BRUSSELS | 28 APRIL 2025

Spring IMF & World Bank Meetings Highlight Trade Challenges & Uncertainty

---

The Spring 2025 Meetings of the International Monetary Fund (IMF) and World Bank were held from 21 to 26 April 2025 in Washington, D.C. Growing concerns over global trade tensions, rising sovereign debt, fiscal policy challenges, and the future of international tax cooperation were apparent from the meetings. The IMF downgraded its global growth forecast for 2025 to 2.8%, down from 3.3% in its April 2025 World Economic Outlook, attributing this revision primarily to rising trade policy uncertainties, fuelled by U.S. tariffs ranging from 10% on most imports to as high as 145% on Chinese goods. Both the IMFC and G-24 expressed concern that unilateral trade actions and aggressive tax competition could undermine global economic stability.

The European Department Press Briefing addressed regional challenges, noting that European economies are particularly exposed to trade disruptions and may face increased pressure to reform fiscal frameworks, including corporate taxation, to maintain competitiveness while ensuring fiscal balance.

The IMF's Fiscal Monitor warned that public debt remains at historically high levels, particularly in advanced economies where fiscal support during recent crises has left limited room for manoeuvre. The World Bank warned that over half of 150 developing countries are either at risk of, or already facing, debt distress, with debt servicing consuming up to 20% of GDP in the poorest nations. The G-24 called for more effective sovereign debt restructuring mechanisms and increased concessional financing. Governments face mounting pressure to consolidate budgets, raising the prospect of future tax increases or the removal of preferential tax regimes to boost revenues.

The IMF's International Monetary and Financial Committee reaffirmed commitments to open trade, multilateral cooperation, and advancing international tax reforms. The Committee underscored the importance of completing global negotiations on digital taxation and strengthening measures to tackle tax avoidance.

The G-24 Communiqué issued by the member countries reaffirmed their commitment to open, rules-based trade and multilateral cooperation. The Communiqué placed particular emphasis on addressing sovereign debt vulnerabilities, promoting sustainable fiscal policies, and advancing international tax reforms. It underscored ongoing efforts to combat tax base erosion and profit shifting (BEPS), alongside initiatives to develop equitable taxation frameworks suited to the digital economy.

ECOFIN High-Level Tax Working Party to Address Global Tax Reforms, VAT & Simplification Initiatives

---

The ECOFIN Working Party on Tax Questions will meet tomorrow on 29 April 2025 to engage in strategic discussions on key international and EU tax policy developments. The agenda highlights a broad range of priority topics, reflecting ongoing efforts to modernise and streamline tax frameworks both within the EU and globally.

A key focus will be an update from the Presidency on the OECD/G20 Inclusive Framework on BEPS, alongside an exchange of views on the Global Minimum Tax, to consider pathways for advancing international tax reform. Further items listed for discussion include an exchange of views on the proposed Directive on Transfer Pricing, and a presentation by the Presidency introducing a structured approach for tax decluttering and simplification.

On indirect tax, the Working Party will also continue its discussions on the Directive concerning VAT rules for distance sales of imported goods and import VAT, aiming to prepare a general approach ahead of the May ECOFIN meeting.

International cooperation will also feature prominently, with deliberations on the United Nations negotiations for a Framework Convention on international tax cooperation. In addition, delegates will review progress on negotiations to amend protocols governing the automatic exchange of financial account information with jurisdictions including Switzerland, San Marino, Monaco, Andorra, and Liechtenstein. The session aims to initial the draft Amending Protocol with San Marino.

OECD Statistical Release on R&D Tax Incentives

The OECD has published a statistical release on R&D tax incentives. The release highlights that tax incentives have become the predominant form of government support for business R&D across most OECD countries, accounting for nearly 55% of total support in 2023. This trend reflects a sustained shift towards indirect fiscal measures over direct funding instruments, with 23 out of 38 OECD nations providing more R&D support via tax incentives than through direct subsidies.

The report sets out that small and medium-sized enterprises (SMEs) continue to benefit from more favourable R&D tax treatment compared to larger firms. In 2024, profitable SMEs received an average tax subsidy of 19% on eligible R&D expenditure, compared to 16% for large profitable firms. Among loss-making companies, the average subsidy was 16% for SMEs and 13% for larger firms. Countries such as Iceland, Portugal, and France offered the most generous incentives for profitable SMEs, while Portugal, France, and Poland led in support for large profitable firms.

