Keeping Up with Tax for Insurance

September 2021

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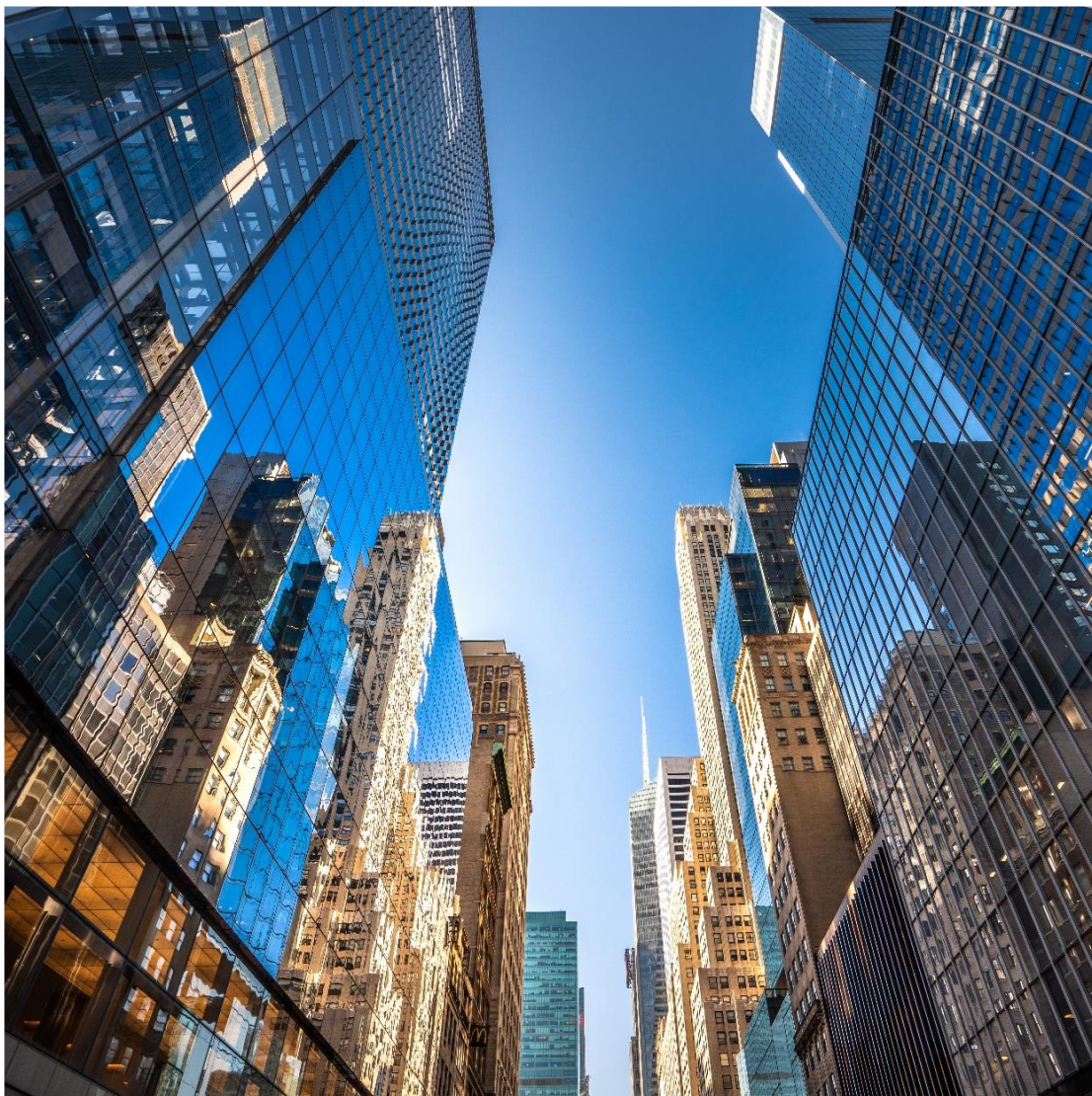

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Introduction

Welcome to a new term of Keeping Up with Tax for Insurance. I hope you were able to enjoy some quality time away from work and are now returning refreshed and recuperated and possibly even with the option of working in an office! Our offices are now fully reopened and I or your regular contact would be delighted to catch up with you in person when you are ready and return to the office.

