Finance Directors Update Course

February 2026

Now, for tomorrow

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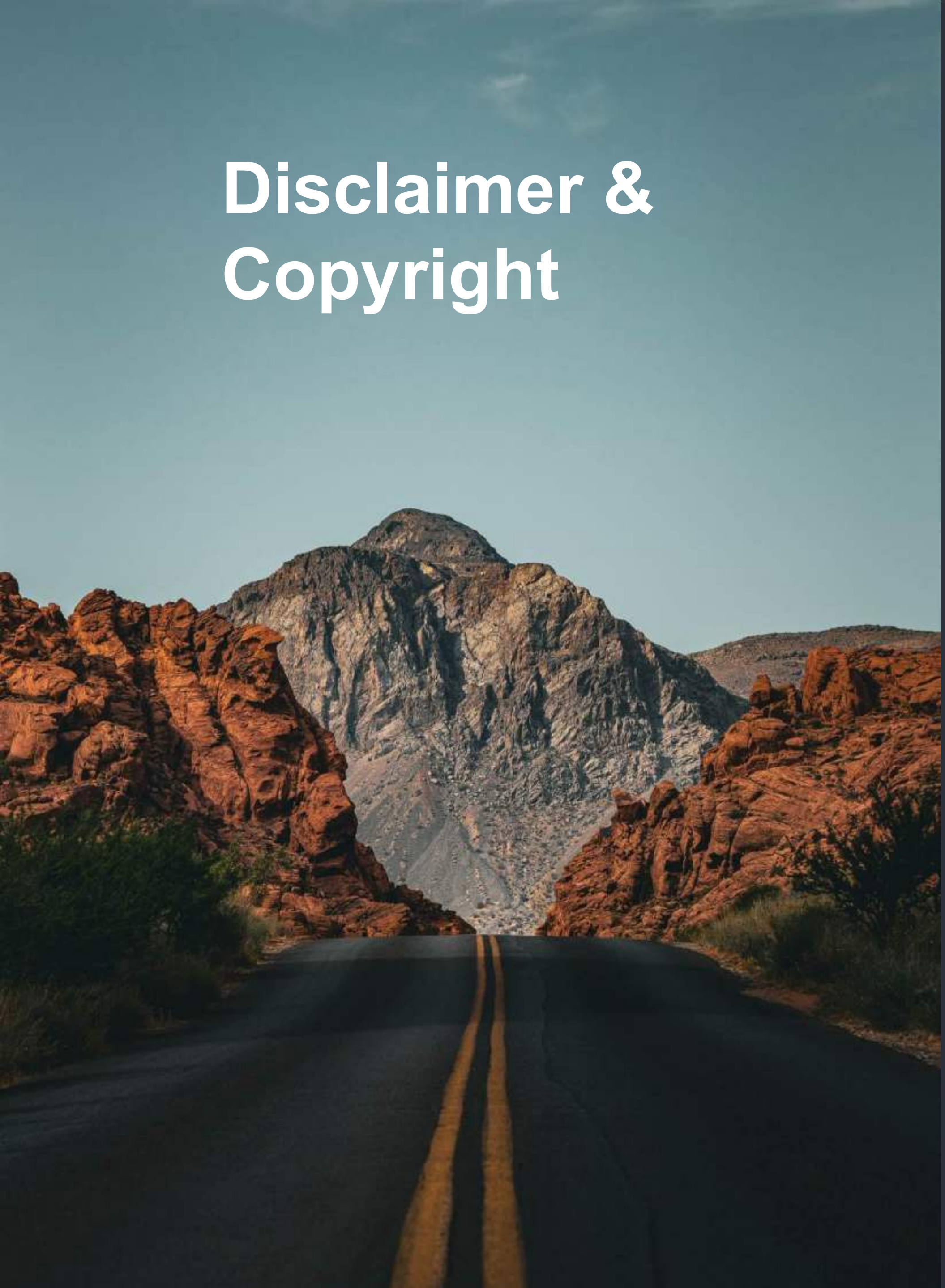

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Thank you for joining us

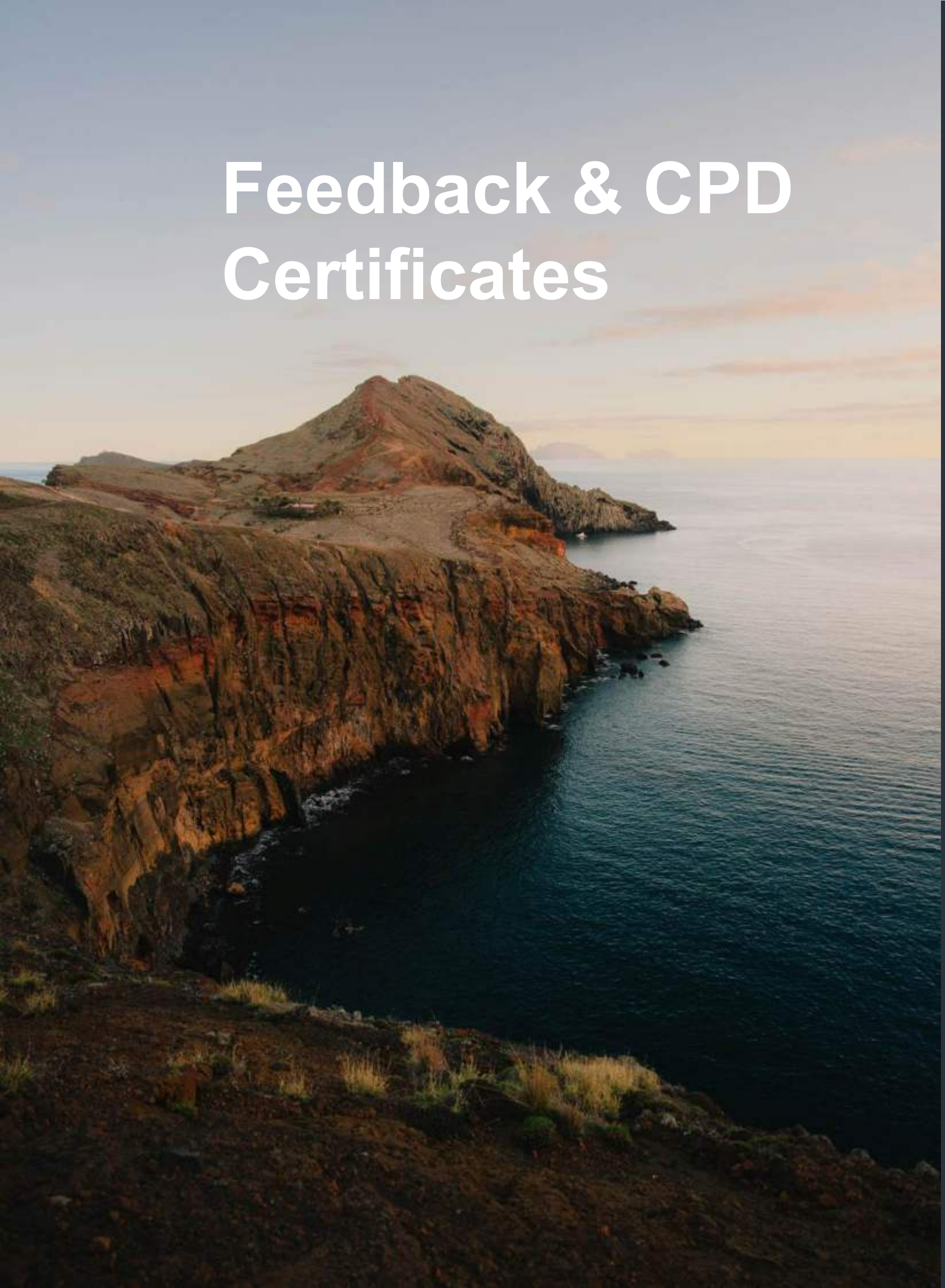
A copy of the slides has been sent to you this morning, are available to download from our website, via the QR code here, or via the link in the Chat, where you will also find other useful information.

Please use the Q&A to ask any questions. We will do our best to answer them during the webinar or will raise it on your behalf during the Q&A at the end with all of our presenters – so don't go away!

Any outstanding questions (not asked anonymously) will be responded to directly.

Please keep your microphone muted & camera off.

Feedback & CPD Certificates



This is a CPD Course and provides 3 hours of relevant CPD.

Please use our feedback form to request your CPD certificate for attending. Certificates will be sent out by the end of April, once your attendance has been verified.

We appreciate all feedback, which helps us to plan future events to ensure they meet your needs.

The recording from today’s webinar will also be available in the next couple of weeks.

www.surveymonkey.com/r/FDupdateFeb26

Our Speakers

Chris Danes
Tax Partner &
Chairperson

Professor Joe Nellis
Economic Advisor to
MHA

Richard Maitland
Employment Tax
Partner

David Stone
Tax Director

Sue Rathmell
VAT & Indirect Tax
Partner

Scott London-Hill
Research &
Development Tax
Manager

Jonathan Dowding
Tax Director

James Smith
Head of Global Mobility

Yasmin Ishaq
Transfer Pricing
Director

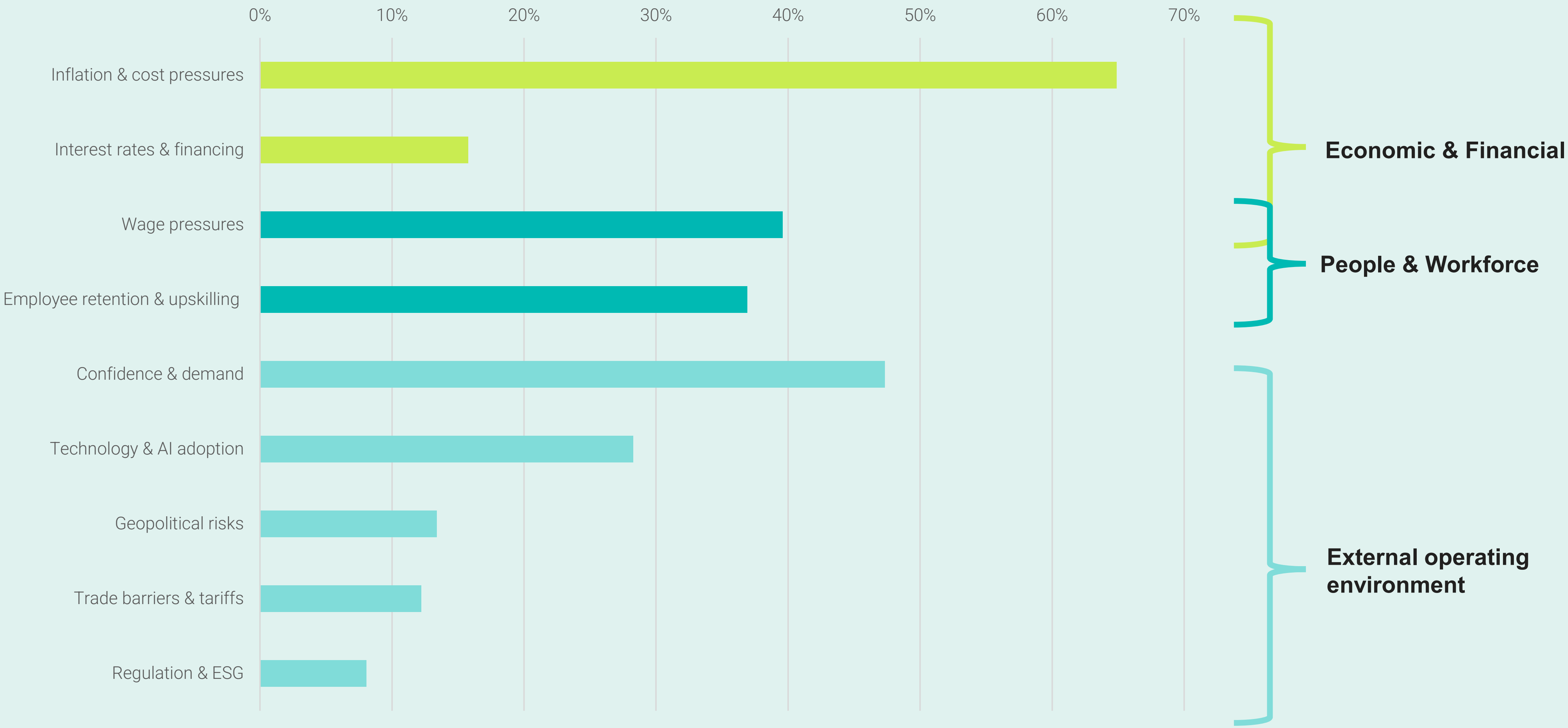
Neil Parsons
Head of Financial Reporting
Advisory and Company Law

Agenda

Focus	Time	Topic	Speaker
All	08.30 – 8.45am	Introduction & polls	**Chris Danes,** Tax Partner
	08.30 – 9.30am	Economic Update	**Professor Joe Nellis** Economic Adviser
	09.30 – 10.00am	Audit & Accounting Standards	**Neil Parsons,** Head of Financial Reporting
	10.00 – 10.10am	Comfort Break	
Corporate	10.10 – 10.20am	Employment Tax	**Richard Maitland,** Employment Tax Partner
	10.20 – 10.30am	Corporate Tax	**David Stone,** Tax Director
	10.30 – 10.45am	Research & Development Tax Credits	**Scott London-Hill,** R&D Tax Senior Manager
	10.45 – 11.10am	VAT	**Sue Rathmell,** VAT Partner
	11.10 – 11.20am	Comfort Break	
International	11.20 – 11.50am	Global Mobility & International Tax	**James Smith,** Global Mobility Partner **Jonathan Dowding** International Tax Director
	11.50 – 12noon	Transfer Pricing	**Yasmin Ishaq,** Transfer Pricing Director
	12noon	Q&A for any further questions	**Full Panel**

