Fueling the Green Industrial Revolution: How EU Tax Incentives Are Powering Clean Investments

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1. Introduction

As the world grapples with the urgent need to combat climate change, the European Commission has undertaken the initiative of implementing tax incentives for clean investments as part of its broader strategy on the Clean Industrial Deal (CID) to address climate change, promote sustainable economic growth and enhance the competitiveness of the European Union in the global market. The CID, part of broader environmental and economic strategies, aims to promote sustainable industrial practices through various fiscal measures.

Within this context, in July 2025, the European Commission released a landmark Recommendation on Tax Incentives designed to accelerate clean investments and industrial decarbonization across the European Union. These proposals, part of the broader CID, aim to reshape how Member States incentivize green technology deployment by leveraging tax policy — all while aligning with EU State aid rules. In view of the above, Member States have been asked to report to the European Commission by 31 December 2025 which tax-incentive measures have adopted, announced or changed in line with the Recommendation.

This note aims to provide an overview of how tax incentives should be designed and touches upon some incentives already adopted by certain Member States.

2. Understanding Tax Incentives for Clean Investments

Tax incentives are financial benefits provided by governments to encourage specific behaviors or investments. In the context of clean investments, these incentives can take various forms, including tax credits, deductions, exemptions and grants in alignment with EU State aid rules, especially the Clean Industrial State Aid Framework (CISAF). The guiding principle for designing the tax incentives under review is to lower the cost of investment in clean technologies and practices, making them more attractive to businesses and investors. This means that the tax incentives explained in more detail below should in principle fulfil the following principles:

- *Targeted Support*: Incentives should strictly apply to clean technologies and industrial decarbonization.
- *Simplicity and Certainty*: The tax measures must be easy for companies and tax authorities to understand and apply, with clear eligibility criteria and predictable effects.
- *Timeliness*: Support should be granted when investment decisions are made. The Recommendation argues that companies must receive the benefit relatively quickly so that incentives meaningfully influence their decisions.
- *Cost-effectiveness*: Member States should ensure incentives deliver maximum green impact per euro of fiscal cost — avoiding overly generous or inefficient schemes.

- *Coherence with other policies*: The Recommendation encourages phasing out fossil-fuel subsidies alongside offering green tax incentives so that incentives don't compete with perverse support for polluting assets.

3. Types of Tax Incentives

The Recommendation centres on two main tax policy tools for stimulating clean investment: (i) accelerated depreciation (including immediate expensing); and (ii) targeted tax credits.

Accelerated Depreciation/Immediate Expensing:

- Companies should be allowed to deduct the full cost of eligible clean-tech investments either very quickly (accelerated depreciation) or even in the same year they purchase or lease the equipment (immediate expensing).
- Where full expensing is not feasible, Member States are encouraged to permit at least 30% of eligible costs to be expensed in the year of acquisition.
- The Recommendation also supports flexible (discretionary) depreciation, allowing firms to choose whether to apply standard depreciation rules, accelerated depreciation on part of the asset, or the full amount.
- To ensure cash-flow benefits, these depreciation rules should ideally be paired with loss carry-forward mechanisms so that losses generated by accelerated write-offs can be carried into future tax periods.

Targeted Tax Credits:

- The Commission proposes investment tax credits for projects that increase manufacturing capacity in critical clean technologies, such as final products, specific components or raw materials.
- There should also be credits for emissions-reduction investments, for example in energy efficiency or greenhouse gas (GHG) reduction.
- To maximize usability and impact, Member States are encouraged to make these tax credits refundable (i.e. paid out if they exceed tax liability) or offsettable against a broader set of taxes (beyond corporate income tax).
- It is noted that, under CISAF, tax credits are capped: for instance, projects may not exceed EUR 150 million per project for non-assisted areas, with higher caps and aid intensities for specific assisted areas.

4. Real-World Case Studies in EU Member States

Within the context of the CID and the Recommendation, Member States have adopted various approaches to implementing tax incentives. These approaches vary based on national priorities, economic conditions and existing tax structures.

Indicatively, certain examples of local tax incentives are presented below based on their significance in promoting clean investments and their scale, impact and effectiveness in driving the transition to renewable energy and energy efficiency.

4.1. Germany's Renewable Energy Sources Act

Germany's Renewable Energy Sources Act (EEG) is a comprehensive framework for promoting renewable energy globally. It is part of Germany's energy transition strategy (*Energiewende*), aimed at reducing greenhouse gas emissions, increasing energy efficiency and phasing out nuclear energy.