Over the summer, tax was in the headlines as the G7 (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) and the G20 announced that they had agreed that the OECD's Pillar 1 and Pillar 2 should become a permanent feature of the international corporate tax system. They also agreed on the removal of all Digital Services Taxes once the new international tax rules are in place. It remains unclear which other unilateral measures would be repealed in the wake of the agreement.

The G7 now needs to convince the wider group of the Inclusive Framework, a group which comprises 139 countries of different sizes, different stages of economic development and hence, different views on how the international tax system should be shaped. Nonetheless, the probability of a full agreement on both Pillars has significantly increased. The next expected step is for more details to be released later in the year. Many technical details on both Pillars remain to be defined and negotiated.

HMRC has updated the double taxation treaty passport scheme register which shows details of companies registered for the scheme, with 45 additions and four amendments.

Another interesting article to highlight was the Financial Conduct Authority (FCA) and the Bank of England encouraging participants in the sterling exchange traded derivatives market to switch to SONIA instead of LIBOR from 17 June 2021. See this Bank of England news item.

On 23 June, we hosted a webinar, 'Building trust through Tax Transparency, the new ESG metric' to explore the latest regulatory developments and the links between ESG and tax, accessible through the link provided. This was followed by an FS specific webex on 29 June entitled 'FS FY21 Tax Disclosures and ESG' which put a FS lens on ESG, and we also published a special edition of KUWT in July focusing on ESG in FS.

The webinar covered the links between ESG and tax, the latest regulatory developments, including public country-by-country reporting and the voluntary initiatives like the IBC and Global Reporting Initiative tax standards. We also shared the results of our new research into voluntary tax disclosures made by businesses, looking at 2020 year ends and considered how this compares to the international picture.

A number of previous webcasts are available for replay in our US tax reform hub here, including:

- **Tax Readiness:** Crypto Market Insights 2021 – Latest trends;
- Treasury's Green Book is back, adding detail to President Biden's tax proposals;
- **Tax Readiness:** Key state tax legislation and trends – what you need to know to navigate change;
- **Tax Readiness:** Preparing for Deals in a Changing Environment;
- Zeroing in on your trade and supply chain strategy: How ready is your business?
- **Tax Readiness:** The intersection of ESG and Tax;
- **Tax Function of the Future:** Keeping pace with the new operating tempo;
- **Tax Readiness:** Are digital taxes here to stay?
- **Tax Readiness:** International tax planning post-election.

In this month's edition, we have included the following articles:

- **European Commission publishes 'Business Taxation for the 21st Century';**
- **As optimistic CEOs eye a return to growth, what does this mean for tax compliance?**
- **Life Insurance Tax Handbook – 2021 Refresh;**
- **Getting value from R&D Tax Credits: The Importance of Competent Professionals.**

I hope you enjoy the articles that we have put together, and as always please get in touch with me or your PwC team if there is anything that you would like to discuss further.

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European Commission publishes 'Business Taxation for the 21st Century'

The European Commission released a 'Communication on Business Taxation for the 21st Century' on 18 May, setting out its long-term vision and short-term legislative agenda. The aim is to align the EU tax framework with the new realities of the globalised and digitalised economy post-Covid, and to ensure that Member States' tax systems are fit for purpose. In the Commission's words: 'the EU needs a robust, efficient and fair tax framework that meets public financing needs, while also supporting the recovery and the green and digital transition by creating an environment conducive to fair, sustainable and job rich growth and investment'.

The Communication sets a tax agenda for the next two years with five key actions:

- **Action 1:** Table a legislative proposal for the publication of effective tax rates paid by large companies, based on the methodology under discussion in Pillar 2 of the OECD negotiations (by 2022);
- **Action 2:** Table a legislative proposal setting out union rules to neutralise the misuse of shell entities for tax purposes (ATAD 3) (by Q4 2021);
- **Action 3:** Adopt a recommendation on the domestic treatment of losses (alongside Communication);
- **Action 4**: Make a legislative proposal creating a Debt Equity Bias Reduction Allowance (DEBRA) (by Q1 2022);
- **Action 5:** Table a proposal for BEFIT (Business in Europe: Framework for Income Taxation), moving towards a common tax rulebook and providing for fairer allocation of taxing rights between Member States (by 2023).