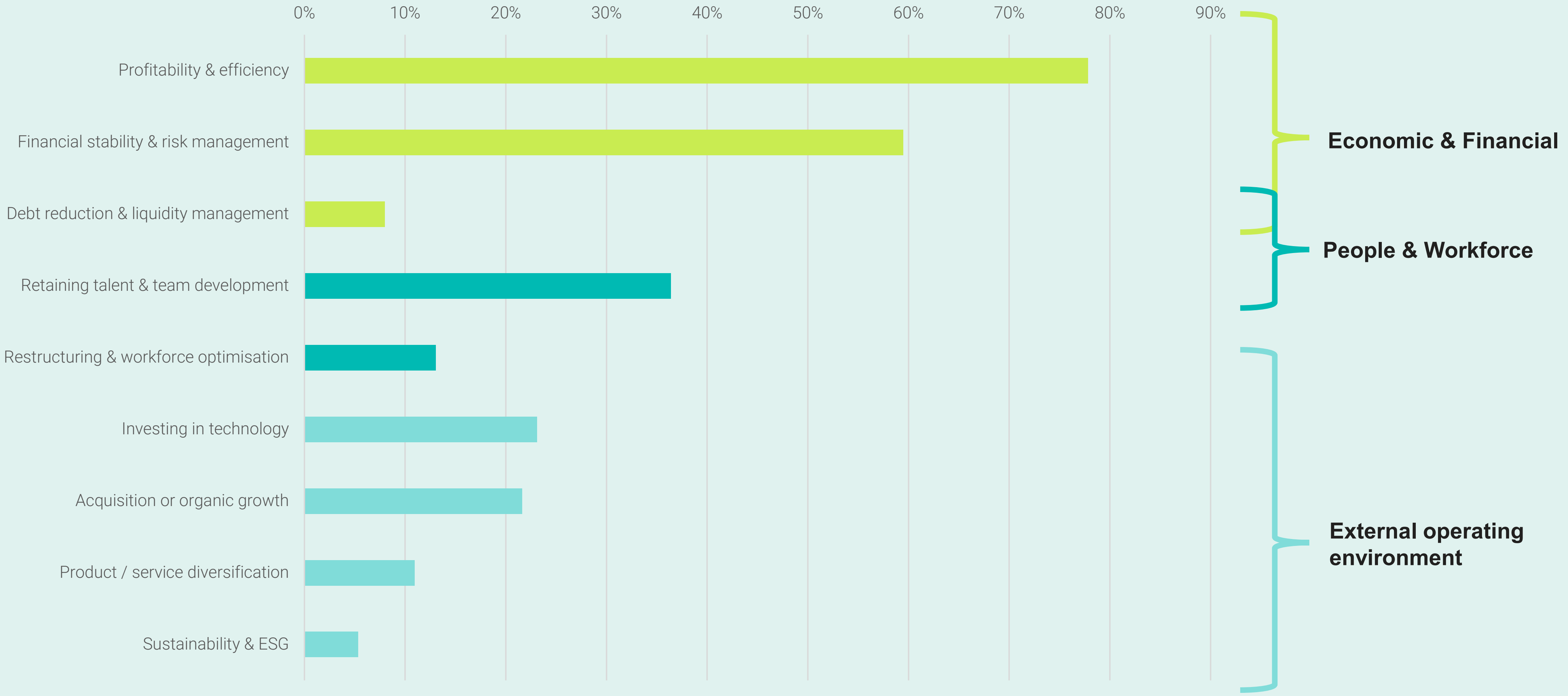
Poll Results - Biggest Challenges

September 2025 – Top 3 challenges for businesses over the next 12 months



Poll Results – Highest priorities

September 2025 – Top 3 highest priorities for businesses over the next 12 months

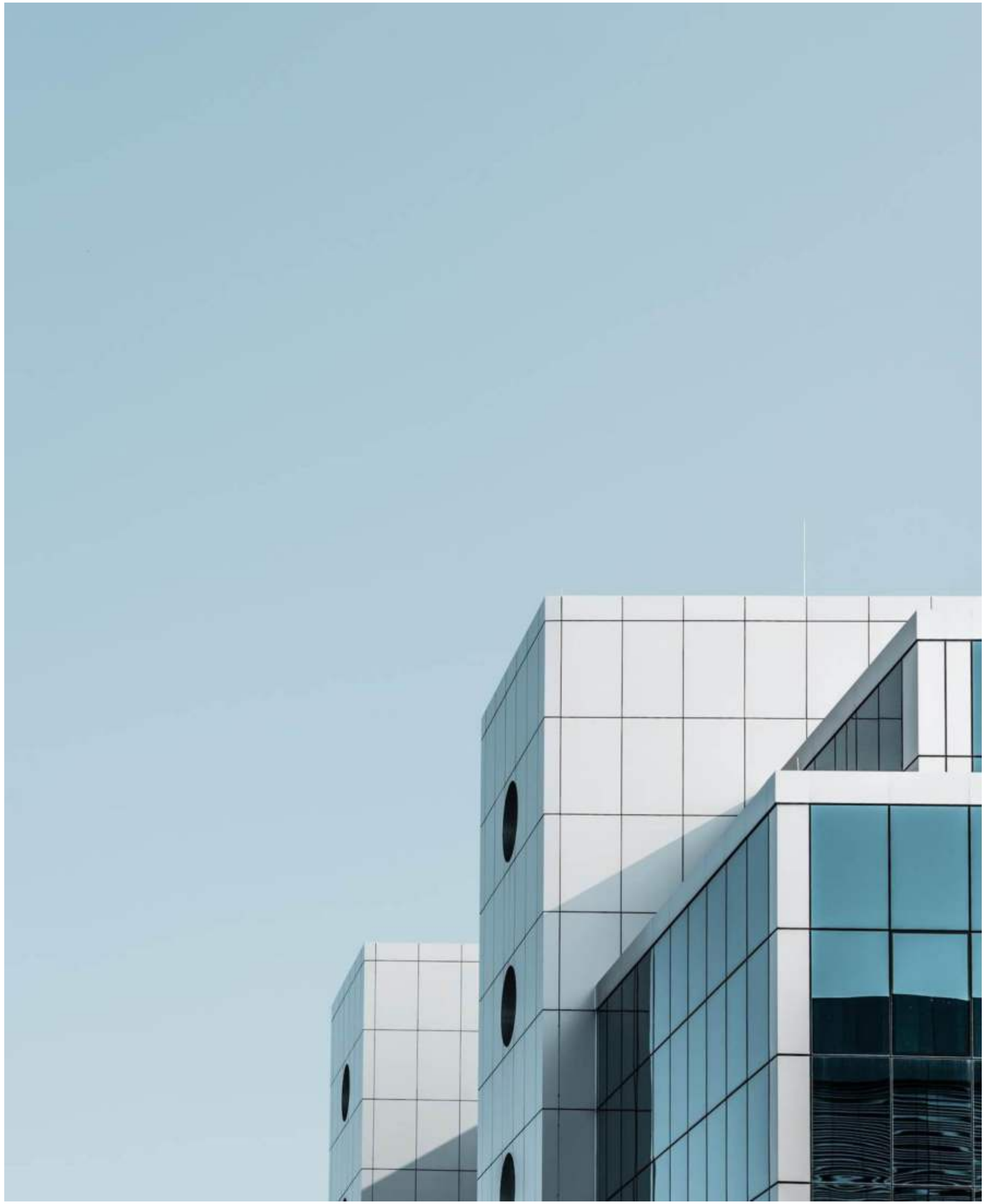


Economic Update

Professor Joe Nellis
Economic Advisor to
MHA

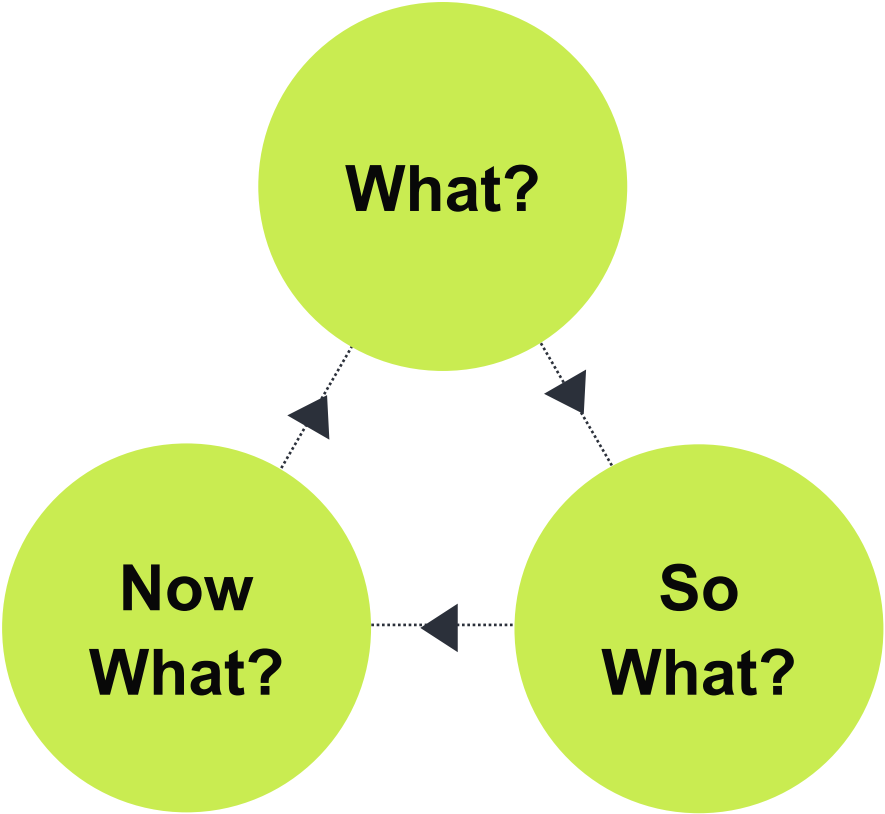
Context: VUCA is the New Normal!

V	U	C	A
Volatility	**Uncertainty**	**Complexity**	**Ambiguity**
Rate of change	Unclear about the present	Multiple key decision factors	Lack of clarity about meaning of an event

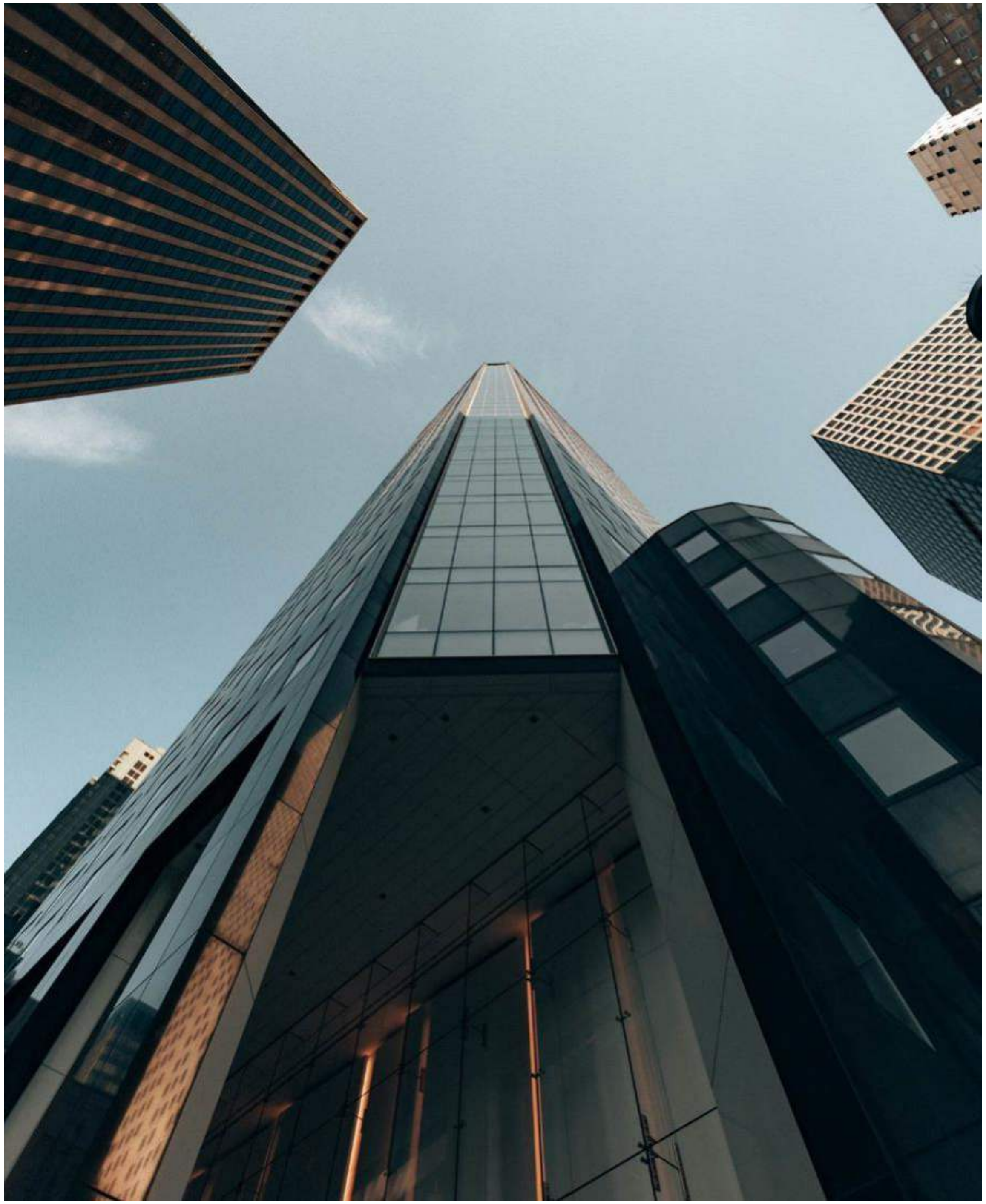


“Prediction is very difficult, especially if it's about the future.”

Neils Bohr, Nobel Laureate



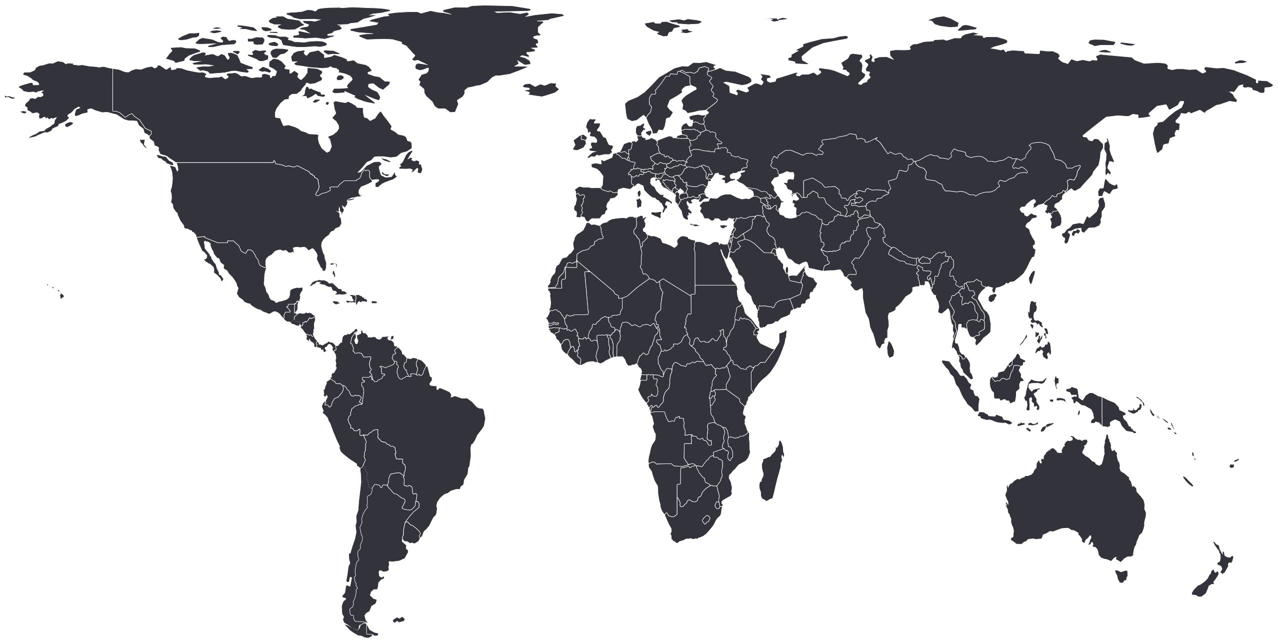
Source: Rolfe et al's (2001) reflective model



The Global Economy

Growth projections by region

Real GDP growth, per change (January 2026)



Source: IMF, World Economic Outlook Update, January 2026.

World

2025	3.3
2026	3.3
2027	3.2

United States

2025	2.1
2026	2.4
2027	2.0

Euro area

2025	1.4
2026	1.3
2027	1.4

Middle East and Central Asia

2025	3.7
2026	3.9
2027	4.0

Emerging and Developing Asia

2025	5.4
2026	5.0
2027	4.8

Latin America and the Caribbean

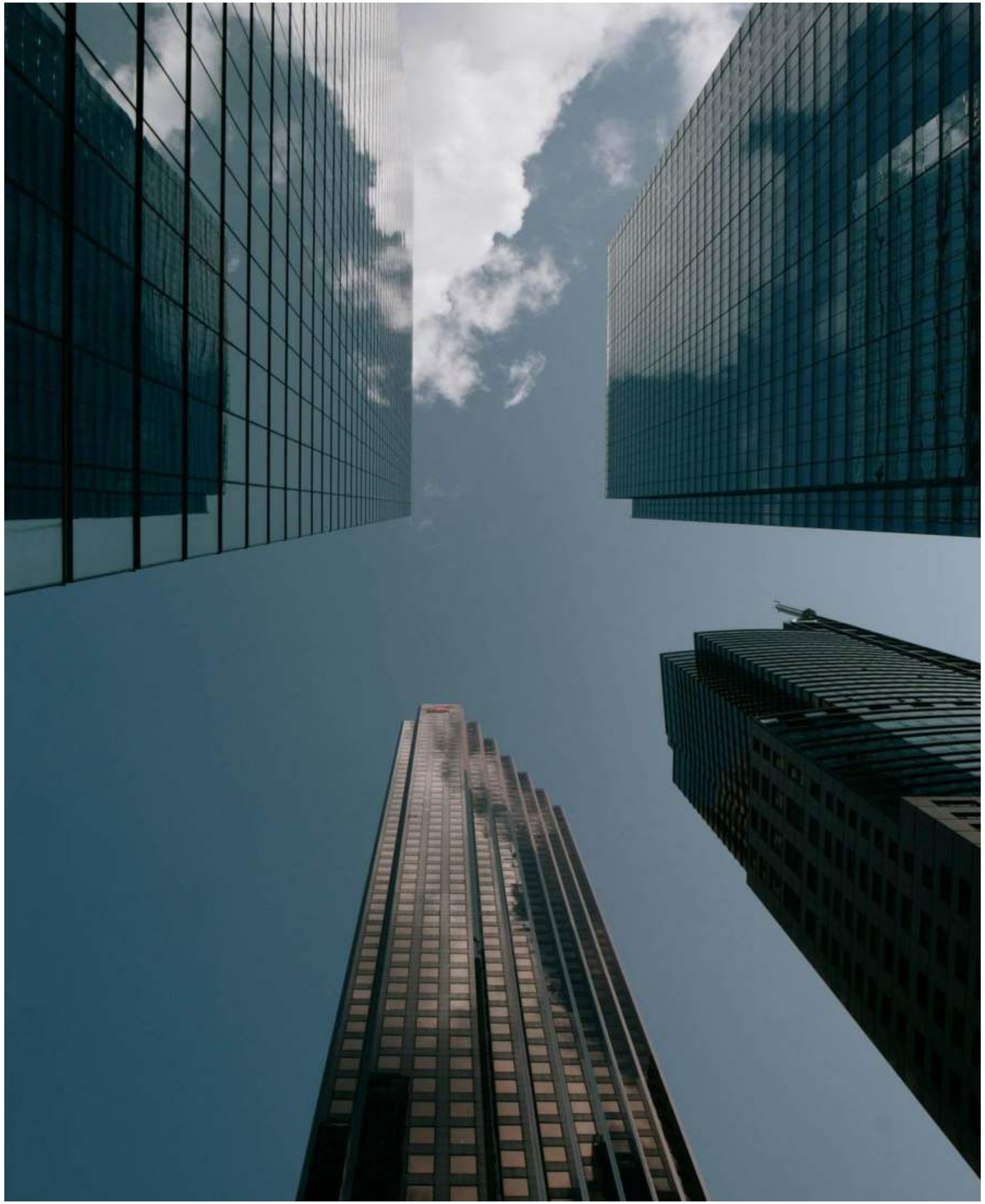
2025	2.4
2026	2.2
2027	2.7

Sub-Saharan Africa

2025	4.4
2026	4.6
2027	4.6

Global Inflation Prospects in 2026

1. **Global CPI**: Gradually trending lower but remains above pre-pandemic averages, falling to around 3% in 2026 as growth slows.
2. **USA**: Headline CPI at around 2.5-2.8%, with services inflation sticky.
3. **Eurozone**: On target at 2%, aided by lower energy price inflation.
4. **UK:** Highest in G7 at 3.4%, due to wage growth and services prices.
5. **Emerging markets**: Mixed picture – LatAm inflation falling but Turkey & Argentina outliers at over 30%.



