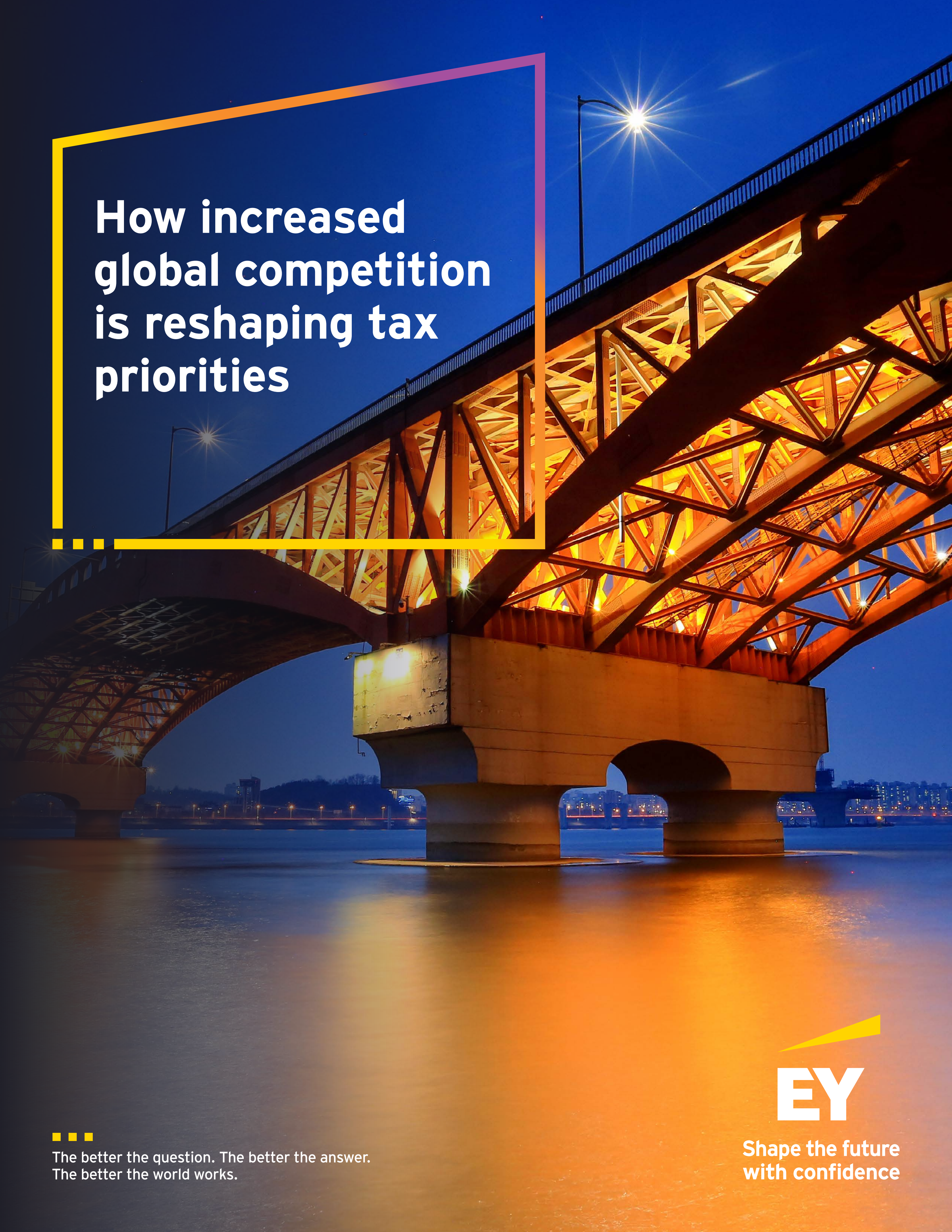

How increased global competition is reshaping tax priorities

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In the time it takes you to read this article, government policies will continue to change around the globe. World leaders are announcing new plans and policy directions on social media, prompting calls to negotiate the implications. New trade tensions are disrupting supply chains in real time while quantum leaps in technology are roiling financial markets and adding uncertainty. After more than a decade of global tax cooperation, a resurgence of tax competition looms as a possibility.