The EEG guarantees fixed payments (feed-in tariffs – FiTs) for electricity generated from renewable sources such as wind, solar, biomass and hydroelectric power. These payments are generally higher than market prices, incentivizing producers to invest in renewable technologies. Each technology has a specific tariff rate reflecting its costs and market conditions.

FiTs are based on a government-set reference price, adjusted annually to reflect market changes. This long-term commitment (typically 20 years) allows producers to recover their initial investments and operational costs, enhancing the financial viability of renewable projects.

Additionally, the EEG offers feed-in premiums (FiPs), in which producers receive a premium on top of the market price for their electricity. The FiP is the difference between a predetermined government-set reference price and the market price. Producers typically enter long-term contracts with grid operators, ensuring stable revenue while benefiting from market price fluctuations.

The EEG is periodically reviewed to adapt to market conditions and policy goals, ensuring its ongoing relevance and effectiveness.

4.2. Sweden's carbon tax

Sweden has implemented a robust carbon tax on fossil fuels based on their carbon content, promoting sustainability and clean investments (market-based carbon pricing). The tax applies to various fossil fuels, including gasoline, diesel, natural gas and coal, incentivizing most economic sectors to reduce their carbon footprints.

By increasing the cost of carbon-intensive fuels, the carbon tax encourages companies to adopt cleaner alternatives, such as renewable energy sources and energy-efficient technologies, thereby reducing their tax burdens and operational costs. The predictability of the tax allows businesses to incorporate it into their long-term strategies, facilitating investment in sustainability.

Usually, a carbon tax is complemented by other policies and incentives, such as grants for renewable energy projects and energy efficiency programs, enhancing its effectiveness in driving emissions reductions. The Swedish government is committed to maintaining the carbon tax as a key element of its climate strategy, aiming for net-zero emissions by 2045. The current tax rate is EUR 120 per ton of CO_2, subject to periodic evaluation and potential increases.

4.3. France's C3IV green industry tax credit

France has introduced the C3IV (*Crédit d'Impôt pour l'Investissement dans l'Industrie Verte*) tax credit to encourage green industrial investments. This credit covers various investments, including:

- energy-efficient machinery and equipment;
- renewable energy installations (e.g. solar panels, wind turbines);
- technologies that improve energy management and reduce emissions; and
- upgrades to existing facilities to enhance energy performance.

The amount of tax credit is typically calculated as a percentage of the eligible investment costs. The specific percentage may vary based on the type of investment and the company's size. Generally, the standard base rate for the C3IV tax credit is 20% of eligible investment costs.

The tax credit rate can be increased based on the location of the investment, particularly in designated regional aid zones. In these areas, the rate can be raised to:

- up to 25% in certain geographic areas; and
- up to 40% in specific zones that are more economically disadvantaged or targeted for development.

The tax credit rate is further enhanced for small and medium-sized enterprises:

- medium-sized enterprises can receive an additional +10 percentage points on the base rate; and
- small enterprises can receive an additional +20 percentage points on the base rate.

The scheme requires prior approval by French authorities. More specifically, companies need to submit a formal request, and the French tax administration (DGFiP) plus ADEME (the environmental agency) evaluate the project's eligibility.

The C3IV regime entered into force in 2024, and the tax credit applies to projects for which the request for prior approval is made by 31 December 2025.

5. Conclusion

The European Commission's Recommendation on Tax Incentive Frameworks represents a major step in aligning fiscal policy with the European Union's climate and industrial ambitions. By championing accelerated depreciation and targeted tax credits, it aims to remove key barriers to investment in clean technologies — especially at the early, finance-intensive stages.

Although not legally binding, the Recommendation sends a strong signal to Member States: tax policy must become a core lever in the transition to a net-zero industrial base.

By aligning national policies with EU directives, Member States can create a cohesive framework that not only drives economic growth but also addresses the pressing challenges of climate change. As countries navigate this complex landscape, it is essential that they monitor the outcomes of these measures to ensure they lead to meaningful emissions reductions and foster innovation within industries.

IBFD references:

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- F. De Lillo, *Corporate Sustainability Reporting Directive: What's in it for Tax?*, EU Tax Focus (20 Dec. 2024), IBFD.
- For an overview of the developments around plastic, carbon and energy tax developments globally, *see* the Environmental and Green Taxes Dossier.