Global Economy Outlook – the BIG Issues

Inflation lower but NOT benign inflation risks still persist

Monetary policy easing - but only limited interest rates cuts to come

Public finance pressure will grow fiscal policy less supportive of growth

Geopolitics and economic fragmentation - resilience is critical

Technology to boost productivity - but execution is critical

Climate risk is now a core macroeconomic risk

Changing ‘Spheres of Influence’

USA

EU

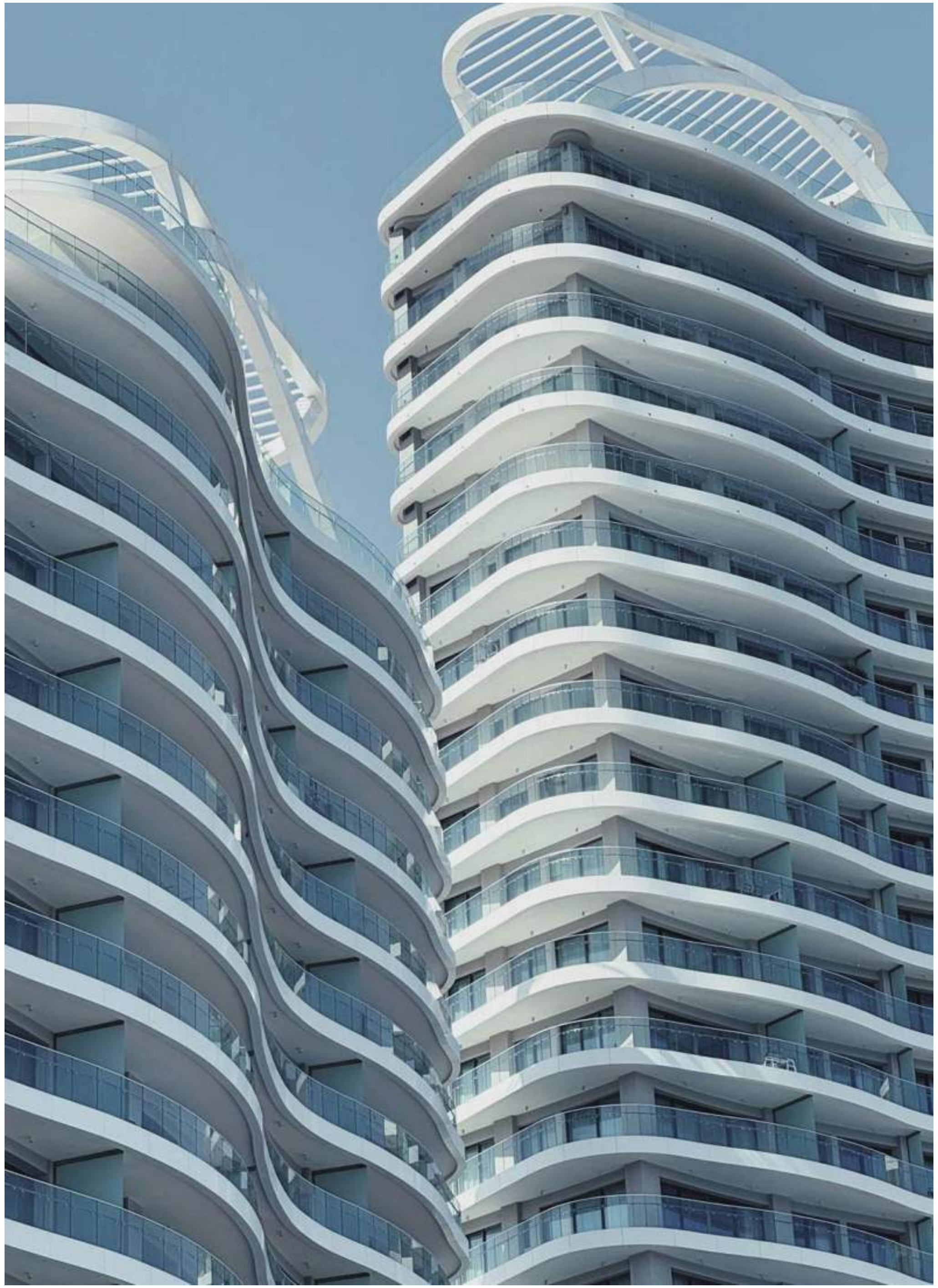
China

Implications for further Trade Relationships

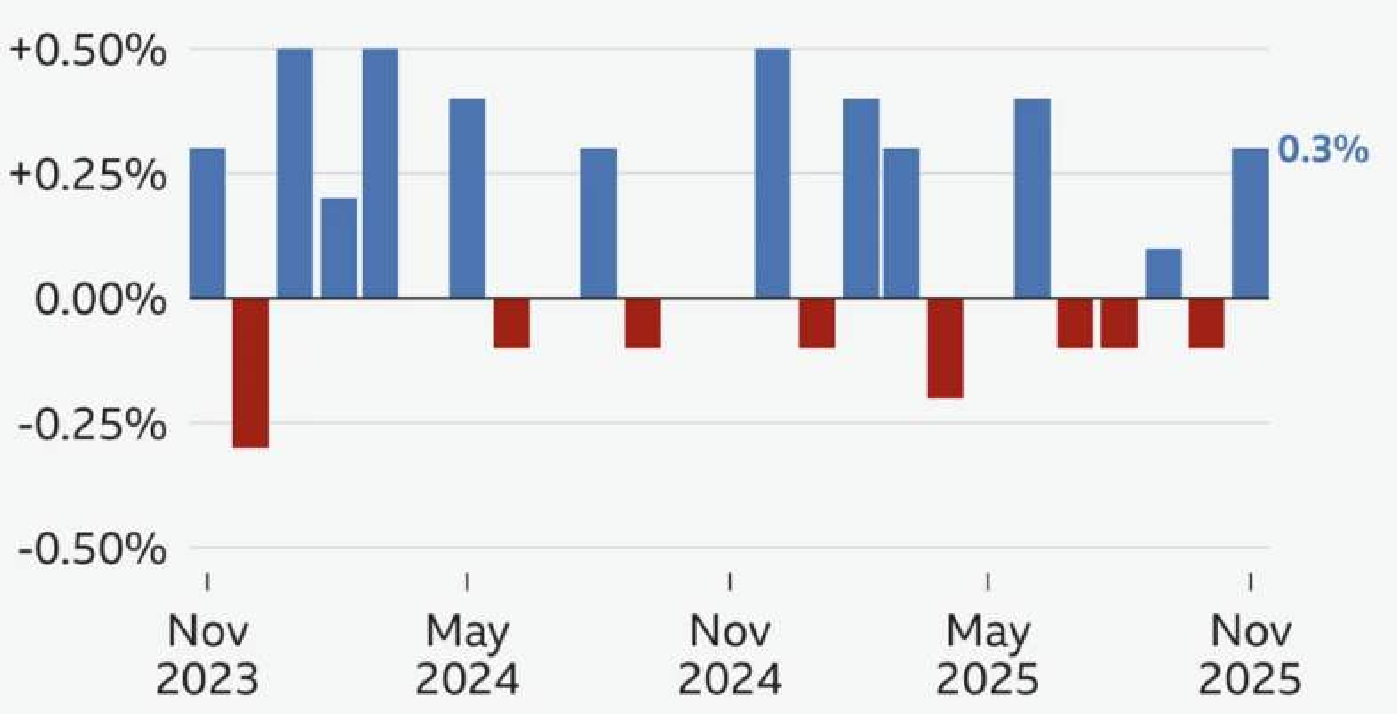
The UK economy

State of the UK Economy

- The economy slowed as 2025 progressed – after a good start!
- **But GDP grew by 0.3% in November – better than forecast.**
- **Inflation concerns easing – but still 'sticky'**
    - Inflation rate 3.4% in December – up from 3.2% in November
    - Food inflation remains a problem for many households
- Consumer and business confidence remain fragile;
- Public sector spending expanding, year after year...
    - **Mainly due to escalating welfare, healthcare and pension costs.**

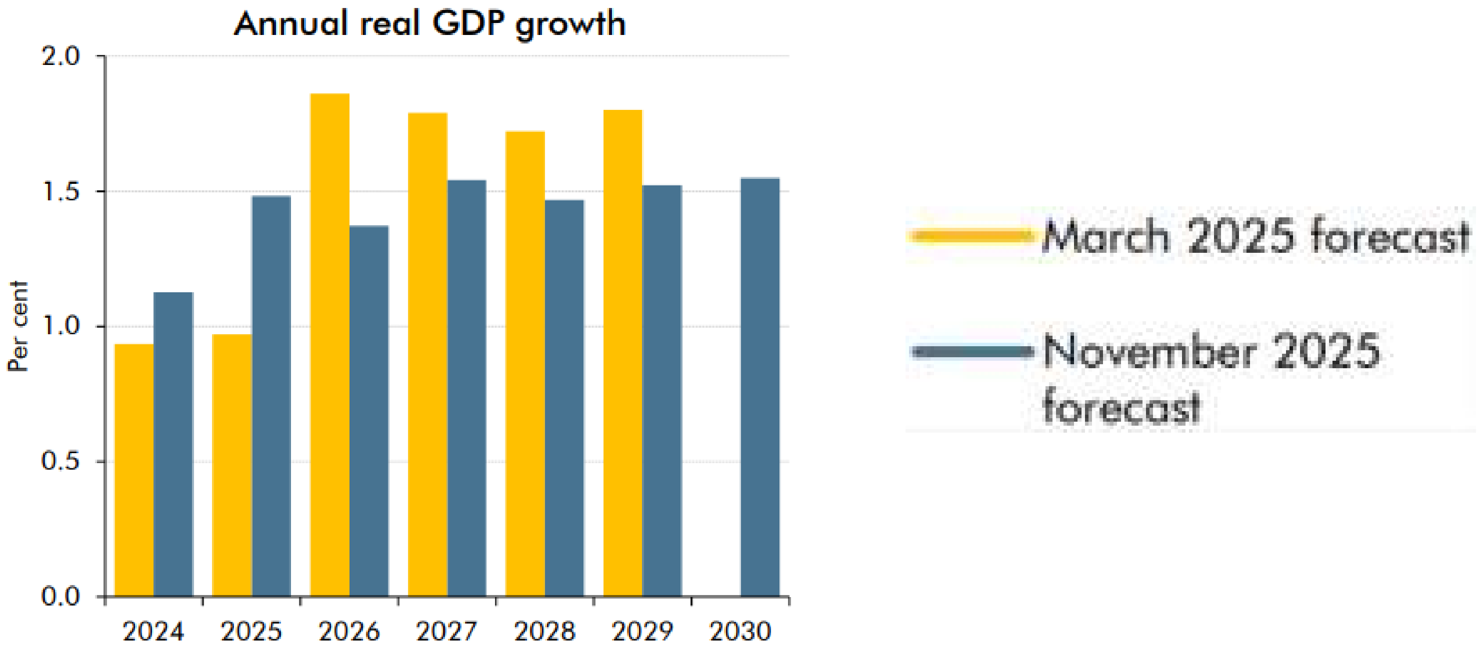


UK Economic Growth – Update



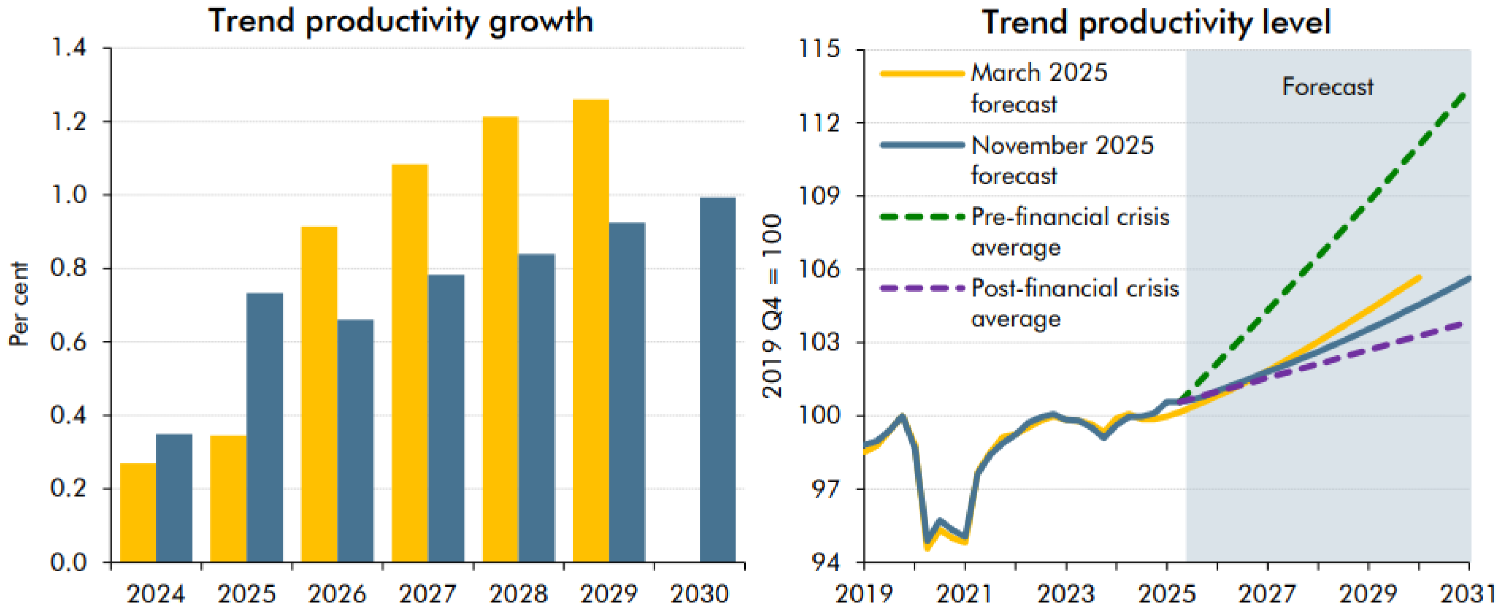
Source: Office for National Statistics

UK Economic Growth – Outlook



Source: Office for National Statistics, OBR

UK Trend Productivity – the BIG Problem!