"The pace of change in the world right now is dizzying and tax policy is no exception. As a top tool to implement broader policy goals and with many measures already slated for change, tax policy is anything but predictable right now," says Aruna Kalyanam, EY Global and Americas Tax Policy Leader. The methods and tools governments and businesses have available to implement policy change are also evolving rapidly. "Technology is redefining the tax and finance functions at a pace I have never seen before in business. To succeed in this complex and dynamic era, businesses must be informed, proactive and agile," says Marna Ricker, EY Global Vice Chair of Tax.

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Marna Ricker
EY Global Vice Chair of Tax

National and international political coalitions are forming and reshaping after the many elections in 2024 and early 2025. New and established leaders alike are building relationships and learning to interact as they transition from electioneering to governing. Many governments are focusing on generating more revenue, both from economic growth and new sources, as they prioritize local interests and seek to control deficits. To collect that revenue, tax administrations are intensifying enforcement, increasing transparency and using new tools.

How governments align or diverge in these efforts will impact shared global goals and challenges. The annual *EY Tax Policy and Controversy* Outlook (Outlook) shares the projections of professionals in 71 jurisdictions on what developments they expect in 2025. Gathered at the beginning of 2025, these jurisdiction reports offer local perspectives on the impact of global trends.

Political state

Geopolitics is shifting rapidly.

Over the past quarter-century, amenable nations have worked together toward common goals, achieving remarkable advancements in science, technology, global mobility and more optimized trade. In the realm of taxation, the Base Erosion and Profit Shifting (BEPS) project has unified a number of cross-border rules, like tax reporting and dispute resolution procedures under BEPS 1.0 and ongoing efforts to adopt a global minimum tax of at least 15% under Pillar Two of the BEPS 2.0 project.

Cooperative growth can flourish during times of prosperity; it is a much more complicated aspiration when times are strained. Countries across the world are facing economic strife through inflation and deficits, increasing security risks, global warming and natural disasters. There has been an attitude shift: there is a focus on national sovereignty and trade imbalances, with nationalist tendencies driving more investments in industrial policy focused on homegrown investment and manufacturing.

This nationalist shift is evident in public discourse and election results. New leaders and governments were elected across the world on promises of local prosperity, including in some of the biggest economies. New budgets, priority plans and policies are already being proposed as incoming regimes begin to make their marks.

However, there is still much political uncertainty and instability. Elections are not settled everywhere, and some elected leaders are struggling to form governing coalitions, leading to delay. Geopolitical conflicts add further volatility. All of which will influence tax policy for years to come.

The common need: revenue

Governments are pursuing economic growth policies and looking for new revenue to satisfy their funding needs.

After several tumultuous years of government intervention and emergency spending, countries are facing mounting deficits and still concerned with inflation. With high public debt and elevated interest rates, governments must address competing economic and political priorities, including rising security needs. While correcting budget deficits is a top priority, citizens are weary from inflation. And recent tax protests, like in Kenya and Colombia, could make governments hesitate to increase taxes on their own citizens. Seeking more funds, governments are pursuing economic growth policies, looking at new sources of revenue and bolstering enforcement to avoid austerity.

Economic growth

Economic recovery from the global pandemic has been uneven across countries. While many have experienced modest growth, some, like Germany, have seen contractions. Concerned leaders have pledged new growth policies, including measures to reduce or simplify laws and regulations.

"A main theme of the EU's new agenda is to increase the prosperity and competitiveness of the bloc and individual countries therein," says Rocio Reyero Folgado, EY EMEIA Tax Leader. "The precise impact of the competitiveness agenda on tax policies will become clearer as the individual initiatives are released." The Competitiveness Compass, presented in January 2025, provides a roadmap to growth with emphasis on simplification, innovation, coordination between Member States, lowering barriers to the single market and reducing foreign dependencies. Tax-related measures are expected that aim to remove obstacles from cross-border investment within the EU. For example, the proposed "28th regime," to offer an optional and simplified framework for innovative business that combines tax, corporate law, insolvency and labor law.

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Rocio Reyero Folgado
EY EMEIA Tax Leader

In February, the European Commission presented the first of a series of Omnibus Simplification Packages. This first proposal intends to simplify three disclosure obligations of businesses: the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D) and the EU Taxonomy Regulation. This action answers calls from business leaders and political parties to reduce the impact of recently introduced EU reporting obligations. There are also political calls to delay application of the Carbon Border Adjustment Measure, originally scheduled to take effect in January 2026.

At the same time, EU Member States continue their implementation of initiatives that were already adopted to enhance the functioning of the EU market. In December 2024, EU Member States adopted the Directive on Faster and Safer Relief of Excess Withholding Taxes (FASTER), intended to make withholding tax procedures in the EU more efficient and secure.