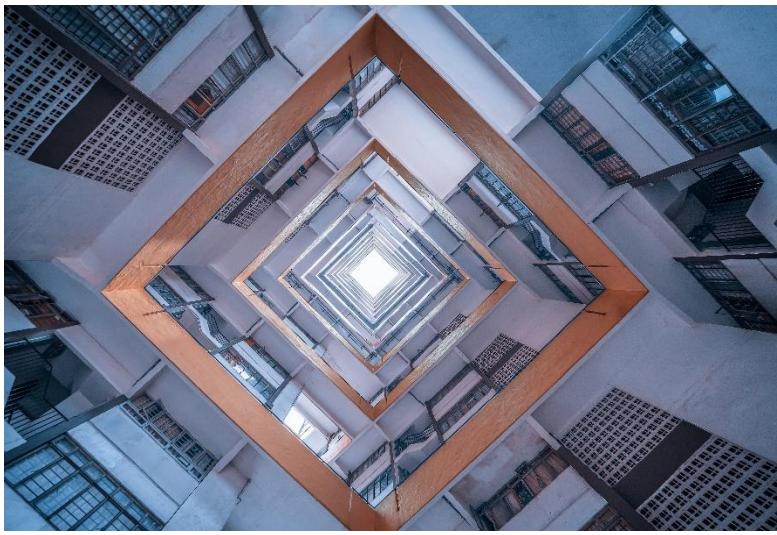
The key points to note from the release are set out below.

In detail

Background

Long-term vision and priorities

The European Commission (EC) clearly aims to move away from reactive tax policy measures and to set out a vision and agenda for business taxation in the medium/longer term. The ultimate goal is creating an appropriate tax framework in preparation for major challenges, such as climate change and aging populations and to support post COVID economic recovery. The EC's tax agenda is in line with wider EU policies, such as the European Green Deal, the EC's digital agenda, the New Industrial Strategy for Europe and the Capital Markets Union and the principles of the European Pillar of Social Rights.



The European Commission will carry out its work alongside the on-going discussions at the OECD Inclusive Framework on the taxation of the digital economy and minimum effective taxation.

The Communication claims that there is now consensus that the fundamental concepts of tax residence and source, on which the international tax system has been built, is outdated. The EC acknowledges that in recent years a 'patchwork' of anti-tax avoidance and evasion measures has been adopted which has increased complexity. The Communication indicates that the OECD Inclusive Framework's Pillars 1 and 2, even if international consensus would not be reached, provide the direction of travel. The EC wants to implement a robust, efficient and fair tax framework, and green and digital taxes are a part of that strategy.

Furthermore, the EC emphasises that tax systems will need to be modernised in order to be sustainable by shifting from labour taxes and social contributions to behavioural taxes (e.g., environmental and health taxes), property taxes and tax on capital for individuals and corporations. Labour taxes currently account for more than 50% of overall tax revenues in the European Union, but societal megatrends (such as an ageing EU population and the rise of the gig economy) mean that labour taxes may become less reliable. As for VAT, the EC does not suggest increasing rates across the board, but revisiting reduced rates and exemptions.

Finally, the Communication outlines that not only is progress at EU level needed, but also support must be provided so that Member States can take national action with regard to the needs of their economy and society. The example provided here is the need for corporate income tax rates to be set above the minimum to be agreed internationally. The EU can also have an agenda-shaping and information-sharing role in supporting the Member States, as well as providing financial support for national reforms and investments.

European Commission publishes 'Business Taxation for the 21st Century' (cont'd)

New own resources and other supporting measures

The Commission has already made public details of the new 'own resources,' which will raise revenues to pay down debt post-COVID and fund the EU's NextGeneration plan and medium-term budget (2021 – 2027). The chief 'own resources' announced to date – the EU digital levy (announced as part of the Digital Decade Communication), the carbon border adjustment mechanism (CBAM) and the revised EU Emissions Trading Scheme (both green measures will be introduced as part of the Broader 'Fit for 55' package) – are closely aligned with the Commission's aims to promote a more green and digital EU economy. The communication also makes clear that the Commission will consider introducing an EU Financial Transactions Tax and also an own resource linked to the corporate sector. The Commission will take action to ensure that fraud, tax avoidance and tax evasion are minimised as part of the fair and effective taxation policy (see below). Currently, it estimates that billions of Euros are lost annually to tax fraud, evasion and avoidance. Transparency remains a key concern. Transparency and fair taxation will be promoted under the Tax Good Governance in the EU and beyond policy.