Source: Office for National Statistics, OBR

UK Government Borrowing Costs

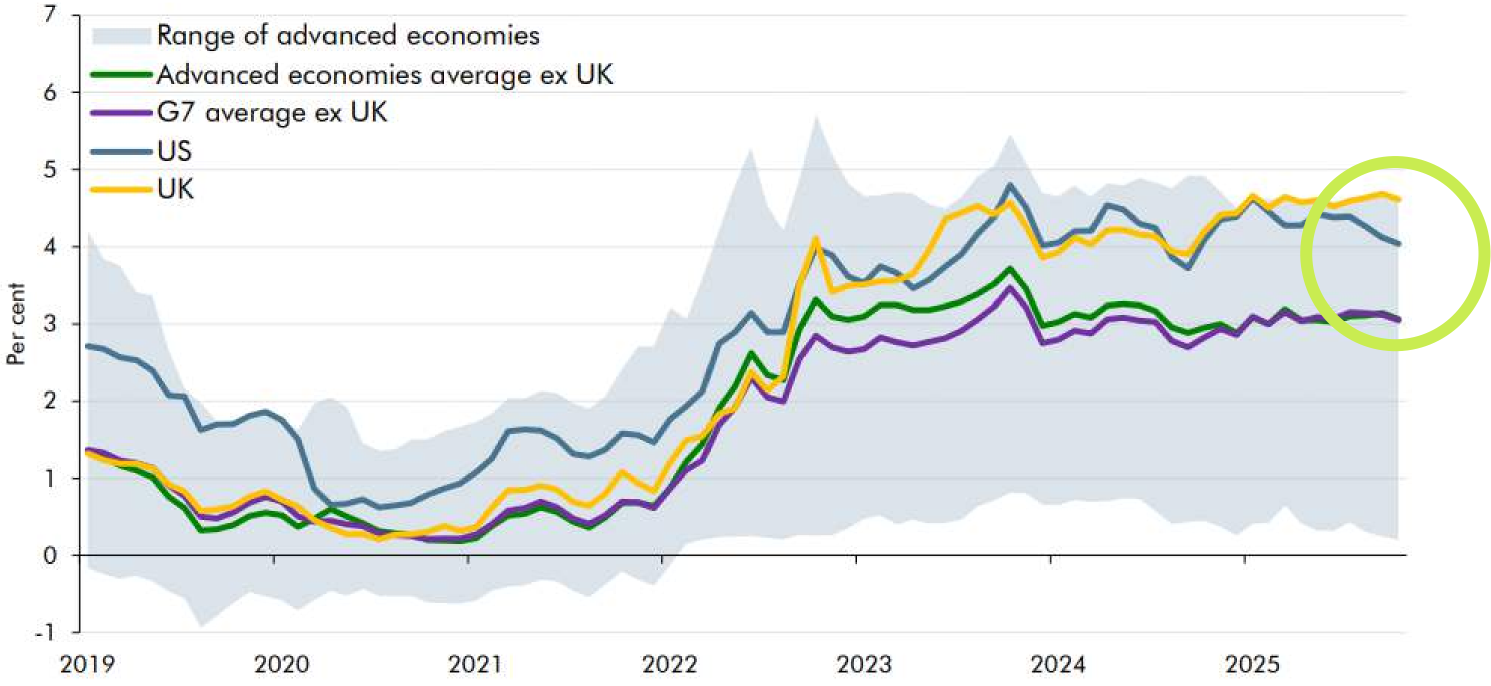
10-year government bond yields

Implications for:

- Government finances?
- Business loans?
- Mortgage costs?

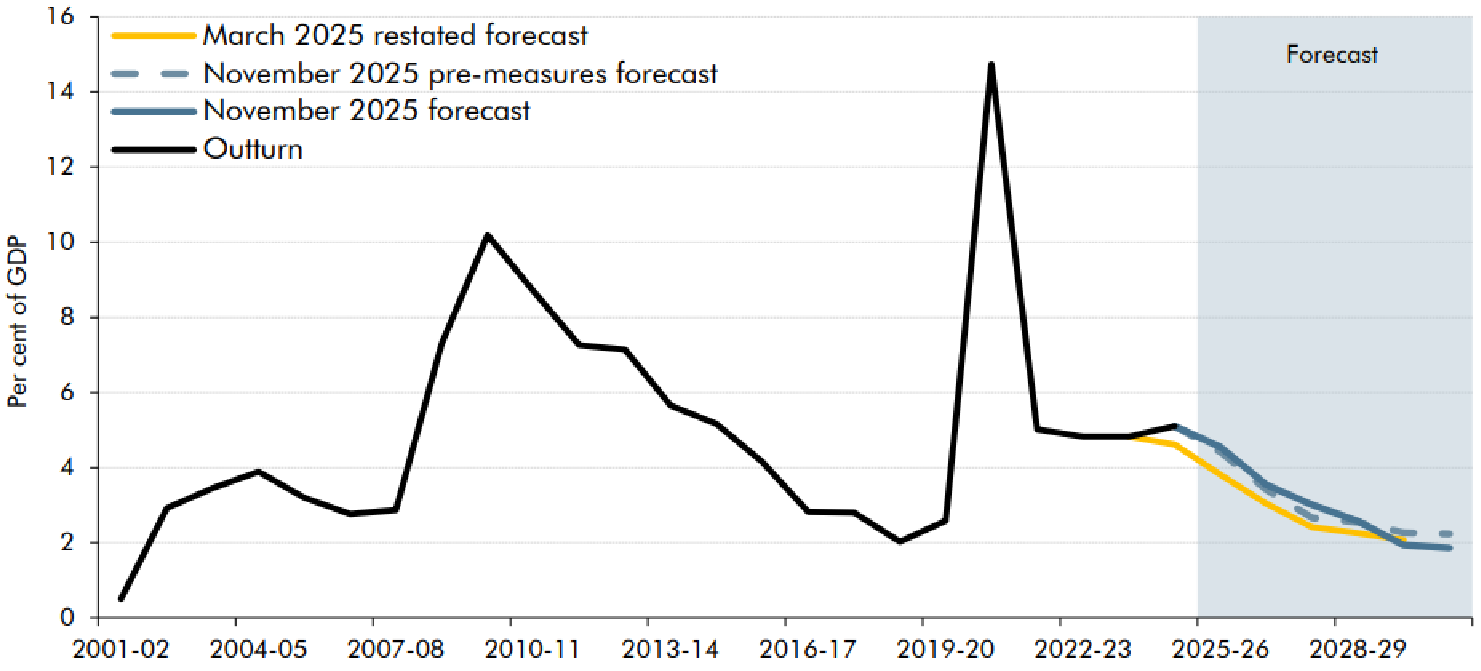
Source: Trading Economics

International Comparison of 10-year Government Bond Yields



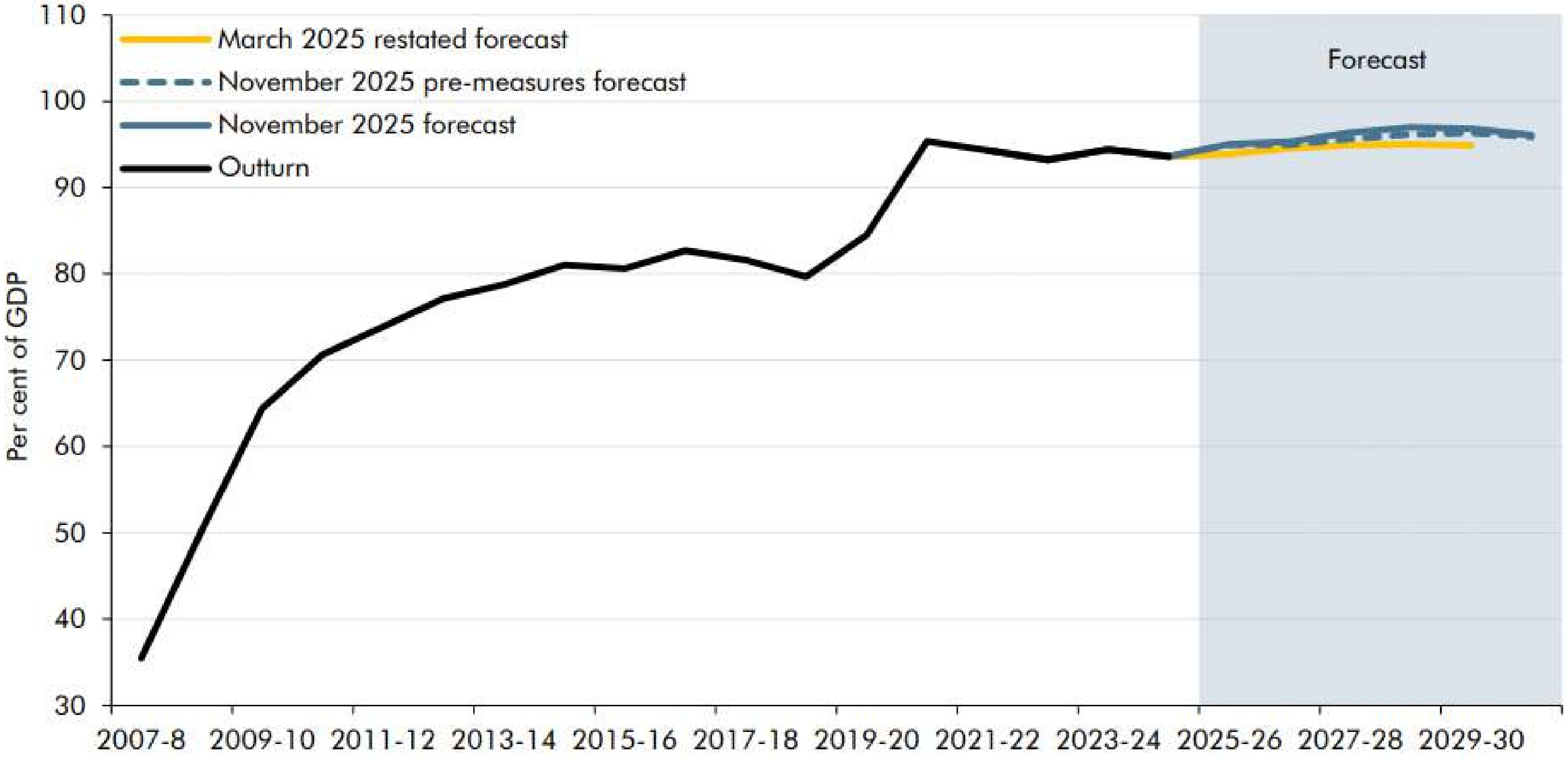
Source: Haver Analytics, OBR

UK Public Sector Net Borrowing - Outlook



Source: Office for National Statistics, OBR

UK Public Sector Net Debt - Outlook

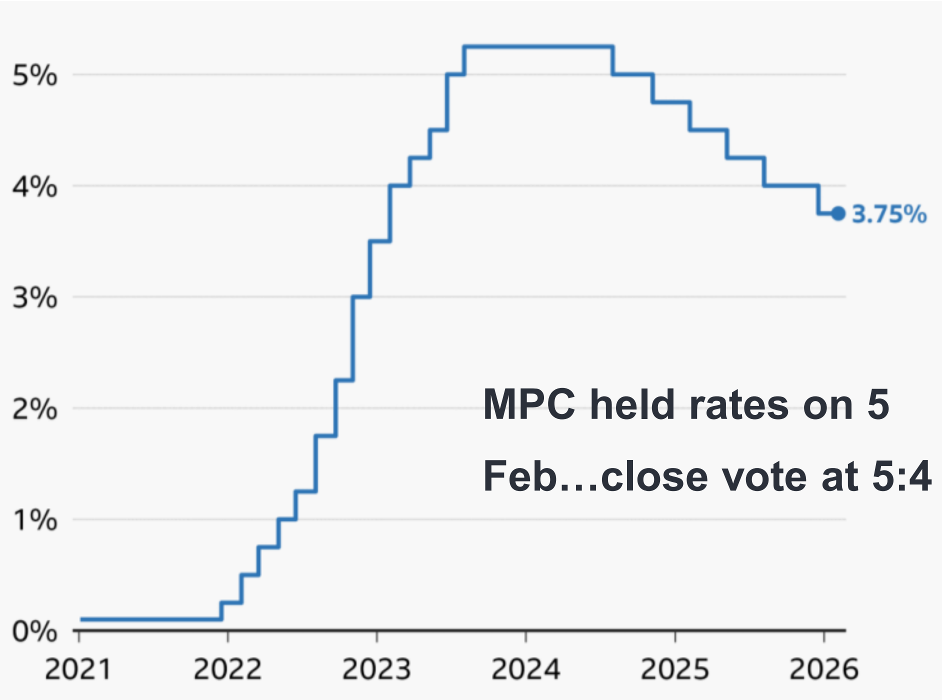


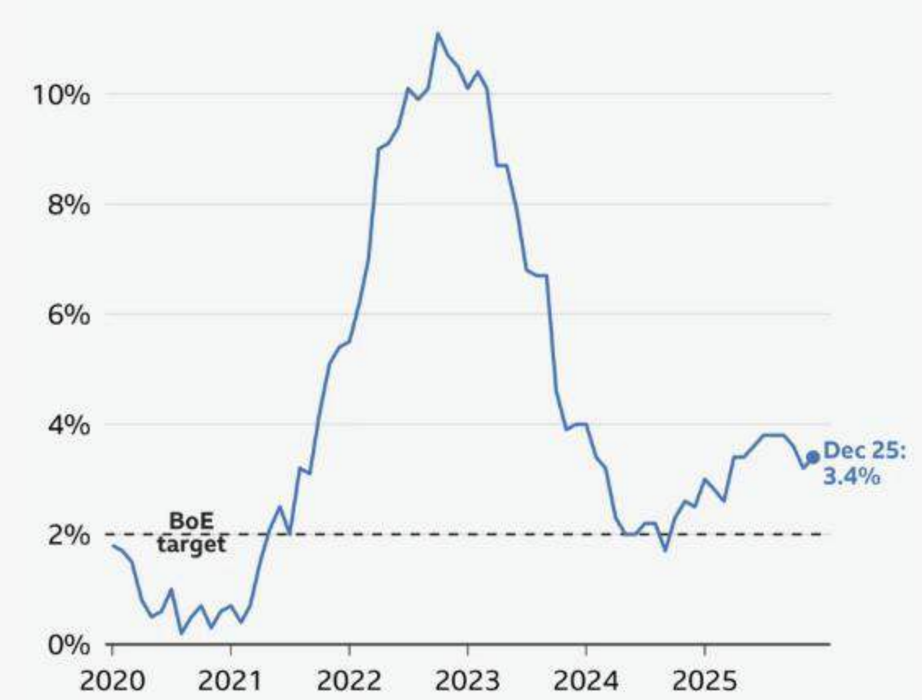
Source: Office for National Statistics, OBR

UK Government Finances – Long-Term Outlook

- National debt (% GDP) could almost TREBLE over next 50 years;
- Based on independent OBR research;
- Three main reasons:
  - An ageing population;
  - Climate change;
  - Rising geopolitical tensions.
- Risks of war, disease, cyber-conflict and trade tensions could push debt burden even higher!
- ‘Unsustainable path’ without:
  - Extra tax revenues, and/or…
  - A return to high and sustained productivity levels.