Although some exceptional tax relief measures introduced during the COVID-19 crisis were phased out in 2022 and 2023, estimated R&D tax subsidy rates increased again in 2024 across all modelled scenarios, regardless of business size and profitability. This resurgence underscores the growing reliance on tax-based mechanisms to stimulate private sector innovation.

In terms of government tax relief for R&D as a percentage of GDP, Portugal (0.39%), Iceland (0.38%), and the United Kingdom (0.30%) ranked highest in 2023. When combining both tax and direct support, Iceland (0.52%), Portugal (0.46%), and France (0.42%) were the top providers relative to GDP. Notably, China's R&D tax support surged from 0.07% of GDP in 2017 to 0.24% in 2022, driven by reforms that increased the R&D tax allowance rate for all enterprises from 50% to 75% in 2018, and further to 100% for manufacturing firms in 2021.

EU Parliament FISC Committee Discusses Streamlined Tax Framework & Fiscal Tools for Green Transition

The European Parliament's Permanent Subcommittee on Tax Matters (FISC) met on 24 April to review a draft report on tax simplification and to hold a public hearing on the role of tax policy in supporting the green transition while maintaining competitiveness.

Rapporteur MEP Michalis Hadjipantela presented the draft report "The Role of Simple Tax Rules and Tax Fragmentation in European Competitiveness", which proposes measures to streamline EU tax rules, ease compliance—particularly for SMEs—and remove barriers to cross-border activity. Committee members welcomed the simplification agenda but stressed the importance of preserving effective anti-avoidance measures and adapting to international tax developments.

Digitalisation was highlighted as a key tool for modernising tax systems, reducing costs, and improving transparency. Members also discussed addressing the VAT gap and ensuring fair competition, while balancing national fiscal autonomy with EU-level coordination. The legislative process will continue in the coming months, with amendments and votes scheduled ahead.

In the subsequent public hearing on the topic of "The Role of Tax in Aligning the Green Transition and Competitiveness", focusing on how tax policy can contribute to sustainability goals while maintaining economic competitiveness, expert speakers from the OECD, WIFO, DHL Group, and Business Europe emphasised the need for a balanced mix of tax policies, standards, subsidies, and infrastructure investment to drive the green transition without undermining Europe's industrial competitiveness. Ms Mitra Qurban of DHL called for regulatory recognition of a "book and claim" system to support sustainable aviation fuels, while Ms Angela Köppl of WIFO highlighted that well-designed carbon pricing can foster innovation without harming competitiveness.

The hearing concluded with calls for reform of harmful fossil fuel subsidies and updates to outdated tax frameworks, such as the Energy Tax Directive. Both the report review and the hearing underlined the urgency of implementing coherent tax policies that promote simplicity, innovation, and sustainability, ensuring that Europe remains competitive in a rapidly evolving global landscape.

OECD to Release Taxing Wages 2025 Report on Tax Relief & Income Tax Breakdown

---

On 30 April, the OECD will release Taxing Wages 2025: Decomposition of Personal Income Taxes and the Role of Tax Reliefs". The report will contain a detailed analysis of the taxes levied on wages across OECD countries. This year's edition has a particular emphasis on breaking down personal income taxes and exploring the significant role of tax reliefs, including allowances and credits applied at various governmental levels.

Focusing on data from 2024, the report assesses not only personal income taxes but also social security contributions paid by employees and employers, payroll taxes, and cash benefits received by workers. It provides a comprehensive overview of how these taxes and benefits are structured in each member country and evaluates their impact on household incomes. Additionally, the publication facilitates cross-country comparisons of labour costs and the overall tax-benefit position for individuals and families at varying income levels.

Highlighting both average and marginal effective tax rates on labour costs, the report analyses eight distinct household types, differentiated by income and family composition, including single persons, single parents, and couples with or without children. The findings illustrate the proportion of earnings absorbed by taxes and social security contributions, both before and after cash benefits, as well as the share of any incremental income subject to taxation.

The selection of the remitted material has been prepared by: Aleksandar Ivanovski & Brodie McIntosh