Countries outside the EU are also using their tax systems to boost their economic outlook, including by providing and enhancing investment incentives, a long-time favorite government tool to drive growth and simultaneously meet policy goals. However, application of a Pillar Two top-up tax in one jurisdiction can effectively tax the incentive of another jurisdiction, reducing its value. To address this, governments are examining and redesigning their incentives so that they remain valuable to companies.

For example, Singapore introduced the Refundable Investment Credit scheme to encourage companies to invest in key economic sectors and new growth areas, designed to be consistent with the Pillar Two Global Anti-Base Erosion (GloBE) Model Rules for qualified refundable tax credits. With Pillar Two considered, the Philippines is undertaking a program of tax reforms to boost economic growth, attract investments, modernize the tax system and upgrade tax collection efficiency that includes fiscal and non-fiscal incentives. Romania is also expected to amend its research and development (R&D) incentives to be qualified tax credits under Pillar Two.

Looking globally, a quarter of the Outlook survey respondents expect R&D incentives or other business incentives, such as enhanced capital allowances, depreciation or amortization, to increase in their jurisdiction in 2025. Details of these expectations can be found in the attached jurisdiction reports, but a few examples include:

- Germany enacted the Growth Opportunities Act, which enhances loss offsetting, investment and research incentives, tax depreciation and partnership taxation.
- South Korea extended an expanded R&D tax credit (from 20% to 50%) for specified fields through 2027.
- Argentina enacted the Large Investments Incentive Regime (RIGI), which includes significant tax reductions, preferential treatments and a 30-year tax stability regime for companies making new investments.

New and increased taxes

Jurisdictions are also increasing revenue through an array of new and increased taxes. While few jurisdictions are changing their top corporate income tax (CIT), value-added tax (VAT) or personal income tax (PIT) rates, several are proposing limited measures:

- Estonia: a temporary defense tax of two percentage points on each VAT, PIT and CIT, a new motor vehicle tax and increased excise taxes
- France: a temporary new corporate income tax surcharge on large companies of 20.6% on French revenue between EUR1b and EUR3b, and double that for revenue above EUR3b
- Japan: a special defense corporation tax of 4% on corporate tax amounts
- Qatar: a new 5% VAT to be developed in 2025
- Romania: a minimum tax on turnover, special taxes on credit institutions and oil and gas companies, increased dividend tax rate and revival of the construction tax
- Slovakia: a financial transaction tax
- Bulgaria: a windfall tax on the bank and telecom sectors (currently under consideration)

Maximizing tax revenue

Governments are developing new tools to collect what is owed and doing more with the systems that are in place.

Intensifying enforcement efforts

"Scrutiny from tax authorities is increasing, not only across countries, but also within integrated government agencies and joined-up tax authority departments," says Luis Coronado, EY Global Tax Controversy Leader. The United Kingdom, for example, has received funding to hire an additional 5,000 His Majesty's Revenue and Customs employees, leading to increased compliance activity as part of a published plan to close the tax gap. "The number, size and complexity of tax audits is growing, alongside a corresponding growth in the size of penalties," continued Coronado.

According to Outlook contributors, transfer pricing remains — by far — the biggest tax risk for businesses across all regions. However, the tax authorities in different jurisdictions are focused on different aspects. In Hong Kong, authorities are often interested in headquartering and management services transactions and issues related to intellectual property. In Poland, authorities are concerned with determining the market level of remuneration and the reorganization and transfer of functions or brands within a group. The focus in Australia is frequently related-party financing, intangibles and in-bound distributors.

The longstanding model of cooperative compliance is shifting toward mandatory compliance assurance, especially for the largest companies in developed countries. This requires companies to actively demonstrate robust tax governance and provide real-time transparency into their tax operations. These programs emphasize operational tax controls and demand that companies supply comprehensive documentation of their tax control frameworks in order to prove that these frameworks function as intended. While this approach has primarily taken root in developed nations, it is expanding. Tax authorities are grouping companies by risk level, with the result that companies demonstrating strong governance frequently benefit from reduced audit frequency, and those with weaker frameworks face heightened scrutiny. Strong global tax governance is increasingly essential, with countries viewing effective tax compliance frameworks as prerequisites for business operations. This shift underscores the importance of a consistent tax control environment.