With regards to the digital levy, the Communication outlines that its design will sit outside of the OECD Inclusive Framework's Pillar 1 and be consistent with WTO obligations, but still 'coexist' with the Pillar 1 aim of 'sharing a fraction of the taxable base of the largest multinational enterprises.' The Commission is anticipated to release a full proposal on the digital levy on 14 July.

EU tax agenda in the face of the international corporate tax reform framework Work continues by the OECD Inclusive Framework members to develop a global consensus-based solution to reform the international corporate tax framework, particularly given the increasing digitalisation of the economy.

See our Tax Policy Alert for further details on the proposals under consideration by the OECD Inclusive Framework. This project has recently been reinvigorated as the US administration has re-engaged with the global forum, and the US has proposed measures that have potential to significantly increase the expected tax flows from this project.

The OECD Inclusive Framework's Pillar 1 and Pillar 2 Blueprints are in line with the Commission's vision for a 21st century business taxation framework. Regarding the tax reform plans of the OECD Inclusive Framework, the Communication notes that the Pillars mark steps towards the important principles of formulary apportionment and common definition of the tax base. The Commission intends to use the OECD Inclusive Framework plans to form the basis of future reform proposals for the Single Market (BEFIT) – see further below.

The European Union supports the OECD Inclusive Framework project and plans to implement the consensus based solution shortly after its agreement later this year. The Communication outlines that Pillar 1 will be mandatory for participating countries and the rule will be implemented by way of an EU Directive. Pillar 2 will also be implemented by way of an EU Directive and will reflect the OECD Inclusive Framework rules but with necessary adjustments (the necessary adjustments may be substance-based carve outs to comply with the EU fundamental freedoms). This will ensure consistent application of the rules within the European Union and also ensure that the rules are compatible with EU law (as detailed further in the Communication). Facilitating Pillar 2 in this manner will also pave the way for agreeing the pending proposal for recasting the Interest and Royalties Directive (to ensure that the Directive's benefits are only granted where the payment is taxed in the destination state – whether a minimum tax rate would apply has not been determined). A Pillar 2 Directive may also have ramifications for the EU list of non-cooperative jurisdictions and could end up becoming one of the criteria against which third countries will be assessed. Furthermore the EU Commission acknowledges that the implementation of Pillar 2 will have implications for existing ATAD rules, specifically for the Controlled Foreign Company (CFC) rules, which will interact with the primary rule under Pillar 2 (the Income Inclusion Rule or 'IIR'). When the IIR is implemented in the European Union, it will be necessary to explore how to best accommodate the interaction between the two rules.

European Commission publishes 'Business Taxation for the 21st Century' (cont'd)

Short term tax agenda

Section 3 of the Communication sets out the EU's business tax agenda for the next two years. The actions proposed will focus on ensuring fair and effective taxation with the promotion of productive investment and entrepreneurship.

Fair and effective taxation

Action 1:

Table a legislative proposal for the publication of effective tax rates paid by large companies, based on the methodology under discussion in Pillar 2 of the OECD negotiations

This measure will be actionable by 2022. This action will require the annual publication of the effective corporate tax rate of certain large companies with operations in the European Union, using the agreed Pillar 2 methodology (i.e., tax paid as a percentage of profits generated or 'book profits'). Certain difficulties are expected to arise in applying these methodologies such as use of different accounting standards for the 'book profit' starting point and the extent to which taxpayer and tax authority agree on how to calculate the effective tax. The proposal does not specify whether the rates will have to be calculated at the country-level or at any other level.

Action 2:

Table a legislative proposal setting out union rules to neutralise the misuse of shell entities for tax purposes (ATAD 3)

Although The EC notes that there can be valid reasons for the use of such companies, there is a need for further action to tackle misuse. This measure will be actionable by Q4 2021. A new legislative initiative will be introduced to neutralise the misuse of shell entities (with no or minimal substance and which exist for tax purposes only). The measure would include requiring companies to report to the tax authorities information to enable the tax authority to assess whether there is real and substantial presence and economic activity. Tax benefits may be denied where abusive shell companies are found to exist. Improved information exchange, monitoring and transparency would be required to facilitate such investigations.

In addition to these two actions, the Commission will also ensure companies pay a fair share of tax by applying and enforcing the EU State Aid rules.

Enabling productive investment and entrepreneurship

Action 3:

Adopt a recommendation on the domestic treatment of losses

This action involves the adoption of an EC recommendation to Member States on the domestic treatment of losses to ensure businesses are fully supported during the recovery. This measure is intended to benefit SMEs. The Commission will also investigate more generally the prospect of a coordinated treatment of cross-border loss relief to address challenges experienced by SMEs and other businesses in the initial stages of their European expansion.

