further simplified the provisions for support to accelerate renewable energy deployment and industrial decarbonization. Under the TCTF, Member States are allowed to provide investment support for the manufacturing of strategic equipment (e.g., batteries, solar panels, wind turbines, heat-pumps, electrolyzers and carbon capture usage and storage) for the transition towards a net-zero economy. Amongst others, the support can be structured as direct grants or as tax advantages (e.g., tax credits), loans or guarantees subject to certain caps and limitations. For more information, please refer to Euro Tax Flash Issue 508.

The sections of the TCTF covering support to accelerate renewable energy deployment, industrial decarbonization, and investments in key sectors for the transition to a net-zero economy are generally applicable until December 31, 2025. According to a Commission [release](#), around EUR 796 billion of aid was approved in the period March 2022 to June 2024 either under the TCTF or directly under the Treaty and based on TCTF principles. Around EUR 219 billion was actually granted to companies, representing 27 percent of the aid approved and corresponding to 0.5 percent of the EU GDP in 2022, 2023 and the first half of 2024. Examples of approved direct tax related measures under the TCTF include tax credits for investments supporting green transition in France (approved in January 2024) as well as in Finland (approved in February 2025) – see E-News [Issue 189](#) and [Issue 201](#) for more information.

As part of its 2025 work program, the Commission recently announced the intended release of the Clean Industrial Deal initiative aiming to boost industrial competitiveness while simultaneously supporting decarbonization. According to the work program, this would include the development of a new State aid Framework to accelerate the roll-out of renewable energy, strengthen industrial decarbonization and ensure sufficient manufacturing capacities for clean tech. The EC's Competitiveness Compass also indicated - in the context of the Clean Industrial Deal - an intention to encourage Member States to adjust their tax systems to support private investment in clean technologies, including through depreciation rules and tax credits.

Building on Mario Draghi's report on Europe's future competitiveness (the Draghi Report), both the EC's Competitiveness Compass Communication and 2025 work program further indicated the release of an "Omnibus simplification package" to reduce reporting burdens by 25 percent for all companies and 35 percent for SMEs, and a proposed "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.

For more information on the EC 2025 work program and Competitiveness Compass, please refer to Euro Tax Flash [Issue 555](#) and E-News [Issue 206](#).

European Commission's Clean Industrial Deal Communication

On February 26, 2025, the EC [published](#) its Clean Industrial Deal Communication (the Communication), providing a comprehensive workplan for the development in the EU of a competitive, decarbonized industry.

¹ It is settled case law of the Court of Justice of the European Union (CJEU) that a national measure qualifies as illegal 'State aid' under EU law when the following conditions are fulfilled:

1. there must be an intervention by the State or through State resources,
2. the intervention must be liable to affect trade,
3. the intervention must confer a selective advantage on the beneficiary, and
4. it must distort or threaten to distort competition.

According to the Communication, the EC aims to increase sustainable and resilient production in Europe by focusing on two interlinked sectors: support to *energy-intensive industries* to confront high energy costs, unfair global competition and complex regulations, harming their competitiveness; and support the *clean-tech sector*, which is seen as a key enabler of industrial transformation, competitiveness and decarbonization.

Overview of the Clean Industrial Deal

The Clean Industrial Deal comprises the following six building blocks:

- *Access to affordable energy*: the Commission [presented](#) on February 26, 2025 an Affordable Energy Action Plan proposing measures to lower energy bills in the short term, while accelerating the implementation of cost-saving structural reforms and strengthening the EU energy systems to mitigate future price shocks. As regards measures to lower energy bills, the Action Plan calls on the Council to complete the revision of the Energy Taxation Directive proposed in 2021. The Action Plans further recalls that the current Energy Taxation Directive allows Member States to decrease electricity taxation down to zero for energy intensive industries. Against that background, the Action Plan indicates the EC's aim to issue a recommendation to Member States in the fourth quarter of 2025 on how to use such flexibilities and ensure across all sectors that electricity is taxed less than other energy sources while pursuing our long-term decarbonization objectives.
- *Lead markets - boosting clean supply and demand*: includes plans on using non-price criteria in public procurement and incentives for private purchases. According to the Communication, this will include the development of a voluntary label on the carbon intensity content of industrial products in the fourth quarters of 2025, which may be used by Member States to design tax incentives and other support schemes. This building block further focuses on measures to promote the uptake of renewable and low-carbon hydrogen.
- *Public and private investments*: includes measures to strengthen EU-level funding, leverage private investment, and establish a new Clean Industry State Aid Framework in the second quarter of 2025, along with other forms of support. As explained in further detail in the next section, the Communication further indicates that the EC will provide recommendations for Member States to adopt tax incentives that support the Clean Industrial Deal and that are in line with State aid rules.
- *Powering the circular economy - a secure access to materials and resources*: includes measures to secure access to critical raw materials and resources as well as measures to allow transformational steps towards a circular economy. In this context, the Communication indicates that the Commission will review the rules on the second-hand scheme contained in the VAT Directive as part of a broader green VAT initiative, indicated for the fourth quarter of 2026.
- *Global markets and international partnerships*: includes a focus on establishing clean trade and investment partnerships and refining the Carbon Border Adjustment Mechanism (CBAM). As regards CBAM, as part of a broader Sustainability Omnibus also published on February 26, 2025, the Commission [published](#) a CBAM simplification package in the form of a proposal to amend the CBAM regulation aimed at simplifying processes for businesses and reducing the related administrative burden. According to the Communication, the EC further aims to present a comprehensive CBAM review report in the second half of 2025 and a legislative proposal on the extension of CBAM in the first quarter of 2026. This building block also aims at ensuring that foreign investments in the EU better contribute to the long-term competitiveness of EU industry, its technological edge and economic resilience, as well as the creation of quality jobs in the EU. According to the Communication, this will include the adoption of guidelines on key concept underpinning the Foreign Subsidies Regulation to assess the distortive effects of foreign subsidies. Guidelines on the Foreign Subsidies Regulation are scheduled to be published in the first quarter of 2026.
- *Skills and quality jobs for social fairness and a just transition*: includes developing skills, creating quality jobs, supporting workers during transitions, and implementing social leasing for clean products to ensure a fair and equitable transition.

Recommendations for tax incentives

According to the Clean Industrial Deal Communication, corporate tax policies are considered to be a key measure to reach the objectives of the Clean Industrial Deal and should be designed in a way to support a clean business case (i.e., instead of disadvantaging clean energy compared to fossil fuels).

As such, the Commission intends to issue recommendations for Member States to adopt tax incentives to support the Clean Industrial Deal. According to the Communication, this may include:

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

The Communication further notes that the EC intends to integrate such instruments in its compatibility rules under the new Clean Industry State Aid Framework. In addition, it is indicated that these tax related measures will be paired with further actions to scale down and phase out fossil fuel subsidies.

According to the EC Communication, the recommendations to Member States regarding tax incentives are scheduled to be issued in the second quarter of 2025.

New Clean Industry State Aid Framework

The Communication notes that the Commission's proposal for a new Clean Industry State Aid Framework will be developed with a view to further accelerate the roll-out of renewable energy, to deploy industrial decarbonization, and to ensure sufficient manufacturing capacity of clean tech.

According to the EC Communication, the proposal will build on the TCTF adopted on March 9, 2023 and will allow separate support schemes for specific technologies such as wind and solar, and further facilitate support for additional manufacturing of clean-tech products, such as batteries and renewable technologies by updating the State aid rules for investments in certain strategic net-zero equipment manufacturing capacity. The EC release further notes that the Commission will also reflect on a further simplification of the State aid rules to prioritize work on the most distortive aid measures and accelerate authorizations of compatible aid.

According to the EC Communication, the Clean Industry State Aid Framework is scheduled to be adopted by June 2025.

ETC Comment:

Whilst the EC's work program 2025 suggested that there are currently no specific plans for the Commission to put forward new tax proposals in the form of Directives, direct tax measures remain an area of focus for the Commission as enablers to boost competitiveness and decarbonization.

As a result, taxpayers operating in the EU may want to monitor closely how individual Member States choose to make use of the EC recommendations to adopt tax incentives such as tax credits and shorter depreciation periods whilst respecting the upcoming new EU State aid guidelines.

Note that a number of European jurisdictions have already introduced new incentives or revised existing incentives in light of the implementation of Pillar Two. Other jurisdictions are still in the process of evaluating how to reform their existing incentives frameworks to ensure efficiency and mitigate an unfavorable impact on the effective tax rate under the GloBE rules. For more information on how countries may be incentivized to adjust their tax systems and on which legislative actions have already been taken or are being considered locally, please refer to KPMG's dedicated [article "Pillar Two and Tax incentives"](#).

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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