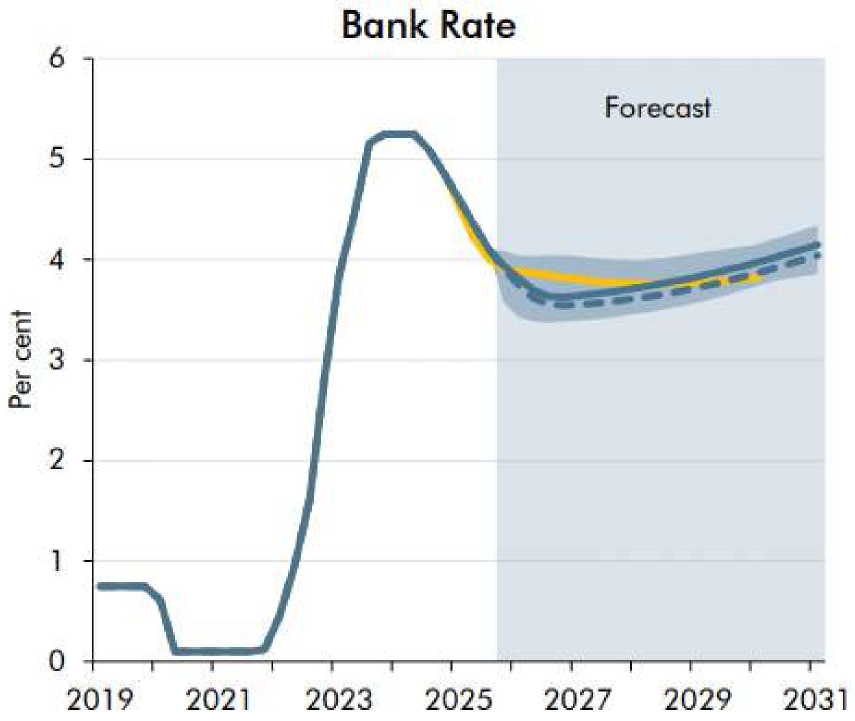
UK Interest Rates & Inflation Rate - Latest

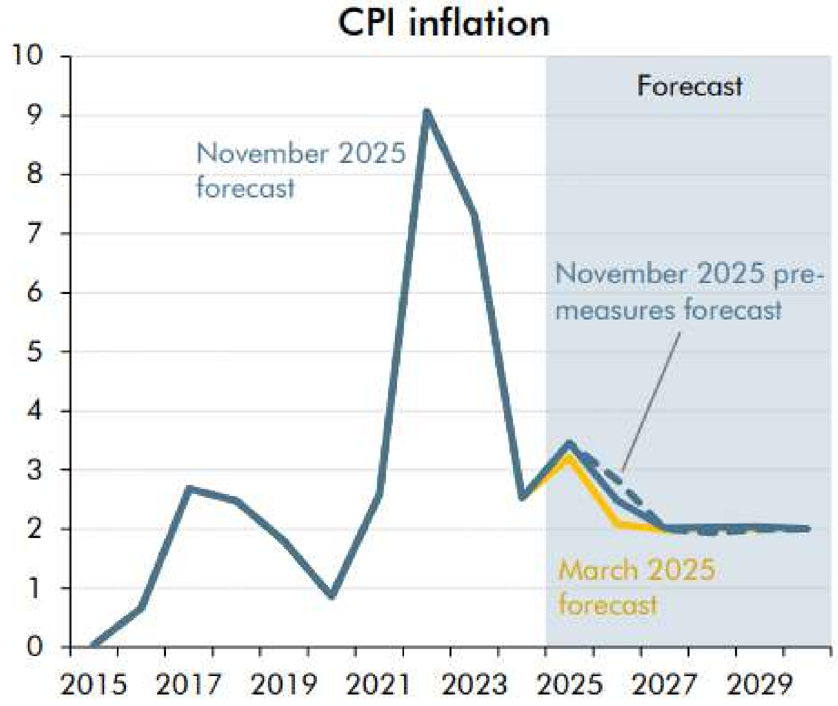




Source: Bank of England & Office for National Statistics

UK Interest Rates & Inflation - Outlook





Source: Bank of England, OBR

UK Labour Market

Unemployment has been edging up in recent months [now at 5.1%]

About 9.1 million people aged 16-64 classified as 'economically inactive' = inactivity rate of 21%

With 30% (2.78 mn) categorized as 'long-term sick' – a record high

Youth unemployment a major concern at 13.7%

Labour shortages continuing in some sectors

Minimal growth in real earnings forecast

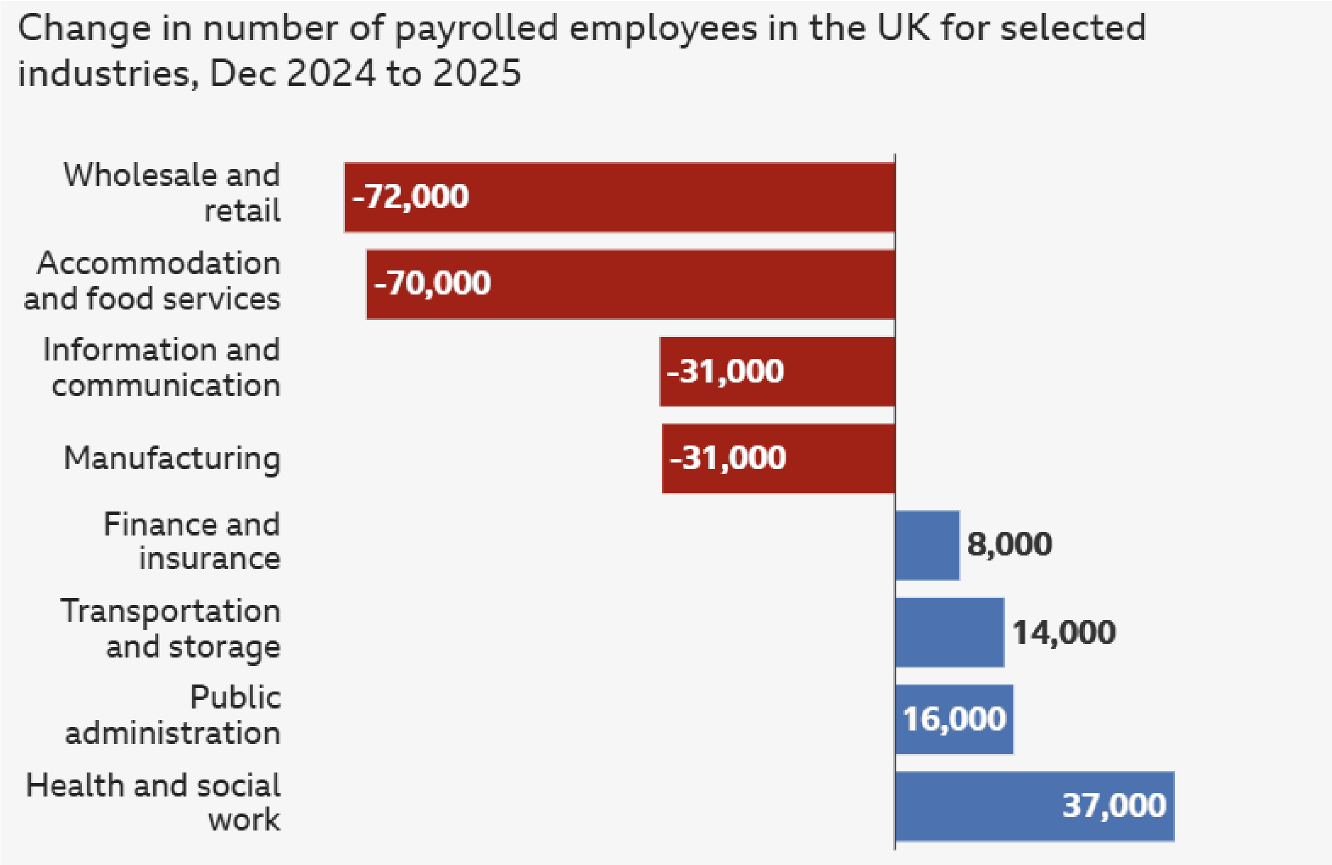
Job vacancies steadily falling for past 3 years

With falls in employment in some sectors

UK Real Hourly Earnings - Outlook

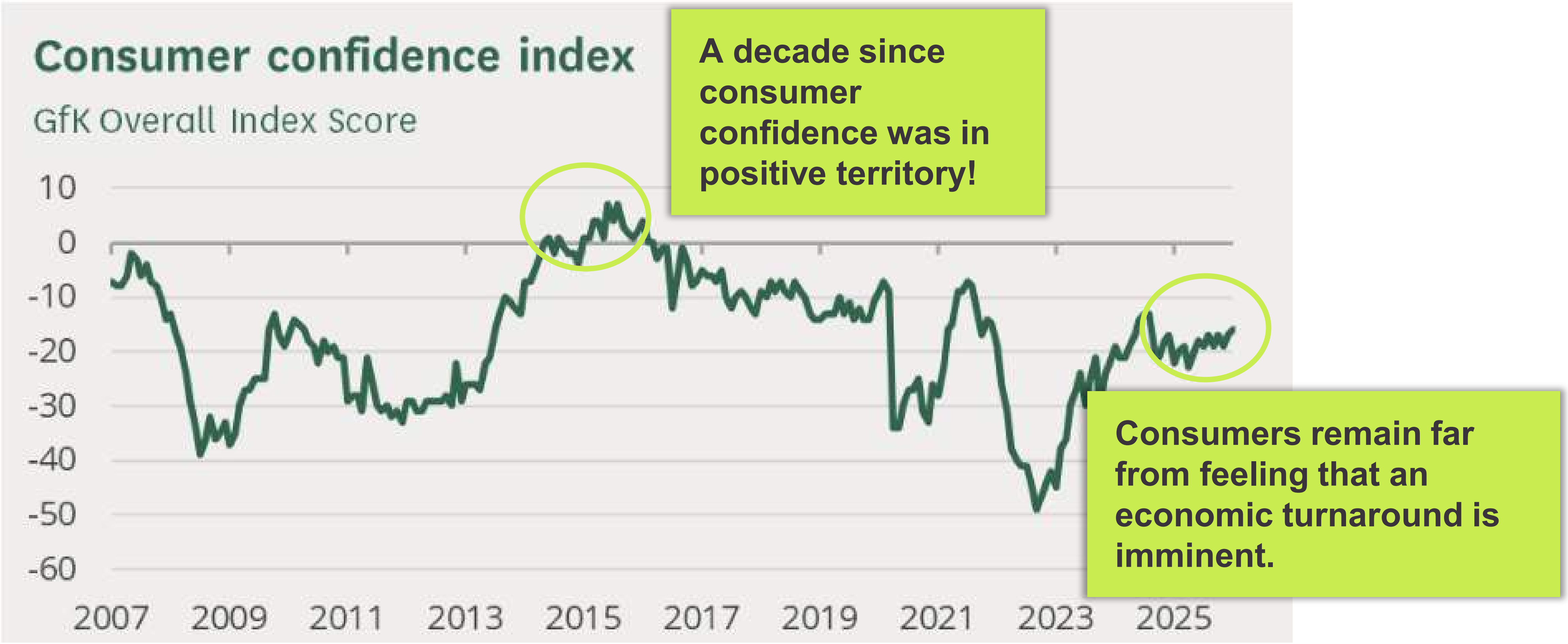
Source: Office for National Statistics, OBR

Employment Falls in Some Sectors



Source: Office for National Statistics

GfK Consumer Confidence Index* (January 2026)



* GfK's Consumer Confidence Index measures a range of consumer attitudes, including forward expectations of the general economic situation and households' financial positions, and views on making major household purchases. Next release: 27 February 2026.

UK Economic Growth – Update

- Growth recovering, debt remaining high, headroom thin;
- Inflation set to fall back to target – subject to external risks!
- Bank of England has signalled interest rate cuts ahead;
- Minimal growth in living standards for several years ahead;
- Labour market challenges – key shortages in some sectors.
- Ongoing trade disruptions – impacting growth and investment;

“The next five years will see more changes in business than in the last 50
Forward-thinking leaders will need to focus on the future as well as current challenges as we enter an important period of change”

Source: Joe Nellis, *People Management*, 2024

Audit & Accounting Standards

Neil Parsons
Head of Financial Reporting
Advisory and Company Law

Neil.Parsons@mha.co.uk

What we're talking about today

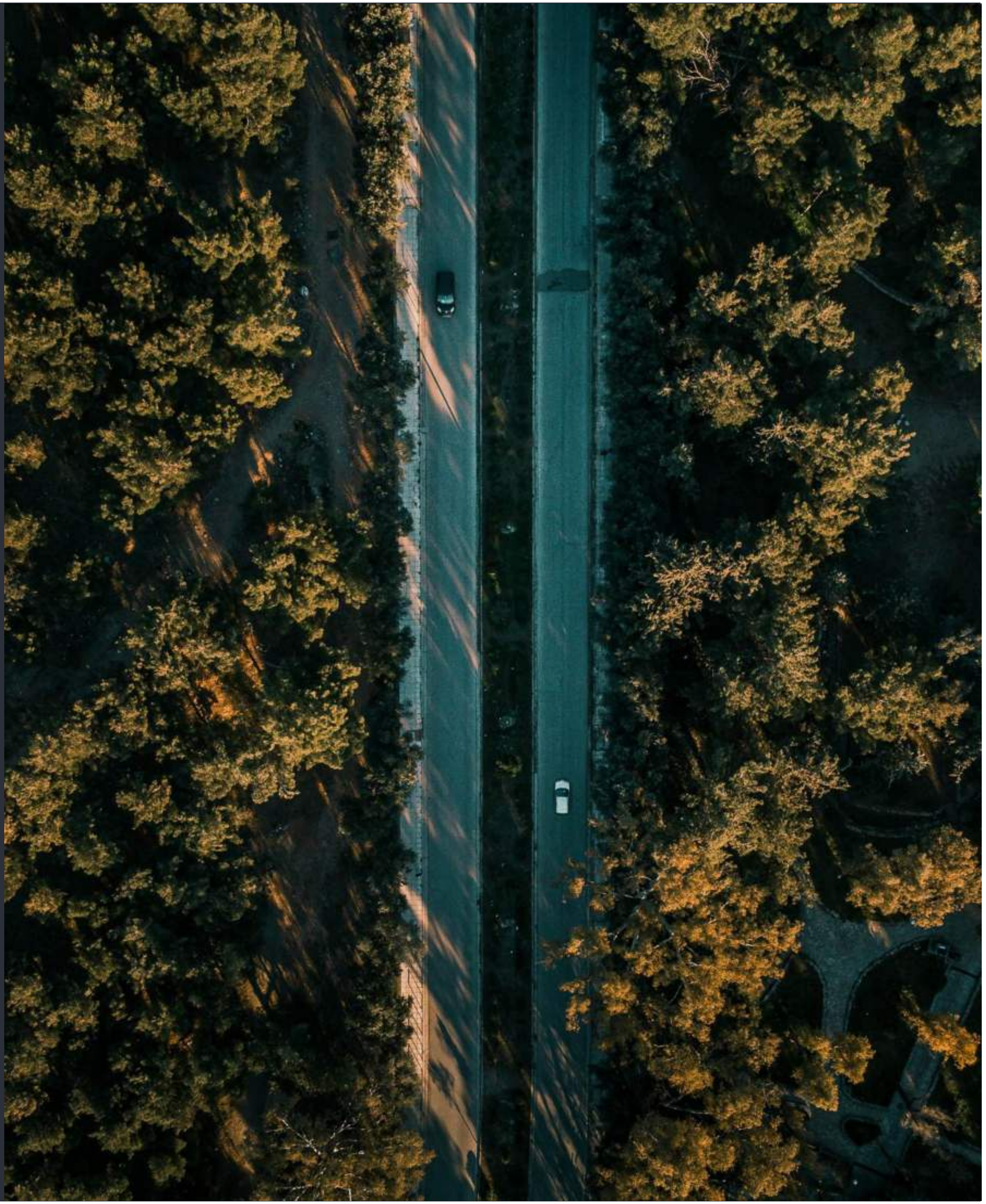
1. Expected future direction of Corporate Reporting
2. IFRS update
3. UK GAAP update
4. Changes to Companies Act 2006
5. Corporate Reporting Tips

Expected future direction of Corporate Reporting

Future Direction of Corporate Reporting and FRC

Department for Business and Trade ("DBT") announced on 20 January 2026 that as part of wider statement on promoting UK growth and removing red tape for business the following:

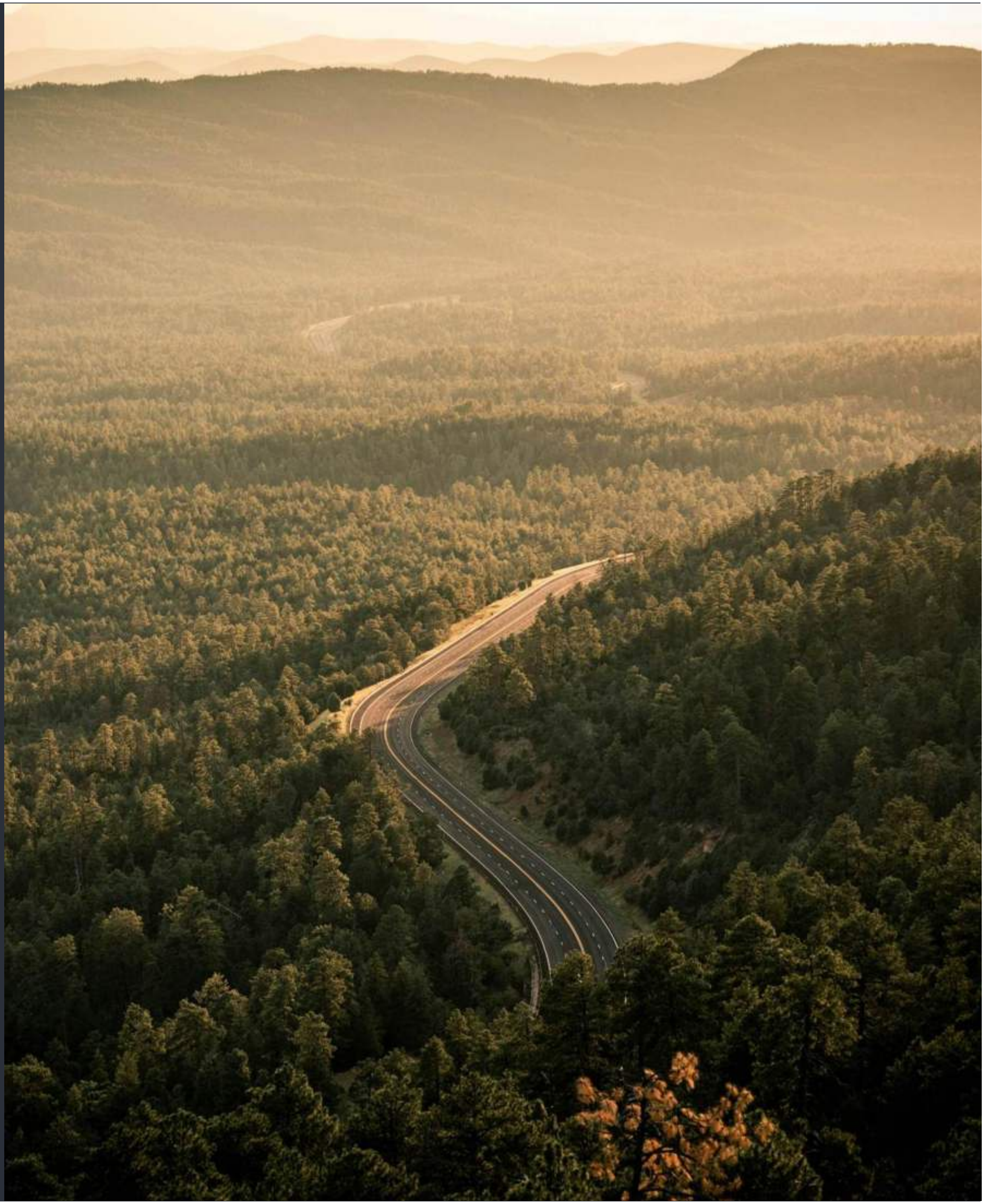
- Wider package of audit and corporate governance reforms no longer taking place
- No further extension of definition of Public Interest Entity ("PIE") to be made
- There will be no new enforcement regime for directors.



