Global Sustainability Tax Policy Developments

January 2025

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About this document

This document provides a brief update on some of the latest sustainability tax policy developments impacting businesses, with a focus on the US and the EU funding developments. Updates include:

- Key takeaways from President Trump's Day 1 actions
- Inflation Reduction Act and Infrastructure Investment and Jobs Act
- Competitiveness Compass for the EU

This document is up to date as of 31 January 2025. Further updates will be available via gtnu.ey.com. For any questions, please contact the team listed at the end of this document.

1. Key takeaways from President Trump's Day 1 actions

Shortly after taking office, President Trump signed multiple executive orders (EOs)[1]. Of those, the most notable relating to energy and climate are captured below.

- **Withdrawal from the Paris Climate Agreement**: It remains unclear whether the withdrawal will take effect in one year or if the administration intends to bypass the standard notice period.
- **Funding pause:** Disbursement of funds allocated under the Inflation Reduction Act of 2022 (IRA) and Infrastructure Investment and Jobs Act (IIJA) has been suspended for a 90-day review period. This pause only applies to appropriated funds such as grants and loans. Tax credits will not be impacted by this executive order *(see Trump's IRA Agenda" below for more information).*
- **National Energy Emergency Declaration**: This is aimed at accelerating permits for oil, gas and power projects to meet rising electricity demand, especially from data centers. However, with US production already at record levels, the impact remains uncertain. Declaring such an emergency outside of wartime is unusual and could face legal challenges.
- **Electric vehicle (EV) policy changes:** The current 50% EV adoption target has been revoked, unspent charging infrastructure funds frozen, and ending EV tax credits is under consideration.
- **Energy project adjustments:** Offshore wind lease sales have been suspended, freeze on LNG export permits lifted, oil and gas development in Alaska is promoted, and protections on Arctic lands and US coastal waters have been reversed to allow drilling.

Reaction within the US

- Environmental groups have announced plans to challenge listed EOs in court
- The U.S. Climate Alliance, comprising of governors from 24 states representing 60% of the US economy, has committed to achieving emission reduction targets of up to 66% by 2035
- Oil and gas producers such as the American Petroleum Institute and the US Chamber's Global Energy Institute[2] have expressed support for measures intended to encourage domestic energy development, however, state withdrawal from the Paris Agreement increases regulatory ambiguity and risks

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[1] EOs carry the force of law and can implement policies without congressional approval. However, EOs cannot create new laws or allocate funding, as this is a power reserved for Congress. EOs can be challenged in court and overturned if found unconstitutional, or beyond the President's authority. Future administrations can also modify, revoke, or supersede them.

[2] "Trump's climate withdrawal creates rare discord with Big Oil", Reuters, 22 January 2025, accessed via reuters.com.

International reactions

- **UN reaction:** Simon Stiell, UN Climate Chief, speaking at the World Economic Forum (WEF) in Davos, re-emphasized that the global energy transition is "unstoppable"[3], despite the US withdrawal from the Paris Agreement. Stiell highlighted the $2 trillion investment in the transition underscoring the global momentum toward sustainable energy solutions.
- **EU reaction:** Ursula von der Leyen, EU Commission (EC) President, reaffirmed Europe's commitment to collaborate with nations focused on protecting nature and combating global warming. During Davos, von der Leyen launched a new Global Energy Transition Forum to support countries in "bringing clean energy to the communities that most need it"[4].
- **Corporate and financial sector reactions:** Major financial firms have withdrawn from the Glasgow Financial Alliance for Net Zero (GFANZ) and sector-specific groups in response to the US withdrawal from the Paris Agreement. However, other corporates continue to highlight the economic and reputational benefits of pursuing the climate agenda. This corporate divide indicates a growing divergence in the private sectors' approach to sustainability commitments.
- **UK investment managers reaction:** According to analysis by redwheel[5], the new Trump administration will not significantly impact global fossil fuel and clean technology trajectories. They outline two scenarios: one advancing without impediment, and the other facing political hurdles. The analysis also highlights that growing power demand will drive the deployment of grid infrastructure, gas power, and renewables, allowing them to remain economically attractive without IRA support. Additionally, they add that state-level policies can safeguard against federal rollbacks in support for clean technologies, renewables, battery storage, and electric vehicles, reflecting the broader global dynamics.