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Luis Coronado
EY Global Tax Controversy Leader

Digital advancements to increase collections

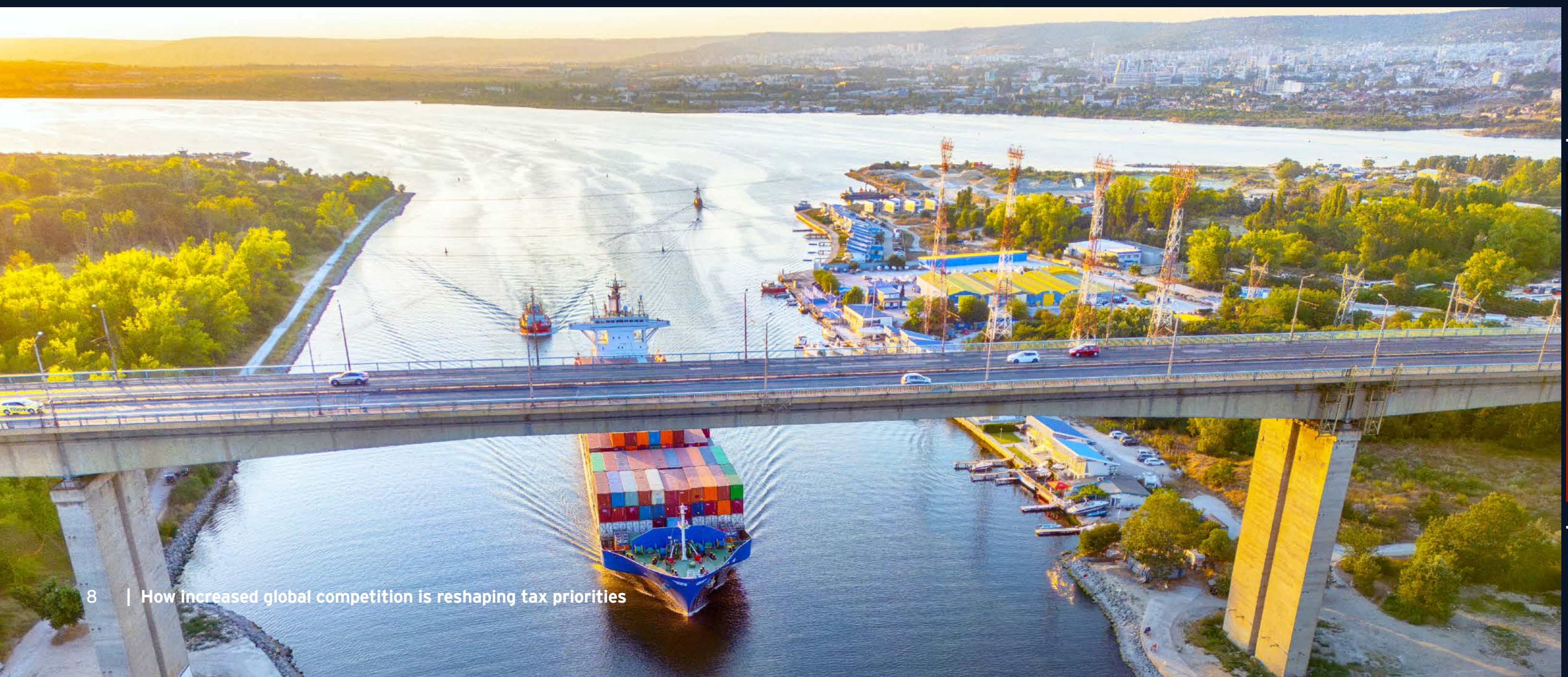
Tax administrations worldwide continue to adopt sophisticated digital systems to streamline operations and reduce fraud risks. E-invoicing is now mandatory in many jurisdictions with more slated, including for all EU business-to-business transactions for all companies in July 2030. However, tax authorities are using many different models, approaches and timelines. For example, Slovakia is requiring e-invoicing and data reporting from domestic transactions to the tax authorities in real time, starting from 1 January 2027. "Approaching compliance piecemeal can create many risks for businesses, while a cohesive strategy can increase efficiency and reduce costs. Businesses need to consider their current system capabilities and develop a plan to comply with evolving regulations, integrate with existing systems, and handle varying invoice requirements and deadlines," says Jean-Pierre Lieb, EY EMEIA Tax Policy and Controversy Leader.