Future Direction of Corporate Reporting and FRC

Ministerial letter from Department of Trade ("DBT") to Chair of Business and Trade Committee announced on 20 January 2026 that:

- No longer consulting on major package of audit and corporate governance measures
- Considered that deregulatory measures should take priority
- Focus now on simplification and modernisation of Corporate Reporting
- UK's reporting regime to become most streamlined and proportionate in the world and an "ambitious consultation" to be launched to "co-design these changes with companies and investors"
- DBT has seen improvements in audit regulation since Carillion case in 2018.



Future Direction of Corporate Reporting and FRC

Ministerial letter from Department of Trade ("DBT") to Chair of Business and Trade Committee announced on 20 January 2026 that:

- Work to continue with FRC to support measures already taken and to make the audit market work better, minimise administrative burden and support growth

- Government "will still look to put Financial Reporting Council on a proper statutory footing" **as soon as parliamentary time allows**.

MHA view on changes

"While the UK Audit Reform Bill has been scrapped, regulatory scrutiny has not eased. Audit expectations, inspection intensity and enforcement activity remain high, particularly for larger and higher risk businesses. Directors and finance teams should not expect audits to become less challenging or less costly as a result of this decision. Instead, FDs should focus on deriving genuine value from a well-managed audit rather than viewing it as a compliance exercise to be endured."

Andrew Moyser, Partner

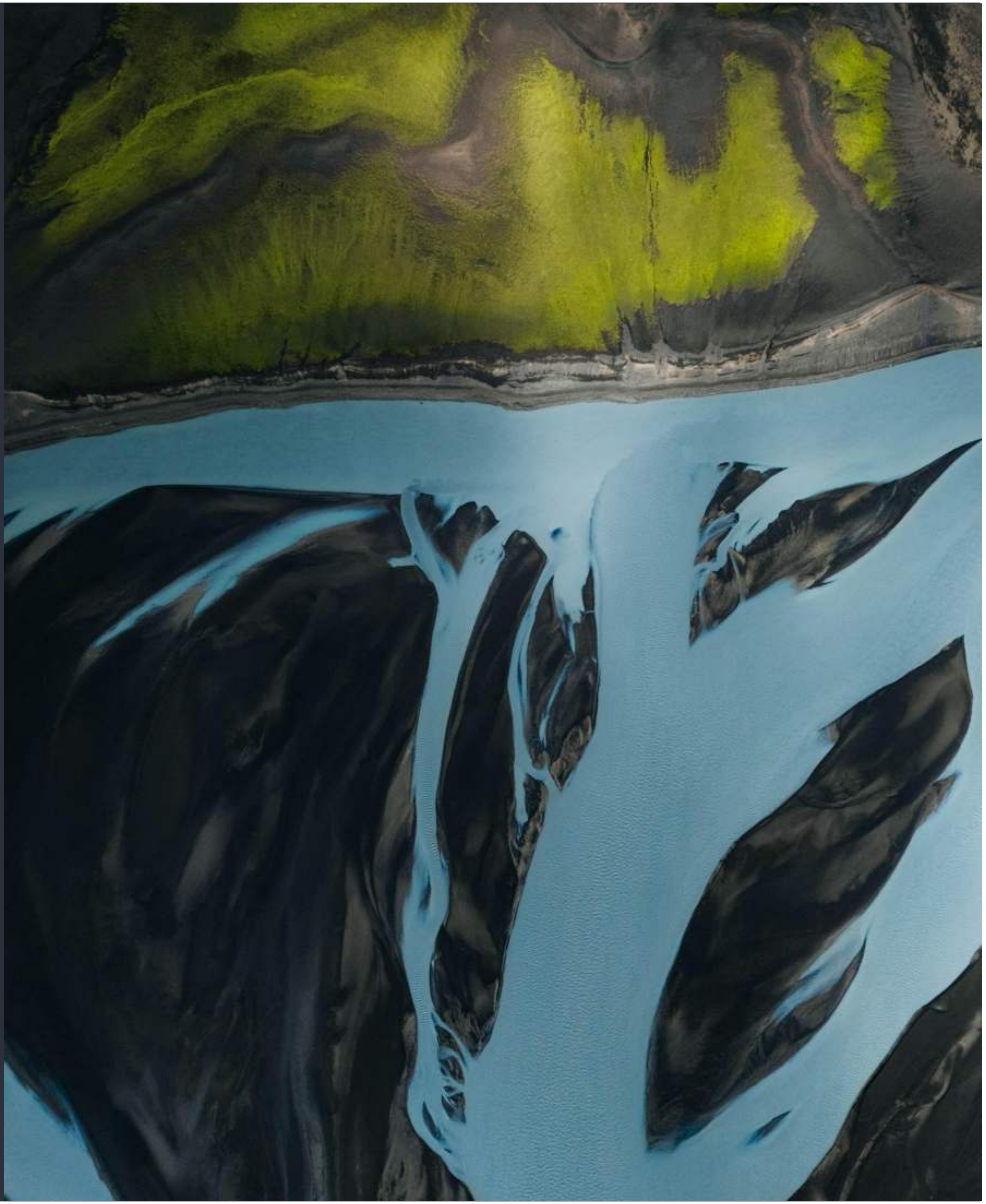
Expected changes to be addressed by Department of Business and Trade

Key anticipated developments

- Remove requirement for a directors' report entirely.
- Exempt "most" medium-sized businesses from need to produce a Strategic Report.
- Aim to exemption "wholly owned" subsidiaries from need to produce a Strategic Report.
- "Useful" reporting requirements including reporting on energy and omissions to be retained
- Large companies to be required to prepare a new form of narrative report encompassing Strategic and Sustainability matters.

Department for Business and Trade:

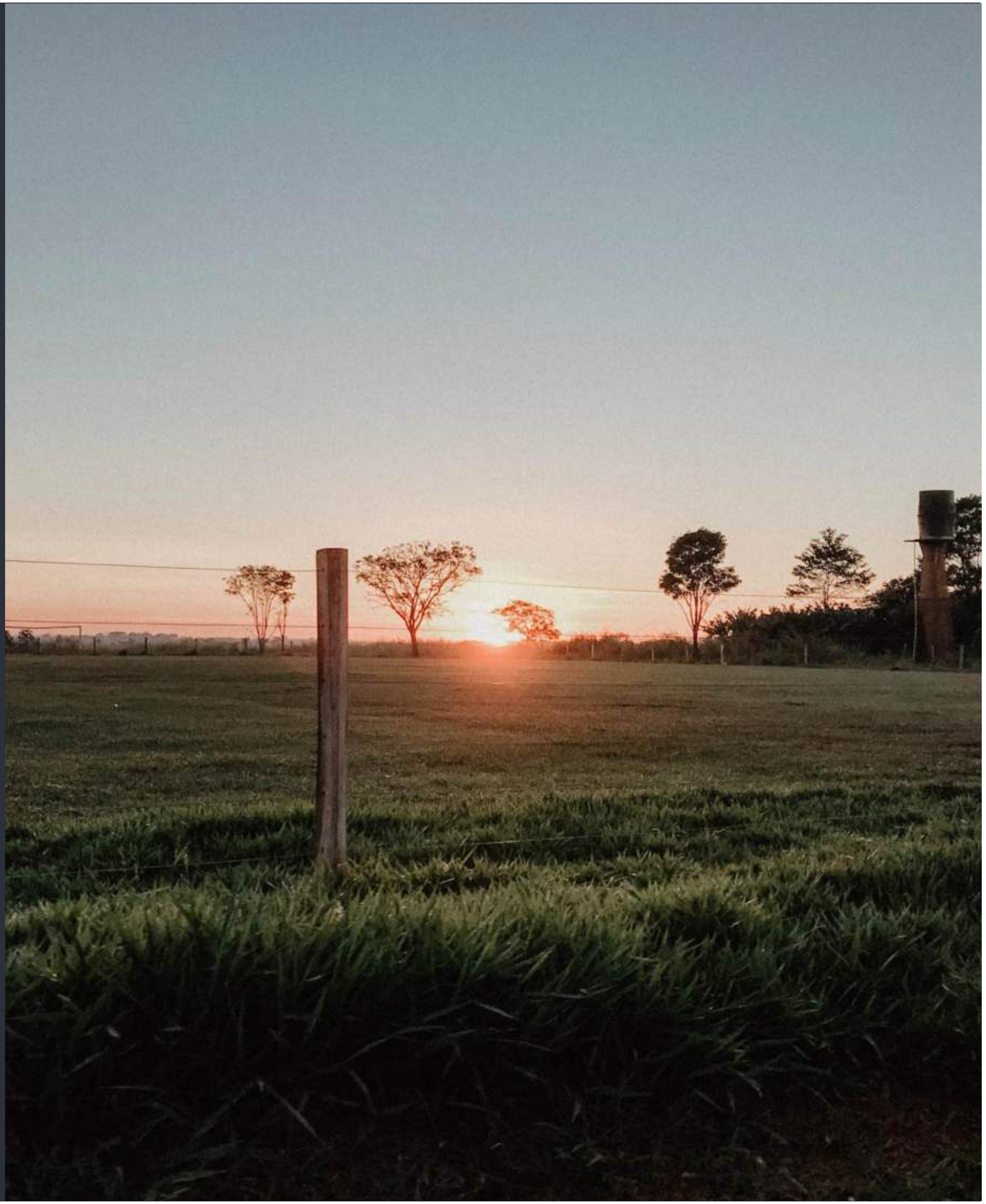
"The government has listened and expanded the scope of its reforms, now framed as the "Modernisation of Corporate Reporting" programme. A broad consultation will be delivered in 2026. To meet what industry has asked for, we will co-design reforms covering remuneration reporting, corporate governance reporting, the financial reporting framework as well as improving regulatory alignment across reporting frameworks and consider how corporate reporting should function in a digital age."



FRC Priorities

Letter from Financial Reporting Council ("FRC") to Secretary of State for Business and Trade dated 14 January 2026 outlined five clear priorities:

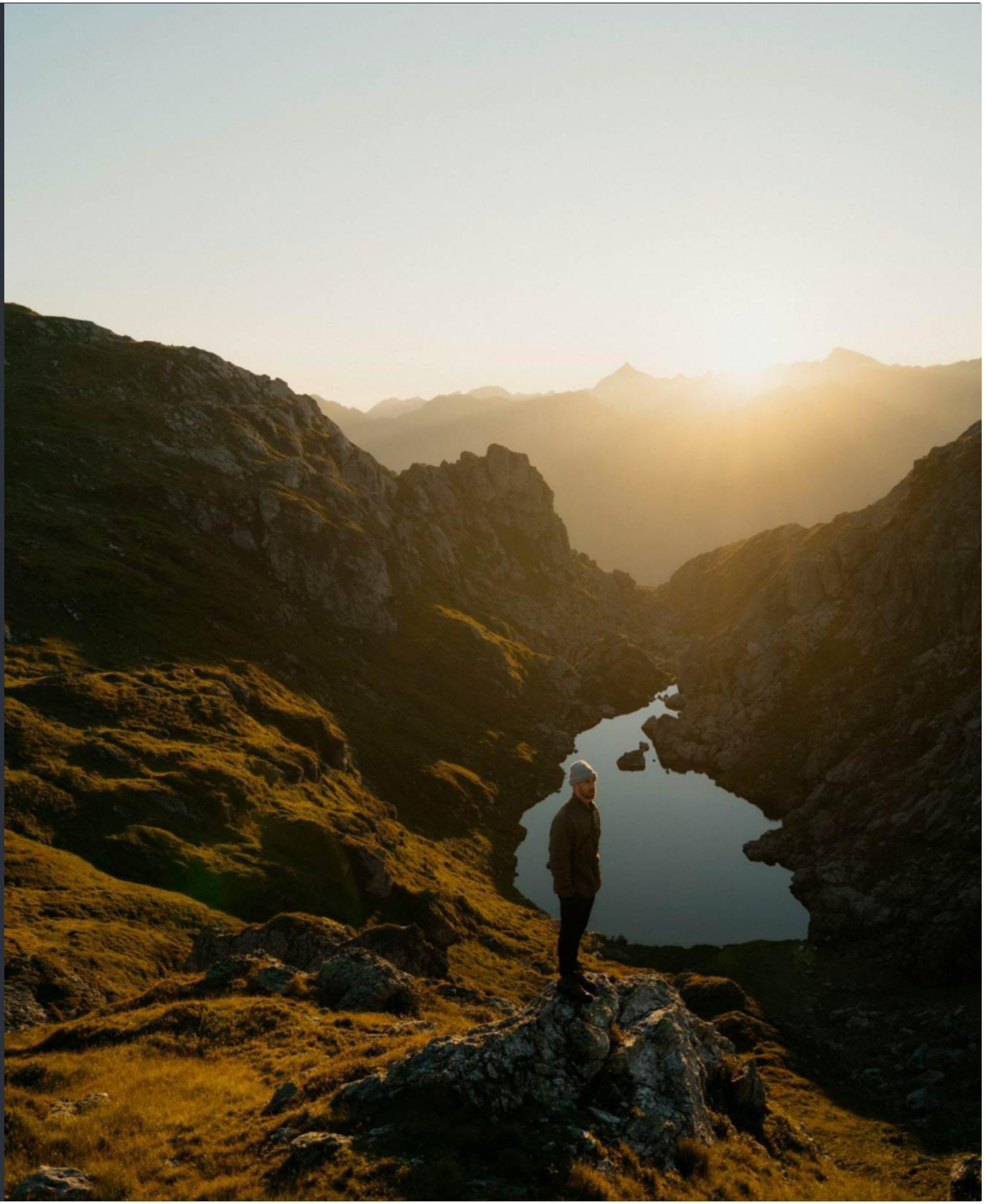
- underpinning investor and broader confidence in UK plc
- reducing unnecessary burdens on business while maintaining high standards
- developing deep insight into the markets "we oversee" so our regulation is based on evidence and expertise
- identifying future trends and innovations to support the health of the markets "we oversee"
- supporting the skills and resilience of the professions "we" regulate.