Action 4:

Make a legislative proposal creating a Debt Equity Bias Reduction Allowance (DEBRA)

This measure would be actionable by Q1 2022. There continues to be a pro-debt bias when businesses consider how to fund their activities and growth plans. This is driven by the ability to deduct interest and other financing costs from taxable profits (there is no equivalent deduction granted for equity investments or dividend payments). The communication states that this issue has become more pressing, as companies' debt levels have increased significantly due to the economic crisis following the COVID-19 pandemic. The Commission will therefore make a proposal to address this debt:equity bias via an allowance system for equity financing (subject to appropriate anti-avoidance rules).

Action for a longer-term business taxation framework

Action 5:

Table a proposal for BEFIT (Business in Europe: Framework for Income Taxation), moving towards a common tax rulebook and providing for fairer allocation of taxing rights between Member States.

The EC's ambition is clearly far-reaching. The EC has stated that a closely integrated European Union should be able to go further than implementing a global agreement on Pillar 1, because a Pillar 1 agreement will apply to a limited number of companies at the outset. For such a solution to work globally, it needs to be administrable for and among 139 jurisdictions, with diverse economic profiles and levels of administrative capacity.

With that in mind, and as expected, the Communication includes details of a re-branded Common Consolidated Corporate Tax Base (CCCTB), which will be known as 'BEFIT' (Business in Europe: Framework for Income Taxation).

European Commission publishes 'Business Taxation for the 21st Century' (cont'd)

The aim here is to leverage from the Pillar 1 framework a 'single corporate tax rulebook for the EU, based on the key features of a common tax base and the allocation of profits between Member States based on a formula (formulary apportionment)'. BEFIT will use a formula for allocating profits as well as common rules for calculating the tax base. It will remove undue tax barriers which limit the EU's overall competitiveness, but leave sufficient scope for revenue generation with Member States so that they may fund national spending priorities. BEFIT will replace the CCCTB proposals which are now to be formally withdrawn.

'BEFIT will…

- …create a common rulebook for groups of companies operating in the Single Market in more than one Member State, reducing barriers to cross-border investment;
- …reduce red tape and cut compliance costs in the Single Market, thereby lessening the administrative burden on tax authorities and taxpayers;
- …combat tax avoidance, and support job creation, growth, and investment;
- …provide a simpler and fairer way to allocate taxing rights between Member States; …ensure reliable and
- predictable corporate tax revenues for Member States.'

The mechanics of BEFIT involve consolidating the profits of a MNE's EU members into a single tax base, allocating that tax base to the Member States using the appropriate formula, and taxing the allocated profits at the national corporate income tax rate. The considerations when deciding profit allocations are expected to reflect the considerations that have arisen as part of the Pillar 1 profit allocation discussions. Apportionment factors to consider will include sales in the market, assets (including intangibles) and people in a location. The allocation keys for both Pillar 1 and BEFIT profits are likely to be very different and it is not yet clear how such differences may be resolved.

Overall, the Commission expects that this system will simplify the calculation of taxable profits and taxes within the European Union, and accordingly remove the need for complex transfer pricing rules. Interestingly, however, they do not address the previously contentious issue of the treatment of losses. The BEFIT formulary apportionment rules will replace the current rules for the allocation of a taxable base within the Single market for in-scope companies. This proposal is similar to the CCCTB and the Communication notes that both BEFIT and CCCTB follow the same guiding principles, but there is a sense from the EU Commission that there is a greater likelihood of this proposal being successfully implemented given the changes in the economy since CCCTB was originally proposed in 2011 and given the status of the OECD Inclusive Framework project.

The takeaway

The Commission's Communication was long-awaited and clearly indicates the EU's desired future of business taxation. In some cases, piecemeal announcements over the last few months have been brought together in this communication and the principles and policy rationales underpinning these measures are now clear. Notably, this communication marks the EC's third attempt in a decade to pivot the Member States towards a common corporate tax base. While the international tax landscape has moved on since the last CCCTB proposal failed to move forward, ultimately the same concerns need to be addressed – the issue of unanimous voting on tax matters, tax sovereignty and achieving a system that is perceived as fair and workable by all Member States.

