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Update on EU direct tax developments

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On March 11, 2025, the Economic and Financial Affairs Council ("ECOFIN") adopted conclusions to guide the European Commission in its goal to simplify EU legislation. The Council calls on the Commission to present a work plan in this respect by the third quarter of 2025.

In addition, the ECOFIN Council reached political agreement on a proposal for an extension of the Directive on Administrative Cooperation to establish a framework for the exchange of Pillar Two information between Member States (DAC9). The proposal introduces a standard template for the Top-up tax information return (closely following the GloBE Information Return template developed by the OECD) and provides the option of central filing of the Top-up tax information return in the EU, where the EU Ultimate Parent Entity or designated filing entity files on behalf of the group in an EU Member State.

On the same day, the European Commission launched a public consultation on its proposal for a new Clean Industry State Aid Framework, 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

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 (Commission or EC) outlined, in both the Competitiveness Compass Communication (released on January 29, 2025) and its 2025 work program (released on February 11, 2025), an ambition to boost competitiveness and simplify EU legislation. Among others, the Commission announced the release of a so-called "Omnibus simplification package" to reduce reporting burdens by 25 percent for all companies and 35 percent for SMEs.

The first two Omnibus simplification packages were published by the EC on February 26, 2025, and include proposals to simplify and streamline the EU Corporate Sustainability Reporting Directive (CSRD), the EU taxonomy (a classification system for companies to identify which economic activities are considered sustainable), the Corporate Sustainability Due Diligence Directive (CSDDD) and the Carbon Border Adjustment Mechanism (CBAM).

During his parliamentary confirmation hearing, the new Commissioner for Climate, Net-Zero and Clean Growth (and Taxation) – Wopke Hoekstra, had also already indicated plans to streamline and simplify EU tax policy including a "holistic" tax simplification package that the Commission wants to present in early 2026.

In line with the simplification objectives, the Commission, on October 28, 2024, had released a proposal for an extension of the Directive on Administrative Cooperation (DAC) to establish a framework for the exchange of Pillar Two information between Member States (DAC9). The DAC9 proposal introduces a standard template for the Top-up tax information return, which closely follows the template developed by the OECD for the GloBE Information Return (GIR). The DAC9 proposal provides the option of central filing of the Top-up tax information return in the EU, where the EU UPE or designated filing entity files on behalf of the group in an EU Member State. In addition, the proposal includes provisions for the exchange of Top-up tax information between Member States.

As part of its agenda to boost competitiveness, the Commission previously also announced plans to issue recommendations for EU Member States to adopt incentives including shorter depreciation periods for certain technology assets and the use of tax credits for businesses in strategic sectors for the clean transition. In this context, the Clean Industrial Deal Communication (released on February 26, 2025) made reference to an upcoming proposal for a new Clean Industry State Aid Framework. According to the Communication, the new framework would build on the current Temporary Crisis and Transition Framework and would outline, amongst others, conditions for tax incentives to be considered compliant from an EU State aid perspective when introduced as selective measures.

Tax decluttering and simplification agenda

On March 11, 2025, the ECOFIN Council adopted conclusions setting a tax decluttering and simplification agenda with a view to contributing to the EU's competitiveness. The conclusions represent the Council's views and aim to guide the Commission on possible upcoming initiatives in the field of taxation, in the context of improving the EU's competitiveness and reducing administrative and reporting burdens whilst preserving the EU achievements in terms of combating tax fraud, evasion and avoidance.

Council conclusions on a tax decluttering and simplification agenda

With respect to existing EU legislation, the Council conclusions call on the European Commission to reduce the reporting, administrative and compliance burdens and eliminate outdated and overlapping rules by reviewing pieces of regulation that aim to achieve similar objectives and that could therefore be considered redundant.