FRC Priorities

Letter from Financial Reporting Council ("FRC") to Secretary of State for Business and Trade dated 14 January 2026 highlighted:

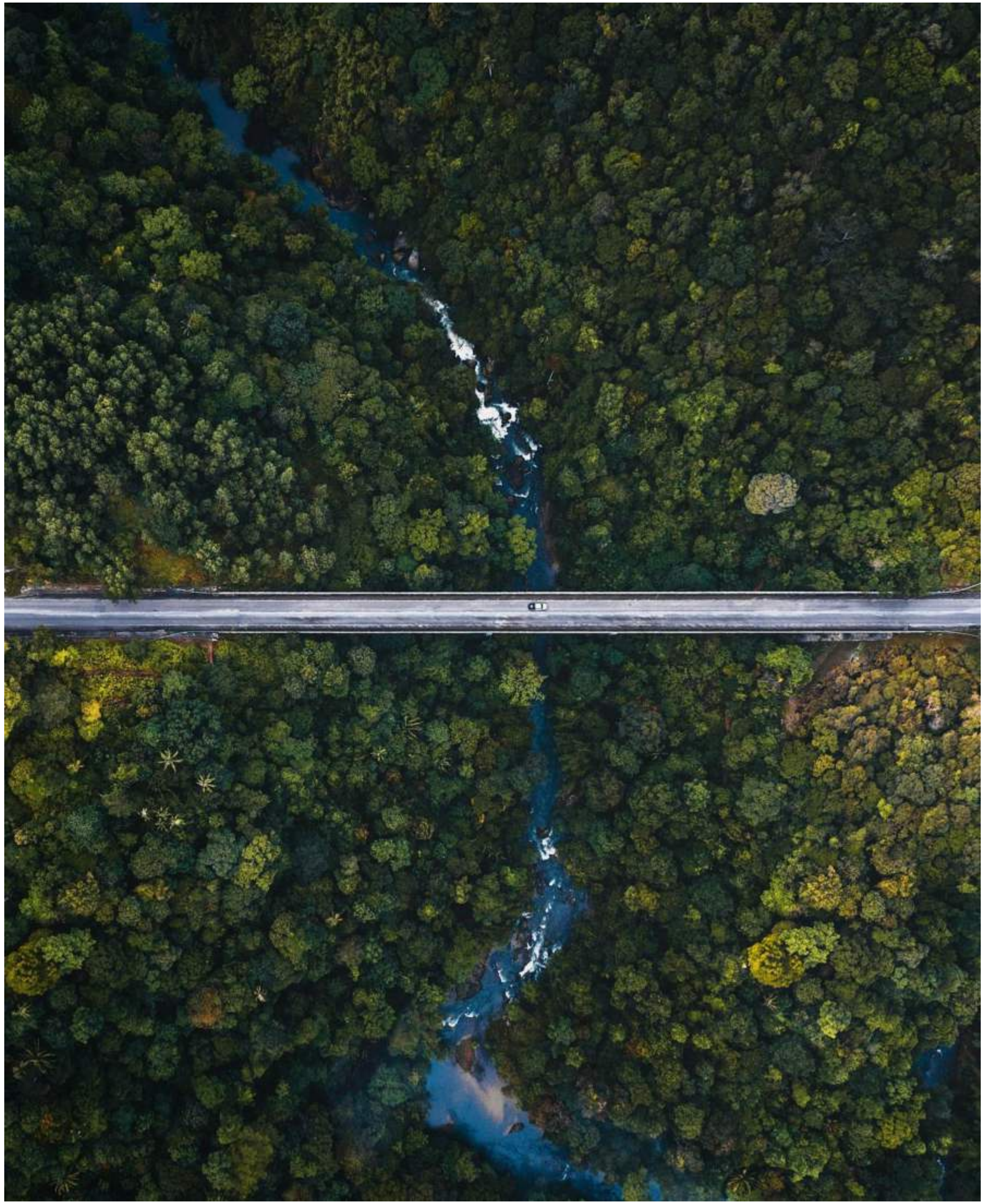
- Reduced UK Corporate Governance Code by 20% and Stewardship Code by 20%
- FRC will work with those who have an interest in the ambition to look out for opportunities to ensure their work is proportionate and effective and to remove unnecessary reporting and regulatory burden
- Progress will be made on the Future of Audit Supervision Strategy and End-to-End enforcement Review (becoming more proportionate, system-focused as audit regulation activity is modernised)
- Support SMEs and publish guidance to help auditors deliver appropriately scaled work.



FRC Innovation and Improvement Initiatives

Initiatives in place (https://www.frc.org.uk/library/innovation-and-improvement-hub/)

IFRS Update



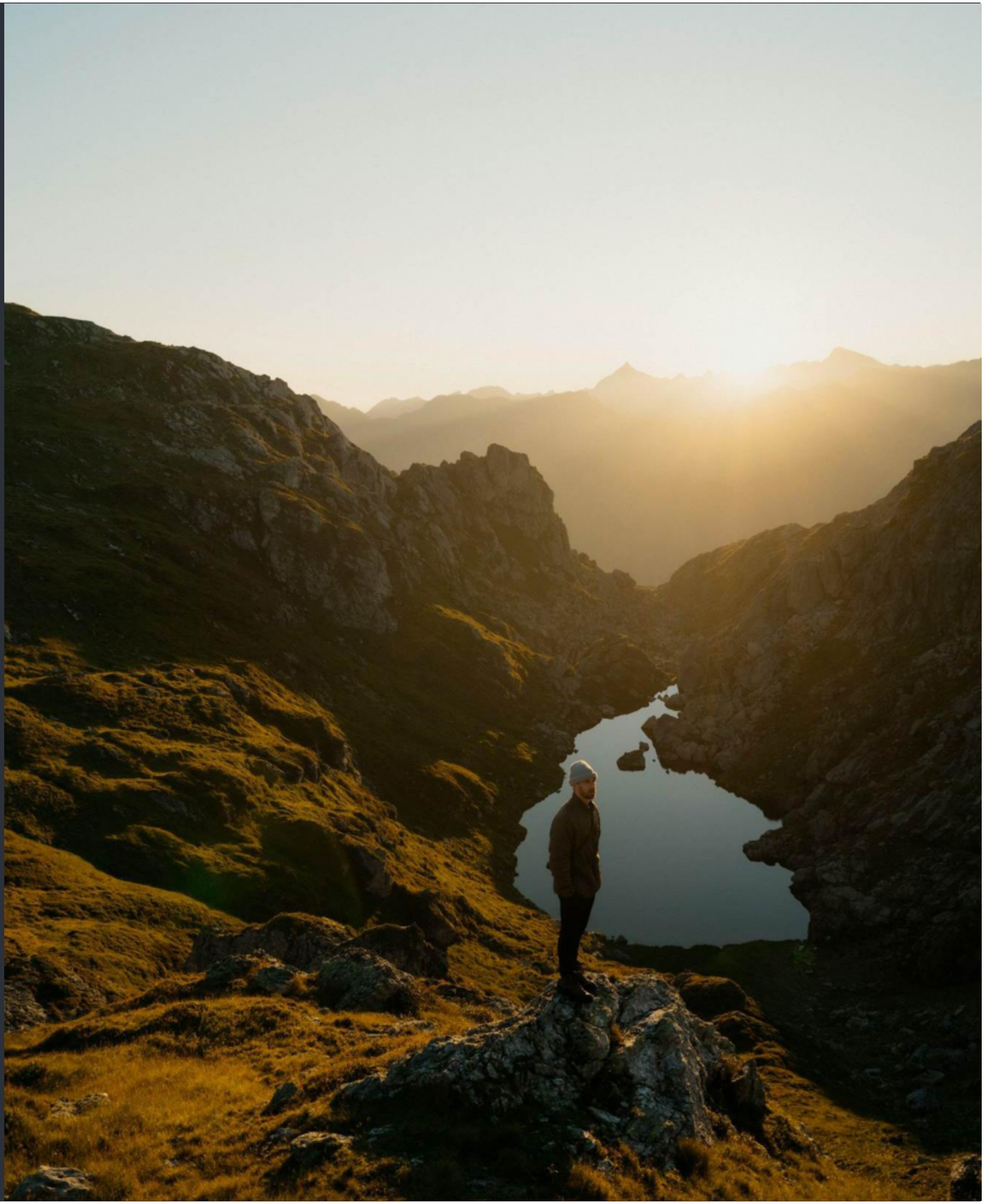
Summary of Recent IFRS Standards and Changes

Periods on or after 1 January 2025
- **Amendments to IAS 21 – Lack of Exchangeability.**

Periods on or after 1 January 2026
- **Amendments to classification and measurement requirements for financial instruments (Amendments to IFRS 9 and IFRS 7)**
- **Contracts referencing Nature dependent Electricity (Amendments to IFRS 9 and IFRS 7).**

Periods on or after 1 January 2027
- **Presentation and Disclosure in Financial Statements (IFRS 18)**
- Subsidiaries without Public Accountability: Disclosures (IFRS 19) and related amendments to IFRS 19 **
- Disclosures about Uncertainties in Financial Statements (Illustrative Examples) **
- Translation to a Hyperinflationary Presentation Currency (Amendments to IAS 21) **.

** Not yet endorsed in UK.



UK GAAP update

Known Changes to FRS 102

Regarding Periodic Review 2024 the effective date for most amendments is periods beginning on or after 1 January 2026*, with early adoption permitted.

These amendments seek to provide greater consistency and alignment to international accounting standards including:

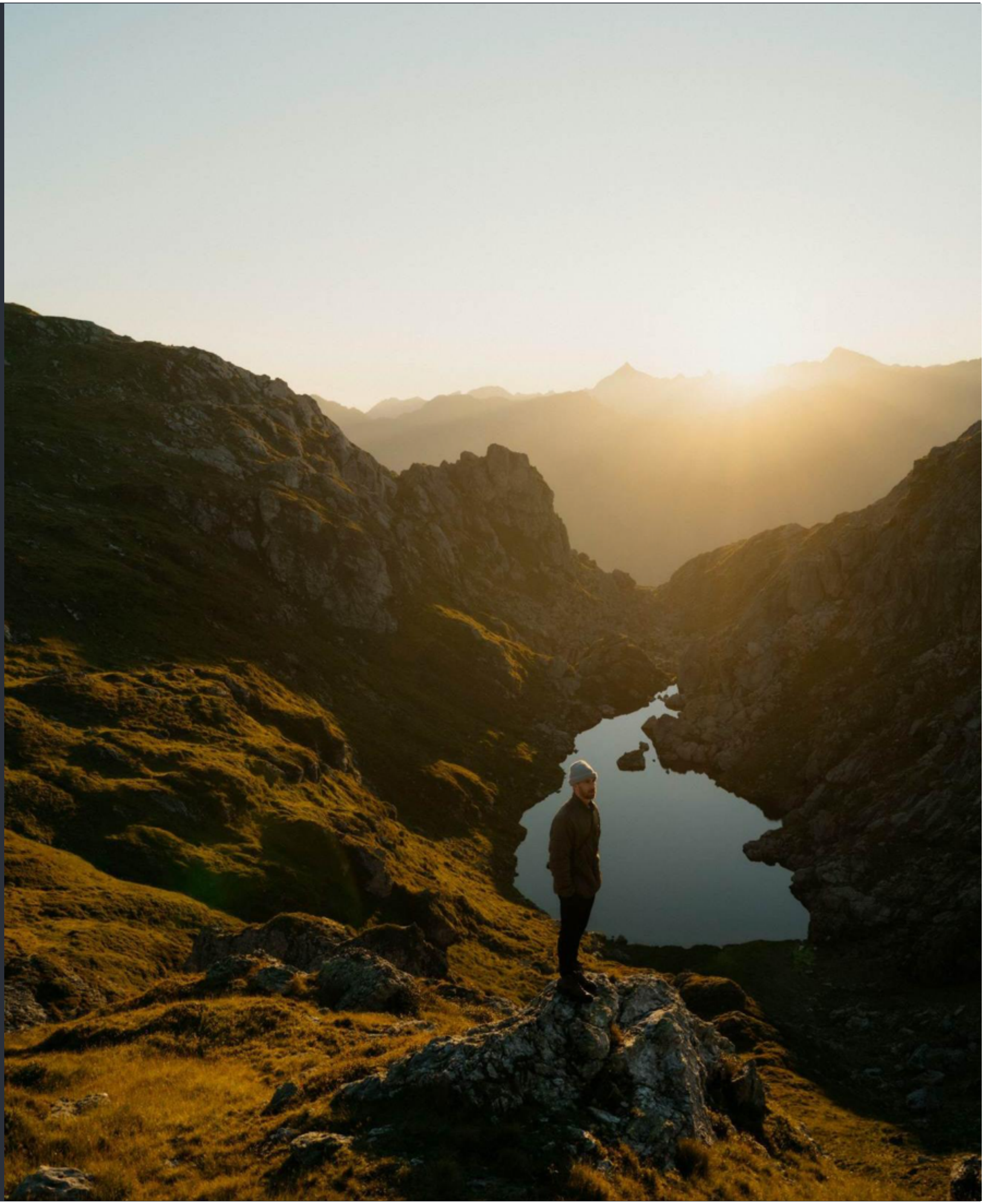
- A new model for revenue recognition, aligned to IFRS 15: Revenue from Contracts with Customers, but with some simplifications;
- On balance sheet lease accounting for lessees, aligned to IFRS 16: Leases, but with certain practical exemptions; and
- Other modifications to fair value measurement, uncertain tax positions, business combinations, and a revised Section 2 aligned with IASB's Conceptual Framework.

Don't forget amendments relating to supplier finance arrangements will be effective from 1 January 2025.

See MHA FD Hub Website for Webinar held in November 2025 (links below to webinar and guidance)

https://www.mha.co.uk/insights/frs-102-guidance-for-fds-finance-teams

https://www.mha.co.uk/insights/frs-102-faqs-and-practical-scenarios



Companies Act 2006

Known simplifications to reporting

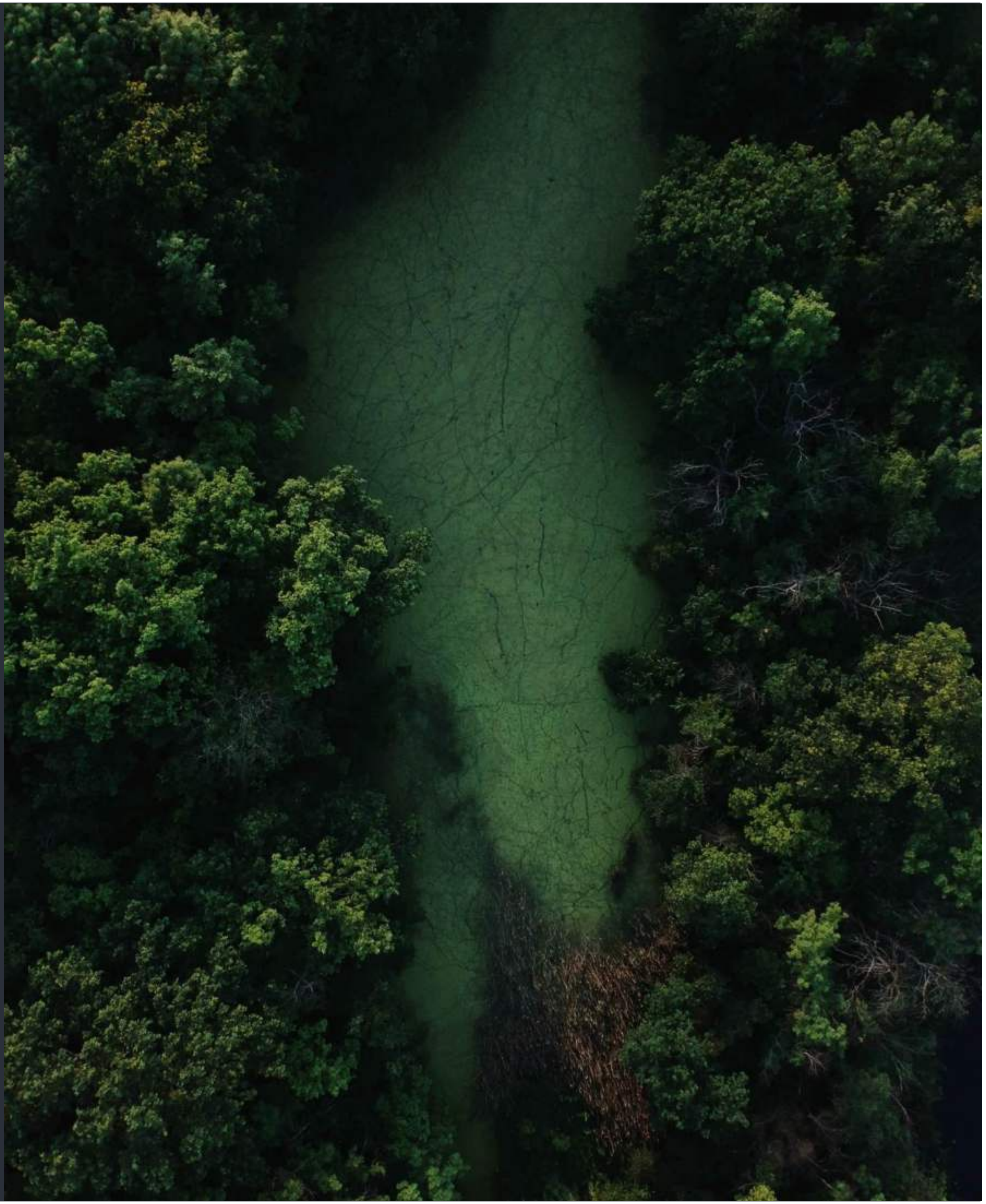
Periods on or after 6 April 2025

- Increases in size limits for companies and LLPs
- Simplifications to Directors' Report disclosures
- Simplifications to the Directors' Remuneration Report requirements.