The breadth of the changes is significant and it seems likely that the proposed changes will impact taxpayers with EU activities. Accordingly, taxpayers should review the Communication, and discuss with your usual PwC contact who can provide you with further information and contextualise the announcements for your business.

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As optimistic CEOs eye a return to growth, what does this mean for tax compliance?

CEOs are optimistic about a faster than predicted return to growth as countries and economies start to recover from the COVID-19 pandemic. More than three-quarters of UK CEOs (77%) think global economic growth will improve over the next year, according to PwC's 24th annual CEO Survey. To seize this opportunity, most CEOs (84%) plan to pursue organic growth in 2021, for example through greater operational efficiency, as well as entering new markets and launching new products or services.

This expansion trend will:

- Accelerate the already increasing tax compliance burden on companies.
- Put pressure on tax specialists to step up and partner with the business to support these growth aims and answer questions such as "What will entering new markets and territories mean for the company's bottom line?".
- Shine a spotlight on the efficiency of tax departments as part of the wider focus on operational efficiencies (cited by 70% of UK CEOs) that will underpin organic growth.

To respond to these challenges, tax functions will need to be smarter and more efficient in the way they manage both the increased compliance burden and play a more strategic role in the business.

Dealing with an increasing tax compliance burden

Growth often brings additional compliance requirements, and entering new territories or launching new products may mean a whole set of new and unfamiliar compliance obligations to manage. This is against a backdrop of tax regimes becoming more demanding with new rules, shorter deadlines and a growing focus on requiring assurance over data used in tax returns.

Because of this greater scrutiny by tax authorities, companies must be able to stay on the front foot and respond quickly to meet these new obligations. Failure to comply could ultimately result in damage to the relationship with tax authorities, as well as a greater risk of fines or wider reputational damage.

Companies need the agility to respond and scale up their tax compliance approach and controls quickly and efficiently.

Delivering tax compliance and being an effective business partner

To support the desire for growth, tax functions need access to high quality data that can be used for business modelling. They must be able to advise the business on what growth may mean for cashflow, reporting and the value of tax assets.

To achieve this, tax departments need a compliance data set that provides a far broader range of insights than just those used for managing day-to-day compliance. And they need to create capacity to perform this expanded role.

Efficient compliance needs to be underpinned by data and technology

Initiatives such as Making Tax Digital in the UK require companies to provide data in a certain format and, increasingly, in real time. Tax authorities are also starting to examine the underlying technology that tax departments use, assessing if it has the appropriate capabilities for delivering tax compliance.

This means tax functions need to know where their data originates from and be able to ensure its quality from source right through to the submitted tax return. Achieving this data quality and process efficiency will involve smarter use of technology to clean and test data.

However, the need for greater operational efficiency will also force tax departments to do more with less, or without any significant new investment. So how do they scale up resources and implement new technologies to achieve this, while still keeping compliance costs down?

Next steps for insurers

Here are some key questions to help you gauge how prepared your tax department may be to support growth:

- Are you able to manage your cost targets while the compliance burden increases?
- How resilient is your tax function to changes in strategic direction or external changes?
- Can you scale up your operations to respond to a greater number of tax requirements?
- Could you provide a robust response to any compliance questions from tax authorities?
- Can you quickly gain access to high-quality data?
- Can you get the insights that you need for the business from your tax data?

Get in touch to learn about how we can help your business to quickly scale up resources and meet rising tax compliance demands; creating meaningful value and efficiencies.

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Life Insurance Tax Handbook – 2021 refresh

The life tax world post Finance Act 2012

Back in 2013, Finance Act 2012 ("FA2012") brought about a brand-new tax regime for long-term business. A regime where computation preparation begins with the statutory financial statements and where apportionment of income and gains for the 'I-E' computation relies on a company's own commercial bases of allocation rather than the previous (occasionally rather arbitrary) formulaic approach.