In a first step, the Council conclusions propose that this process could take into consideration the review of the Directive on Administrative Cooperation (DAC), in particular in relation to reportable cross-border arrangements (DAC6), as well as the Anti-Tax Avoidance Directive (ATAD). The report detailing the conclusions from the DAC evaluation is due to be submitted to the European Parliament and the Council in early 2025, whereas the finalization of the ATAD evaluation is scheduled for the fourth quarter of 2025 (as per the EC's 2025 work program).

According to the Council conclusions, the process should not be limited to the DAC and the ATAD but should also cover a review of the complete EU taxation acquis, including indirect taxation. The conclusions further note that the process should also take into consideration the decluttering exercise currently being developed at the OECD, where appropriate.

In addition, the conclusions invite the Commission to continue the use of impact assessments within existing rules and to further enhance their quality, including by strengthening the application of SME tests and by assessing the expected effects on the EU's competitiveness and their contribution to the tax simplification and decluttering agenda. The Council conclusions further propose increased clarity of the tax legislation and a more consistent approach to the application of EU tax rules, for example by developing guidelines in close cooperation with Member States, where relevant.

Finally, the Council conclusions note that the Commission should ensure that the principles of simplification and decluttering are applied in the development of any future legislative proposals and that the involvement of Member States should be increased when performing this exercise.

Next steps

The Council conclusions call on the Commission to provide Member States with an initial report and envisaged work plan in respect of its tax simplification and decluttering agenda before the end of the third quarter of 2025.

Moreover, the conclusions call upon the upcoming Council Presidencies to add the progress on simplification and decluttering to the agenda of Council working group meetings and to the list of items reported on in the ECOFIN report to the European Council on tax issues.

Exchange of Top-up tax information returns in the EU (DAC9)

On March 11, 2025, the ECOFIN Council also reached political agreement on a DAC9 compromise text introducing a framework for the exchange of Pillar Two information between EU Member States.

March 7 compromise text

The agreed compromise text introduces some changes compared to the initial proposal released on October 28, 2024. The final compromise text incorporates the latest standard template for the GIR published by the OECD in January 2025, which groups that are in scope of the Pillar Two rules will use to meet their filing obligations (the previous proposal made reference to the GIR template and explanatory notes that were published by the OECD in July 2023).

With respect to implementation in the EU of any future amendments to the OECD GIR template, the initial proposal granted the Commission the authority to amend the standard template of the Top-up tax information return as needed via delegated acts, allowing it to incorporate international updates without prior consultation with EU Member States. This proposed approach raised concerns among Member States regarding the extent of power it would grant to the EC.

As a result, the final compromise text provides that future updates to the Top-up tax information return (Annex VII) will be implemented through a new Council Directive each time a change is required. However, in order to recognize the importance of the commitment of all Member States that the standard form of the Top-up tax information return should remain in line with the standard template of the GIR, the Council, together with the EC, agreed on a Council statement. According to this statement, the EC committed to tabling the necessary proposals to amend Section IV of the Annex VII in an expedited manner to align with relevant international developments, and the Council committed to acting swiftly to allow this alignment.

The compromise text further clarifies the exchange of information with Member States that have opted for a deferral of the application of the IIR and UTPR pursuant to Article 50(1) of the EU Minimum Tax Directive. Information will be exchanged with these Member States for the first time in the year following the end of the deferral period. However, for EU Member States that have opted for a deferral but have implemented a QDMTT, the first reporting fiscal year for information exchange will be the first year in which the QDMTT applies.

Amendments brought by DAC9 to the automatic exchange of financial accounts information between EU Member States

DAC9 also introduces several amendments to the article prescribing the exchange of financial accounts information between EU Member States (DAC2). These changes reflect the additional reporting requirements for financial institutions introduced by Directive 2023/2226 (DAC8) and ensure that the newly reported information is effectively exchanged between Member States.