Generative artificial intelligence (GenAI) can streamline compliance processes, allowing tax authorities to automate risk assessment, detect anomalies and select audit cases with greater efficiency and accuracy. Currently, most tax authorities are in the initial stages of GenAI use. Few, if any, have fully integrated GenAI into existing compliance and audit processes, meaning its application remains experimental with gradual implementation rather than transformative shifts. The long-term impact on tax enforcement and operational efficiency is likely to increase over time as tax authorities build the infrastructure, expertise and governance structures necessary for GenAI integration.

Businesses, too, are beginning to leverage GenAI for proactive tax risk analysis, aiding alignment with regulatory standards and reducing audit exposure. According to the forthcoming 2025 *EY Tax Risk and Controversy* survey, 39% of tax and finance executives are using at least one GenAI agent in tax controversy management. Further, according to latest *EY Tax Finance and Operate* survey, 87% of tax and finance professionals say GenAI will make their roles more efficient and effective. GenAI facilitates comprehensive analysis of internal and external data, supporting consistency and allowing corporations to identify inconsistencies, helping in tax controversy preparation.

Growing transparency and disclosure obligations

GenAI can also help businesses to comply with expanding disclosure requirements. Demands are increasing in real time, including but not limited to public country-by-country reporting (CbCR), Pillar Two GloBE information returns, CSRD or spontaneous information exchanges. More information is being required and shared than ever before, and consistency is paramount. This is a challenge because local nuances are emerging as countries have implemented these measures into national law.



The future of ongoing collaboration

Changing political leadership is upending global negotiations.

BEPS 2.0

After two years of steady adoption of Pillar Two taxes and continued negotiations on Pillar One within the Organisation for Economic Co-operation and Development (OECD) Inclusive Framework, BEPS 2.0 is at an inflection point. On his first day in office, U.S. President Trump issued an executive order clarifying that the global agreement has no force or effect in the United States unless Congress adopts its provisions. Further, the order instructed the Treasury Department to analyze whether any countries are not in compliance with any tax treaty with the US or have any tax rules that are extraterritorial or disproportionately affect American companies, and to offer responsive measures that the US could take in response. Congressional adoption of Pillar Two is unlikely – and Republican members of the U.S. House introduced a bill to impose increased US taxes on foreign business activity in the US in response to Pillar Two or similar tax measures enacted by foreign countries. Neither the executive order or proposed bill enact or cancel any existing law, but they do reinforce that the Trump administration and the Republican majorities in Congress are opposed to certain features of the BEPS 2.0 project and have objections as to how the negotiation process has been conducted to date.

However, Pillar Two provisions are in force in almost 50 jurisdictions, with some provisions having taken effect in the EU and other countries already on 31 December 2023. "Regardless of what the future holds, the Pillar Two taxes enacted in almost 50 jurisdictions must be calculated and reporting requirements complied," notes Martin Caplice, EY Asia-Pacific Tax Controversy Leader. Taxpayers are already investing in technology and data management upgrades to meet the compliance requirements of multiple jurisdictions. With disparate rules and deadlines, controversy teams are also preparing to handle conflict and challenges.

With US participation unlikely and retaliation possible, the jurisdictions due to implement Pillar Two soon may delay adoption. Those poised to collect Undertaxed Profit Rule (UTPR) from 1 January 2025 may change course and other Pillar Two implementation measures could be halted. While it is possible Pillar Two could shift without US support, several major jurisdictions have shown strong commitment to Pillar Two rules and have included them in revenue projections. As such, the laws are expected to remain in effect through 2025 and during any further global negotiations. Unwinding of Pillar Two or extending any of the safe harbors, such as the UTPR safe harbor, in the EU would require amendment of the Minimum Tax Directive, which requires unanimity of all 27 EU Members States.

For the moment, negotiations on Pillar One are still ongoing. Amount A, a formulaic approach to assign taxing rights of global business income to market jurisdictions, remains at an impasse. "Failure to reach an agreement on Pillar One will lead to a rise in tax disputes and uncertainty as the issues that spurred the negotiations still exist and countries may adopt different approaches to taxing digital services," says Matt Andrew, EY Asia-Pacific Tax Policy Leader. Several jurisdictions have enacted digital services taxes and others have signaled their intention to follow suit if Pillar One fails. "This will lead to complexity, double taxation and controversy. Further, the concepts of how to source revenue in Pillar One may manifest in other unilateral ways, such as regional reallocations of tax rights or in transfer pricing rules," continues Andrew.