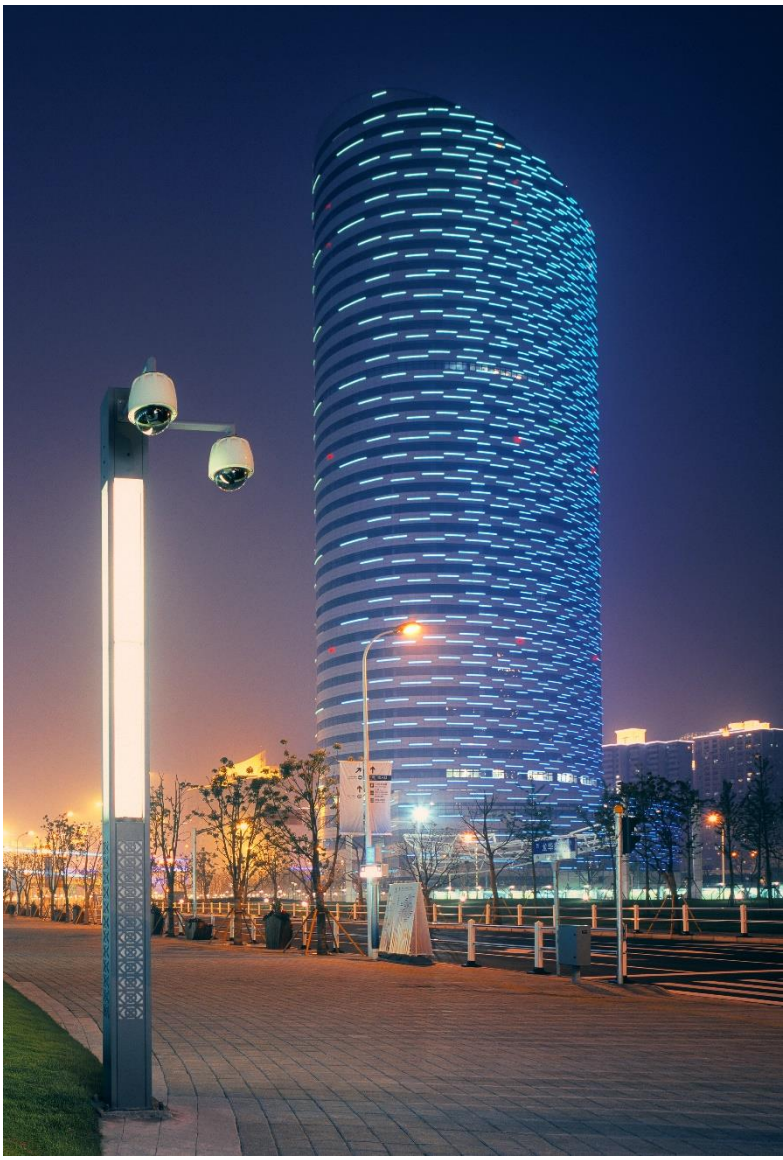
The life insurance industry has now had 8 years experience of the new regime introduced by Finance Act 2012. Due to the complexity of the initial revisions required, a number of uncertainties, peculiarities and possible errors were identified back in 2013 and drawn to HMRC's attention. However, some of these matters have been subsequently addressed – the finalisation of the new BLAGAB Reinsurance Regulations as an example, finally issued in 2018 (although certain aspects of these rules remain under discussion with HMRC).

Principles of life tax computations

In 2021, the 'I–E' computation is still predicated on the commercial allocation of income, gains and expenses and the policyholder tax rate of 20% applied to the policyholder share of BLAGAB profits is unaltered. The rules for the annual deemed disposal of unit trusts, OEICs and the like in section 212 is well known and loved by all, as well as the spreading of BLAGAB acquisition expenses over a 7-year period. (Although, anecdotally, based on recent industry discussions relevant to IFRS17 and a suggestion by HMRC, there is a question mark over the future necessity for such a tax rule considering the industry business profile of more recent years). The trade profits computations for BLAGAB and non-BLAGAB business are based on general trade profits principles, with life tax modifications and subtleties applied over the top such as the requirement to tax dividends without application of the exemptions of CTA09/Part 9A, and allowing a deduction for policyholder tax (BLAGAB only) etc.

Since 2013 however, the wider UK tax environment has developed, as well as the final implementation of Solvency II in 2016 meaning tax attributes are now admissible assets for regulatory capital purposes. Some minor amendments have been made to FA2012 as a result of subsequent legislation, but there have also been some more substantial changes to the specifics of the interaction of the FA2012 regime with new legislation that has entered the red and yellow books in more recent years.

In particular, the interaction of the new loss relief restriction caused some initial issues when applied as originally proposed in an insurance regulatory context. This was satisfactorily addressed in response to concerns from the industry to bring about the 'shock loss exemption' to the requirement to otherwise restrict the offset of the loss on a 1 in 200-year event by 50% for the purposes of LACDT recognition. Additionally, the Corporate Interest Restriction (CIR) rules now to be found in TIOPA2010/Part 10, coupled with changes to the loan relationships and derivatives regime in 2016, have necessitated insurance specific provisions and elections. The overall tax regime for life insurers has therefore changed in a number of important ways since the last edition of our Life Tax Handbook was published.