Next steps

The European Parliament adopted its non-binding opinion on the DAC9 proposal on February 12, 2025. According to the Council press release, it is therefore possible for the Council to formally adopt the Directive once legal linguistic revisions are completed. Once adopted by the Council, the Directive will enter into force on the day after its publication in the Official Journal of the EU.

The agreed compromise text requires Member States to transpose the Directive into domestic law by December 31, 2025. The Directive will apply as from January 1, 2026 and the first exchange of information will occur no later than six months after the filing of the first top-up tax information return. For calendar year taxpayers, the first exchange will take place after their first filing deadline on June 30, 2026, with exchanges to be made by December 31, 2026, at the latest.

For Member States that have opted to defer the implementation of the Income Inclusion Rule (IIR) and Undertaxed Profits Rule (UTPR) according to Article 50(1) of the EU Minimum Tax Directive, the transposition deadline would be the day before the end of the deferral period, with the new rules applying from the date after the deferral ends. However, as an exception, Member States that have deferred the IIR and UTPR but have opted to apply a Qualified Domestic Minimum Top-up Tax (QDMTT) will need to transpose the Directive by the first fiscal year for which the QDMTT is applied.

Consultation on new Clean Industry State Aid Framework proposal

On March 11, 2025, the Commission launched a consultation on its proposal for a new Clean Industry State Aid Framework (CISAF).

The draft CISAF aims to set out the conditions under which State aid for certain investments would be considered compatible with the internal market without unduly distorting competition. According to the EC release, the new proposed framework is intended to encourage Member States to set up aid measure (where appropriate) that further accelerate the roll-out of renewable energy, facilitate industrial decarbonization, and ensure sufficient manufacturing capacity of clean tech.

Aid to support demand for clean technology equipment in form of accelerated depreciation

From a direct tax perspective, a key element of the CISAF proposal is allowing Member States to provide support in the form of qualifying tax incentives for the acquisition of clean technology assets required for the transition to a net-zero economy.

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 favor certain undertakings specifically, would in principle not fall within the scope of Article 107(1) of the TFEU, i.e., would not involve State aid.

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, electrolyzers, 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 March 9, 2023.

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

Next steps

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

According to the EC Communication, the CISAF is scheduled to be adopted by June 2025.

ETC Comment:

Decluttering

Decluttering and simplification measures are currently a top priority for the Polish presidency and are expected to remain a focus for the upcoming presidencies, as indicated by a number of Ministers of Finance during the March 11 ECOFIN meeting. The Danish Minister of Finance highlighted that they look forward to discussing new measures aimed at reducing compliance costs and administrative burdens, with the Danish Presidency scheduled for the second half of 2025. Similarly, the Cypriot Minister of Finance expressed support for the reduction of administrative regulations and reporting burdens, noting that simplification will be a priority during the Cypriot Presidency in the first half of 2026.

Meanwhile, it remains to be seen whether the European Commission will pick up any of the recommendations that Germany and the Netherlands shared in a joint position paper that was submitted to the Dutch Parliament on February 6, 2025. The paper included a proposal to phase out DAC6 hallmarks that have proved to be non-effective. The joint paper also referred to the ATAD CFC rules, interest limitation rules and anti-hybrid mismatch rules, which – the paper notes, could benefit from common guidance to increase clarity and certainty. The paper further referred to the Parent-Subsidiary Directive, the Interest and Royalties Directive, and the Merger Directive as tax files that could be evaluated in this context. According to the paper, the EC should also evaluate potential overlaps between the GloBE Information Return and non-public Country-by-Country Reporting.

Taxpayers may also want to monitor future discussions on new EU own resources in the context of the EU budget for 2028-2034 that is being prepared by the Commission. Members of the European Parliament are drafting a non-binding resolution on the EU budget, which may include proposals for new own resources, such as a financial transaction tax, a digital levy, or a tax on e-commerce. Note, however, that the European Parliament has relatively weaker involvement in the EU budget adoption process compared to the Council and there has been no indication as to the extent to which these proposals will feature in the EC's proposals.