> "The status quo operating model may no longer be fit-for purpose, and a business may need to adapt, and quickly

Kevin Flynn
EY Americas Tax Leader

Countries are already evaluating transfer pricing rules, as they consider how to incorporate the political agreement on Pillar One Amount B, intended to be a simplified and streamlined approach for in-scope marketers and distributors. Amount B has no revenue threshold limiting the businesses that could be in scope and can be applied now. However, it is optional, and countries may choose to apply it, or not. It is important for companies to assess how the countries that are relevant to their operations choose to react to the implementation of Amount B and how this may impact the pricing of in-scope transactions.

Tariffs

As implementation of BEPS 2.0 continues, other countries are watching the United States' reaction and for any potential retaliation, including the use of tariffs to encourage countries to end Pillar Two adoption. During his campaign, U.S. President Trump proposed many tariffs, including 10%–20% "across-the-board" on all goods imported to the US from all jurisdictions. While historically tariffs have been used primarily as remedy to resolve disputes over unfair trade practices, the rhetoric around these tariffs indicates they are purposed for use in negotiation, or as punitive measures. "Action on these proposals can be swift as the President can implement them without Congressional action," cautioned Kevin Flynn, EY Americas Tax Leader. "These tariffs could undercut the effectiveness of many businesses and their international supply chain. The status quo operating model may no longer be fit-for-purpose, a business may need to adapt, and quickly," continues Flynn.

Businesses should re-evaluate the effectiveness of their operating model to confirm they are optimally balancing tax, trade and commercial considerations. Especially as there could be further economic repercussions if other countries respond with retaliatory tariffs.

The future of cooperation

There is still tremendous value to global cooperation and the certainty it provides, both for businesses and governments, despite global trends toward competition for revenue and competing political and philosophical agendas. Further, there are cross-border problems that can only be sufficiently addressed on a global scale, like pollution and climate change. "Businesses thrive when they can plan ahead and, fundamentally, complexity is **challenging** for economic growth. Different rules require more effort to comply and increase controversy. If governments want to **spur** growth, they need global **alignment** on common issues," says Eng Ping Yeo, EY Asia-Pacific Tax Leader.

Countries are still joining the OECD and changing their tax policies to do so. Argentina, Brazil, Bulgaria, Croatia, Indonesia, Peru, Romania and Thailand have all begun the accession process to the OECD. The OECD can continue to be a forum for developing international standards and solutions to global problems facing businesses operating all over the world. There is still work to be done on transfer pricing guidelines, harmonizing VAT regimes and tax issues relating to global mobility. Additionally, other organizations are getting involved in the conversation. The burgeoning UN framework convention for international tax cooperation could emerge as another avenue for global cooperation outside work at the OECD.

> "If governments want to **spur** growth, they need global alignment on common issues.

Eng Ping Yeo
EY Asia-Pacific Tax Leader

Unlocking the next quarter century

To move confidently through global tax complexity, businesses need to prepare for change.

According to the January 2025 *EY-Parthenon CEO Outlook Survey: Global Confidence Index*, confidence in growth among global chief executive officers (CEOs) is increasing despite complex geopolitical and macroeconomic challenges. Most CEOs that express confidence in growth are taking a long-term approach to transformation with a focus on customers and employees, despite evolving disruptive forces.

"This is a disruptive time," agrees Kalyanam. "This is not change around the edges, but rather a sea change in how business is done. Being agile is key to success. Businesses that are quick to identify upcoming challenges must focus on recognizing the many opportunities presenting as well." Responding to change can open up different strategic alliances, different cost savings and different paths to success. The tax function can be a great tool for recognizing these opportunities and adapting to embrace them, especially with the use of GenAI. Tax needs to be integrated into company strategy and connected with other departments as they can be valuable to supply chain, sustainability and other decisions.

Agility is paramount in this dynamic environment. The tax department is a critical component of companies' growth plans. "Technology is transforming how we approach tax functions, and the most successful businesses will come to recognize them as data engines that can deliver insights about their operations, their markets, their products, ultimately, supporting their business agenda and capital decisions," says Ricker.

To thrive in this dynamic environment, businesses need to stay informed on the rapid developments and share their perspectives with governments. With the shared goal of bigger, stronger economies, businesses need to explain to governments how proposed changes will impact their operations. They can also share insight on how ideas could be best implemented to promote economic growth.

> "This is not change around the edges, but rather a sea change in how business is done. Being agile is key to success.

Aruna Kalyanam
EY Global and Americas Tax Policy Leader

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