Life Insurance Tax Handbook – 2021 refresh (cont'd)

PwC's Life Tax Handbook 2021

During the Summer 2021, the PwC Life Tax Group have been carrying out a project to refresh the PwC Life Tax Handbook. The impending 2021 edition of the Handbook is intended to be a refresh rather than a rewrite of our previous edition. Although a lot of content remains unchanged, it will now cover the life insurance implications of the substantial changes brought about by CIR, changes to the loan relationships and derivatives rules in 2016, the loss relief restriction (and complementary flexibilities) applicable from April 2017 as well as the 2018 BLAGAB Reinsurance Regulations. Other sections on Transfers of Business, Intangible Fixed Assets and Transfer Pricing have been given an update and spruce-up considering recent experience and insight. As with our previous edition, the Handbook will no longer include an example computation and the previous sections on the detailed transitional adjustment rules into the FA2012 regime have been removed as 'old news' (particularly as the 10 year spreading is nearly over!).

It is noted that HMRC themselves carried out a project between 2018–2020 to rewrite the Life Assurance Manual (LAM) to take account of the FA2012 regime. Prior to this the industry and indeed HMRC were left to interpret the legislation unguided with only a few Interim Chapters on Transfers of Business, Allocation Rules and Transitional Provisions to refer to. We hope the refreshed Handbook will complement the recently published LAM guidance as a consequence.

We are planning to release the 2021 Handbook later in September/October. If you would like to be kept up to date with the progress of the release, then please speak to your normal PwC contact or any one of our senior Life Tax Group. The Handbook refresh has been a collective effort by the whole team, and it has been great to have all grades of people in our life tax team involved.

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Getting value from R&D Tax Credits: The Importance of Competent Professionals

Research & Development (R&D) tax credits are government incentives available to companies investing in advancing technological or scientific capabilities. While filing claims often falls to a claimant's tax team, the key to ensuring claims are optimised and robust is the assessment of qualifying R&D activities by a company's 'competent professional'.

To help ensure R&D activities are correctly assessed, we've set out three things claimants should consider:

1 Who is a 'competent professional' and why are they important?

The competent professional is the individual who understands the underlying scientific or technological elements of projects and will be responsible for making a judgement on whether or not a project includes eligible R&D activities. Should HMRC query the nature of the R&D activities, it is the competent professional who will need to explain their reasoning. So, it is fundamental that a company's competent professionals are given guidance and support to make the correct assessment of what would be determined as qualifying R&D by HMRC.

2 How can tax teams ensure competent professionals are making the right decisions to result in optimised and robust claims?

Although the judgement of R&D activities lies with the competent professionals, the accuracy of the R&D claim within the tax return is the responsibility of the tax team. So, the tax team must be happy with the judgments made by the competent professionals.

It is therefore important that tax teams ensure the competent professionals are given detailed guidance and access to relevant industry expertise to help them understand what activities qualify as R&D for tax purposes. This is why at PwC we have a team of qualified engineers, scientists and technologists with relevant industry expertise and experience in agreeing with HMRC which activities qualify as R&D for tax purposes.

Alongside the accurate identification of the R&D activities by competent professionals, it is essential that quality documentation is prepared which demonstrates the types of R&D activities identified, and how they meet key criteria of 'advance' and 'uncertainty'. To ensure claims are as robust as possible, we recommend all claimants file quality documentation to support claims and minimise HMRC queries.

3 How can tax teams ensure R&D claims are robust but minimise the time burden on tech teams?

While companies can file claims up to two years after the end of the accounting periods, we strongly advise companies to implement a real-time approach to identifying R&D activities. This not only minimises the time needed from the competent professionals (as it is easier for them to provide the required details on what qualifies), but our experience shows more R&D activities are identified, as competent professionals find it easier to recall the details. This approach is also preferred by HMRC.

In conclusion, our advice to all claimants is to invest time in helping competent professionals make the right judgements on what qualifies as R&D which should help ensure the value from claims is optimised, both in terms of cash received and a claim that stands up to HMRC scrutiny.

If you would like further information on how best to support your R&D teams with identifying R&D activities or the benefits of R&D claims, please contact the individuals below, or your local R&D contact:

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