How EY teams can help

- Monitor policy and regulatory developments to help businesses understand the potential impact on tax positions and strategies
- Help businesses understand dynamics driving policy changes and underlying connections between regional tax policies (e.g., US state and local) and cross-border developments
- Assess – through modeling or other analysis – the potential impact of current and developing tax policy changes on business operations across a business's geographic footprint
- Help develop clear lines of responsibility, communication and knowledge sharing between Tax, Finance, Sustainability, and the C-Suite to collectively support the organization's strategy in light of the changing political landscape

[3] "Leaders at Davos Economic Forum Vow to 'Stay the Course' on Climate Action", New York Times, 21 January 2025, accessed via nytimes.com
[4] Speech by President von der Leyen at the launch of the Global Energy Transition Forum, European Commission, 23 January 2025, accessed via ec.europa.eu
[5] "The energy transition under Trump 2.0: USA and international prospects", redwheel, 21 January 2025, accessed via redwheel.com

2. Inflation Reduction Act: changes to the US incentives landscape

Section 7 of the EO "Unleashing American Energy" does not repeal the Inflation Reduction Act (IRA) or Infrastructure Investment and Jobs Act (IIJA), instead it is a directive to pause any funding disbursements through the two acts until the end of the 90-day review period. This includes funds for EV charging stations. Agencies are required to review their processes and policies for issuing financial disbursements to ensure consistency with the law and policy outlined in the order. No funds will be disbursed until approved after the review period. Findings and feedback from this EO are expected to be provided following the 90-day review period.

Aspects not impacted include self-executing tax credit programs within IRA (includes first round and second round 48C awards) and direct pay program (6417 and 6418) via tax credit monetization.

From a future risk consideration perspective, there is no general prohibition against retroactive policy or legislation (outside of criminal law). Claw-backs are rare and often the subject of litigation.

The future of IRA

Despite this EO, only the US Congress can fully repeal the IRA or IIJA. Most of the IRA's provisions are self-executing and not subject to appropriations, so they remain unaffected by the EO, including direct pay provisions. Undisbursed or unallocated funds under IIJA may be impacted as it primarily involves grants (paused under the EO).

A substantial amount of funding from both the IRA and IIJA has already been allocated, and the EO does not mention clawbacks. Refusing to disburse already awarded funds could lead to numerous lawsuits and breach of contract litigation.

A full repeal of the IRA/IIJA is unlikely, as Republican-controlled states and districts are major beneficiaries. A targeted approach to this IRA is more likely as Republican lawmakers look for revenue offsets for the anticipated partisan tax bill. Although Republicans control both houses of Congress, major tax legislation could be difficult to pass quickly with tight voting margins and other pressing policy priorities.

IRA – what potential changes could we see?

- Lawmakers are expected to favor certain types of energy subsidies over others: hydropower, nuclear, carbon capture and storage credits are likely to be retained, whilst wind and EV credits are likely to be cut
- Legislators could cap number of credits available or make it more difficult to meet requirements
- Most likely approach is early termination in eliminating the last few years of eligibility

How EY teams can help

- Review a company's current US footprint and assess incentives feasibility
- Monitor legislative and administrative rules to identify potential changes to relevant federal tax credits and subsidies
- Assist in securing missed and under-utilized incentives packages
- Plan and identify approaches to incentives and potential opportunities/clawbacks
- Implement a compliance management process to retain incentives secured and reduce the possibility of penalties (e.g., Prevailing Wage and Apprenticeship (PWA) compliance reporting)

3. Competitiveness Compass for the EU

On 29 January 2025, the Competitiveness Compass was released[6] and is a cornerstone of the Commission's strategic agenda for 2024-2029. This initiative outlines the EU's economic strategy to strengthen the bloc's global competitiveness, foster innovation, and ensure economic security. It draws on insights from the Draghi ("The future of European competitiveness"[7]) and Letta ("Much more than a Market"[8]) reports and reflects the urgency to address Europe's structural challenges in a rapidly evolving global economy.

The Draghi Report identified three transformational imperatives to boost competitiveness. The Compass sets out an approach and a selection of flagship measures to translate each of these imperatives into reality in the coming years:

1. Closing the innovation gap
2. A joint roadmap for decarbonisation and competitiveness
3. Reducing excessive dependencies and increasing security

Imperatives are supported by horizontal enablers: simplification, lowering barriers of entry to the Single Market, financing competitiveness, promoting skills and quality jobs, and better coordination of policies at an EU and national level. In terms of financing the implementation of actions set out in the Compass, a Savings and Investments Union and a refocused EU budget are two aspects, as outlined below.

Initiatives introduced under the Compass will see incentives and funding opportunities for innovative businesses as seen in the non-exhaustive list below:

1. Closing the innovation gap

Context: The Draghi report highlights that productivity growth results from two main forces: disruptive innovation from dynamic start-ups challenging established firms and efficiency gains in traditional industries that implement said innovations. If either of these forces are weak, overall productivity growth is weak as a consequence.

Proposed actions:

- **Dedicated EU Start-up and Scale-up Strategy:** aimed at eliminating barriers hindering new companies from emerging and expanding. The Strategy will focus on enhancing collaboration between universities and businesses, improving patent commercialization, and addressing issues such as limited access to risk capital and talent mobility.
- **European Innovation Act:** aimed at facilitating innovative companies' access to research and technology infrastructures, promoting patenting, and establishing regulatory sandboxes for testing new ideas. A proposed 28th legal regime will harmonize EU-wide rules, reducing costs and complexities associated with corporate, insolvency, labour, and tax laws, ultimately supporting the growth of innovative companies in Europe.
- **Leading manufacturing companies need to boost R&D intensity and accelerate innovation diffusion**. Forming strategic partnerships with start-ups can aid in developing new products and systems. Future EU research funding will focus on enhancing industrial competitiveness through a more strategic, less bureaucratic approach, supporting the transition from applied research to scaling up.