DAC9

With regard to DAC9, it is important to keep in mind that Directive does not address any other form of local filing requirements beyond the Top-up tax information return. In the explanatory notes to the proposed Directive, the Commission makes the point that jurisdictions should generally refrain from requiring the reporting of additional data points beyond the Top-up tax information return as part of their routine tax return and payment requirements. However, a number of Member States have already introduced additional notification, registration and filing requirements in relation to Pillar Two compliance. MNEs and large scale domestic groups should therefore carefully monitor such additional requirements in each EU jurisdictions that they operate into. For an overview of administrative requirements, please refer to the KPMG BEPS 2.0 tracker in Digital Gateway.

It is furthermore important to note that the proposal does not address exchanges with non-EU jurisdictions. The expectation is that Top-up tax information returns filed by in-scope groups outside of the European Union (i.e., by a non-EU UPE or designated filing entity) will be shared with other relevant tax authorities (including in EU Member States) based on exchange relationships to be activated through the GIR Multilateral Competent Authority Agreement ("GIR MCAA") that was released by the OECD in January 2025. The mechanisms provided for under DAC9 will not be relevant in such situations.

By implementing the Top-up tax information return in line with the GIR (as published in January 2025), Member States would be required to report on certain data points that are not part of the EU Minimum Tax Directive, but were introduced through additional clarifications released subsequent to the adoption of the EU Directive. This approach is in line with the Commission's view, which was confirmed on several occasions, that the Safe Harbour rules and the Administrative Guidance agreed by the OECD/G20 Inclusive Framework subsequent to the adoption of the EU Minimum Tax Directive are compatible with the EU implementation of the rules.

In addition, the explanatory notes to the proposed Directive provide that the GIR filing instructions (as published in January 2025) are considered a useful source of interpretation for MNEs that file the Top-up tax information return in an EU Member State.

Omnibus proposals

The Ministers of Finance also discussed the EC's Omnibus package proposals aimed at reducing sustainability reporting and due diligence requirements. For more details on the proposals please refer to KPMG's tax alert.

One of the proposals affected by these changes is the Corporate Sustainability Reporting Directive (CSRD), which may have a tax-related component for some entities. Depending on the specific facts and circumstances of each company, reporting on tax matters may be relevant for certain entities in scope of CSRD, provided that tax (as a sustainability matter) meets the double materiality assessment. For more details, please refer to KPMG's EU Tax Centre article.

All Member States expressed support for the general principle of simplification, and a large majority agreed with the so-called 'Stop the Clock' proposal, under which mandatory reporting under the CSRD would be postponed for two years for second and third-wave companies. As a reminder, large public interest entities and large issuers with over 500 employees that were already required to report under the EU's Non-Financial Reporting Directive (NFRD) are required to report under CSRD in FY25 with respect to FY24 (so-called 'wave one'). Other large companies (that meet certain size thresholds) were part of 'wave two' and required to begin reporting from FY26 with respect to FY25 data. 'Wave three' entities are listed SMEs, which were required to collect data starting from FY26 (with the option to opt out until FY28), and start reporting in the following financial year.

However, some jurisdictions raised concerns, noting that the CSRD had already been transposed into their national laws and that in-scope companies had already made efforts to comply with the new reporting requirements. They argued that this would undermine the level playing field across the EU. One Member State specifically requested that the EC suspend all infringement procedures against Member States for failing to meet the CSRD transposition deadline.

Additional relevant links

EU Clean Industrial Deal – Upcoming new State aid framework and recommendations on tax incentives - Euro Tax Flash Issue 556.

EU releases Omnibus proposals – KPMG International tax alert and report by KPMG in the Netherlands.

European Commission publishes work program for 2025 – Euro Tax Flash Issue 555.

European Commission releases Competitiveness Compass communication – E-News Issue 206.

European Commission DAC9 proposal – Euro Tax Flash Issue 551.

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