[6] "A Competitiveness Compass for the EU", European Commission, 29 January 2025, accessed via commission.europa.eu
[7] "The Future of European Competitiveness", Mario Draghi, 9 September 2024, accessed via commission.europa.eu
[8] "Much More Than A Market", Enrico Letta, April 2024, accessed via consilium.europa.eu

2. A joint roadmap for decarbonization and competitiveness

Context: Europe aims to achieve a decarbonized economy by 2050, with an interim target of 90% reduction of net greenhouse gas emissions by 2040 (relative to 1990 levels). A well-aligned framework can enhance competitiveness by providing certainty for companies and investors. The Clean Industrial Deal initiative will promote manufacturing, clean tech, and circular business models, driving growth while meeting decarbonization goals.

Proposed actions:

- **Flexible state aid framework:** The Clean Industrial Deal will promote targeted aid to encourage decarbonization investments and adoption of clean technologies, while minimizing market distortions and enhancing tax incentives for private investment, such as depreciation rules and tax credits.
- **Incentives will be established:** In particular, during the 2026 review of the Emission Trading Scheme Directive, to create a business case for permanent carbon removals aimed at offsetting residual emissions from sectors that are difficult to decarbonize.
- **Circular Economy Act:** Designed to stimulate investment in recycling, encourage use of secondary materials, and reduce landfill and incineration, supported by Ecodesign requirements for key product groups. The European remanufacturing market is expected to grow from EUR 31b to EUR 100b by 2030, creating 500,000 jobs.

3. Reducing excessive dependencies and increasing security

Context: One aspect of addressing the challenges of excessive dependencies will include open trade, creating strong interconnections and diverse supply chains with key partners. The other pathway includes fostering bolstering domestic capacities.

Proposed actions:

- Europe needs to maintain policies aimed at reducing reliance on single or highly concentrated suppliers in key strategic sectors. This can be achieved through recycling, innovation, and research, along with targeted financial support for developing domestic processing or manufacturing capacities. Both strategic pathways are expected to be included in the strategic focus of the future funding plans.

Horizontal enabler: Financing Competitiveness

- The EU faces significant financing needs to achieve its objectives, particularly in innovation, clean transition, and digital technology. To meet these demands, the Draghi report estimates that Europe will require an additional EUR 750-800b annually by 2030, necessitating a rise in the investment-to-GDP ratio by approximately 5 percentage points.
- To address these challenges, the EU needs to improve its ability to attract private investment, particularly from institutional investors, and utilize public funding more effectively. Currently, the EU relies heavily on bank debt financing, while many companies require venture capital and equity investment to thrive. Despite having a household saving rate significantly higher than that of the US[9], the EU's financial sector fails to channel these savings into productive investments.
- To rectify this, the EU aims to create deeper and more liquid capital markets, fostering a greater appetite for risk-taking among private investors. The Commission plans to introduce a **Strategy on a Savings and Investments Union** in 2025, which will promote low-cost saving and investment products and encourage retail investors to participate. Additionally, the Commission will explore the potential of private and occupational pensions to channel savings into the economy and will work to eliminate barriers to market-driven consolidation of financial markets.

Better economic coordination

- Beyond direct public investment, public support is essential to de-risk and unlock private investment. The EU's capacity to finance strategic public investments hinges on the prioritization and coordination of national macro-economic and fiscal policies. The **revised Economic Governance Framework** aims to

[9] "Household saving rates in the euro area and in the US", 15 November 2024, accessed via economy-finance.ec.europa.eu

integrate sustainable fiscal and growth-enhancing policies, allowing for more gradual adjustment paths that provide fiscal space for priority reforms and investments.

Refocused EU Budget

- The **Strategic Technologies for Europe Platform (STEP) Regulation** has initiated the redirection of funding toward industrial projects in critical technologies, simplifying access to EU funding through a single STEP Portal. The next Multi-annual Financial Framework (MFF) presents an opportunity to rethink the EU budget structure, focusing on competitiveness priorities. A **proposed European Competitiveness Fund** will support strategic technologies and manufacturing, leveraging private investments through de-risking financial instruments. Building on the successful implementation of InvestEU, which has mobilized EUR 218b[10], will be proposed to support higher-risk and more scale-up investment in key economic sectors.

How EY teams can help

- Monitor regulatory developments linked to implementation of initiatives as part of the Competitive Compass
- Monitor strategic sector-specific regulations to support better tax, finance and business decision-making
- Identify potential new funding opportunities as part of new initiatives rolled out under the new Competitiveness Compass

Contacts

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[10] "Halfway through its lifetime, InvestEU is…", press release dated 1 October 2024, accessed via ec.europa.eu

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