Accounts filings from 1 April 2027

- Accounts must be filed using commercial software
- Micro-entities must file profit and loss account (as well as balance sheet)**
- Small companies must file Directors' Report and profit and loss account (as well as balance sheet)**

**NOTE: Expected to be "shelved".



Changes to the size criteria of companies including parent companies

Accounting periods commencin g before 6 April 2025

Must apply old rules

Cannot adopt new qualifying conditions early

6th April 2025

Accounting periods commencin g on or after 6 April 2025

Must apply new rules

Must apply new rules to the comparative period for the accounting period commencing on or after 6 April 2025

The benefits (or the downside) may not have arisen just yet

Qualifying conditions periods on or after 6 April 2025

New thresholds for accounting periods beginning on or after 6 April 2025 will be as follows:

Standalone companies

	Micro-entity	Small company	Medium company
Annual turnover	**Not more than £1m** (currently not more than £632,000)	**Not more than £15m** (currently not more than £10.2 million)	**Not more than £54m** (currently £36 not more than million)
Balance sheet total	**Not more than £500,000** (currently not more than £316,000)	**Not more than £7.5m** (currently not more than £5.1 million)	**Not more than £27m** (currently not more than £18 million)
Average no. of employees	Not more than 10	Not more than 50	Not more than 250

Qualifying conditions are to satisfy two or more criteria as follows:

- In company's first financial year
- Where (subject to below) criteria are met in subsequent financial year
- Company meets or ceases to meet criteria qualifying conditions, this must occur in two consecutive financial years

Qualifying conditions periods on or after 6 April 2025

New thresholds for accounting periods beginning on or after 6 April 2025 will be as follows:

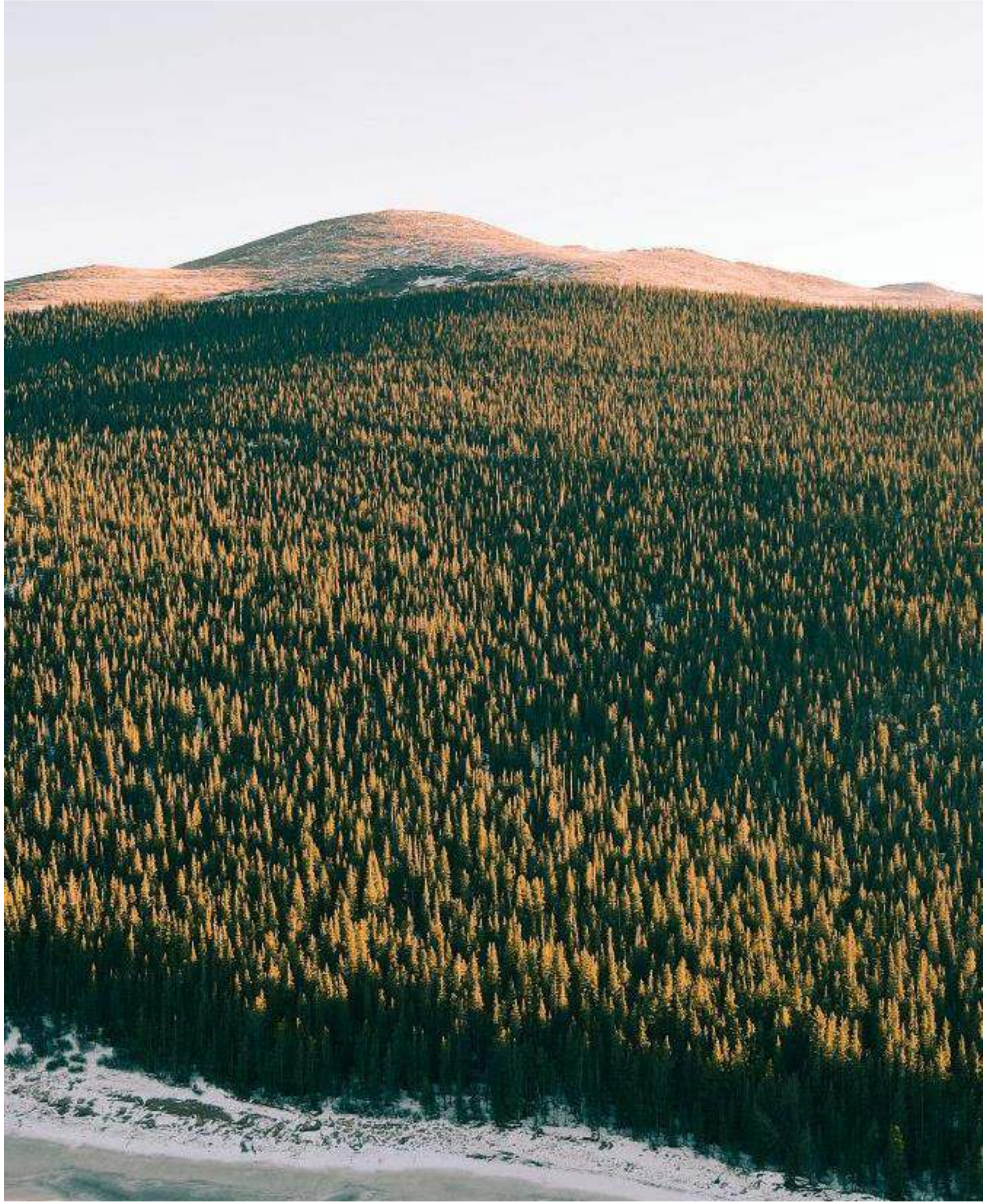
Parent companies

		Small company	Medium company
Annual turnover		**Not more than £15m net (or £18 million gross** (currently not more than £10.2 million net or £12.2 million gross)	**Not more than £54m net or £64 million gross** (currently not more than £36 million net or £43.2 million gross)
Balance sheet total		**Not more than £7.5m net or £9 milion gross** (currently not more than £5.1 million or £6.1 million gross)	**Not more than £27m net or £32 million gross** (currently not more than £18 million net or £21.6 million gross)
Average no. of employees		Not more than 50	Not more than 250

Qualifying conditions are to satisfy two or more criteria as follows:

- In company's first financial year
- Where (subject to below) criteria are met in subsequent financial year
- Company meets or ceases to meet criteria qualifying conditions, this must occur in two consecutive financial years

Corporate Reporting Tips



Annual Review of Corporate Reporting 2024/25

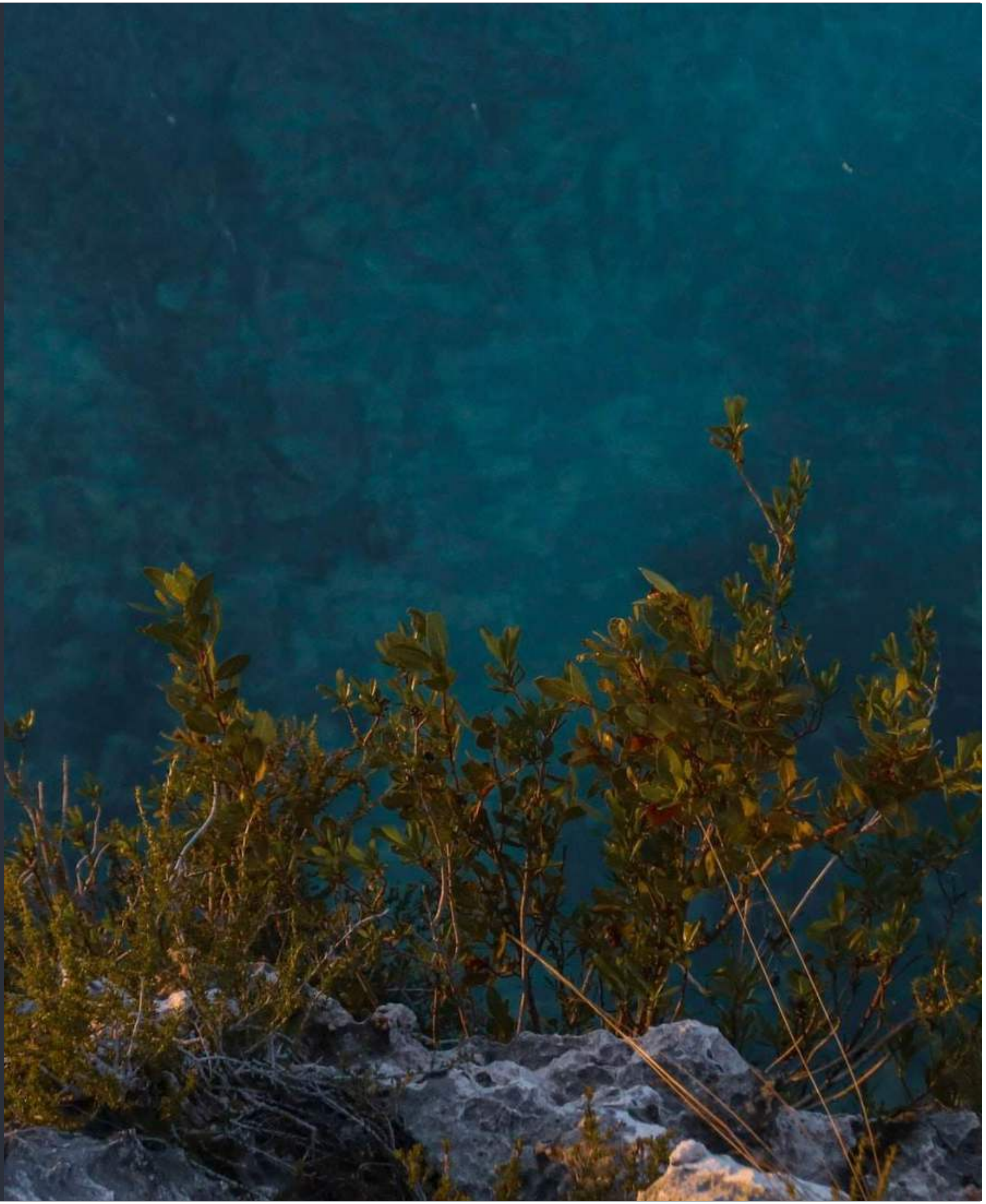
The review assesses the quality of corporate reporting by FTSE 350 and other companies and highlights common areas of weakness, examples of good practice, and key expectations for improvement.

Key Highlights

- FTSE 350 companies show consistent high standards compared to other companies.
- Fewer financial statement restatements vs. previous years.
- Smaller listed companies show lower reporting quality.
- Key areas for improvement are impairment, cash flow statements and explanations of key assumptions.
- Lack of internal consistency within the annual report and accounts continues to be a significant driver of queries.

Key Expectations

- Strengthen pre-issuance checks to identify common technical compliance issues.
- Ensure judgement and uncertainty disclosures are clear and specific.
- Ensure the strategic report includes a fair, balanced and comprehensive review of the company's development, position, performance and future prospects.
- Deliver reports that are concise, coherent, and comprehensible.



Top 10 areas at a glance

The top ten areas where FRC asked companies substantive questions in 2024/25 are summarised below.

Ranking		Topic		Percentage of reviews where issue identified	
24/25	23/24			24/25	23/24
1	1	Impairment of assets		10%	12%
2	2	Cash flow statements	!	9%	11%
3	3	Financial instruments	!	9%	10%
4	5	Presentation of financial statements	!	5%	6%
5	4	Revenue		5%	9%
6	6	Strategic report and Companies Act 2006		4%	5%
7	7=	Judgements and estimates		3%	5%
8=	7=	Income taxes	!	2%	5%
8=	-	Consolidated financial statements		2%	1%
10	9=	TCFD[4], CFD[5] and climate-related narrative reporting		2%	4%

Images © Financial Reporting Council

Denotes that restatements were required

Mitigating risk of an FRC letter

The FRC seeks to support companies in complying with the relevant reporting requirements, and providing high-quality information, in their annual reports and accounts. Our headline expectations for the coming reporting season, and how to avoid the most common areas of challenge, are set out below. In all cases, we expect directors to apply careful judgement in the preparation of the annual report and accounts. We only ask companies a substantive question when it appears that there is, or may be, a material breach of the relevant reporting requirements.

Pre-issuance checks

Ensure the company has a sufficiently robust review process in place to identify common technical compliance issues.

Many questions, corrections and restatements could be avoided by reviewing against the **top ten issues we challenge**, including ensuring that clear, company-specific accounting policies are included for key matters such as revenue recognition.

4. Presentation of financial statements	2. Cash flow statements
5. Revenue	8= Income taxes

Judgements, risks and uncertainties

Ensure clear and consistent disclosures about judgements, uncertainty and risk are provided that are sufficient for users to understand the positions taken in the financial statements.

We frequently ask companies to enhance their disclosures when they fail to comply with requirements in these areas.

1. Impairment	7. Judgements and estimates
3. Financial instruments	8= Consolidated financial statements

Narrative reporting

Ensure the strategic report includes a fair, balanced and comprehensive review of the company's development, position, performance and future prospects.

Take care to comply with the applicable climate-related reporting requirements,[6] ensuring disclosures are concise and that material information is not obscured.

6. Strategic report and Companies Act 2006	10. TCFD, CFD and climate-related narrative reporting

Take a step back and consider whether the annual report and accounts as a whole

- tells a **consistent and coherent story** throughout the narrative reporting and financial statements
- is **clear, concise and understandable**
- **includes all material and relevant information**, including information not specifically required by standards, where it is necessary for users' understanding[7]
- **includes only material and relevant information**[7] – good quality reporting does not necessarily require a greater volume of disclosure

Break

We will resume shortly

Employment Tax

Richard Maitland
Employment Tax
Partner

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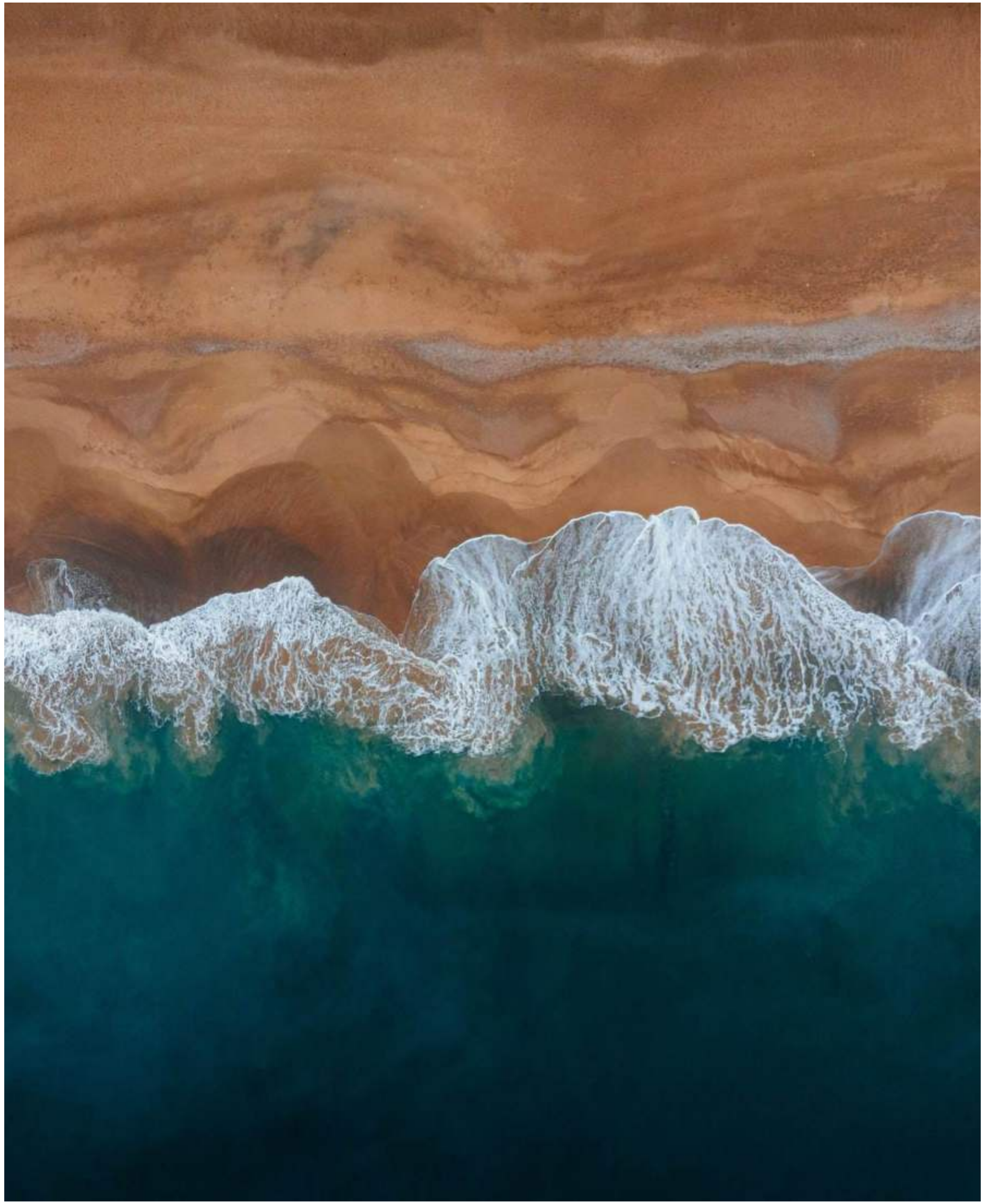
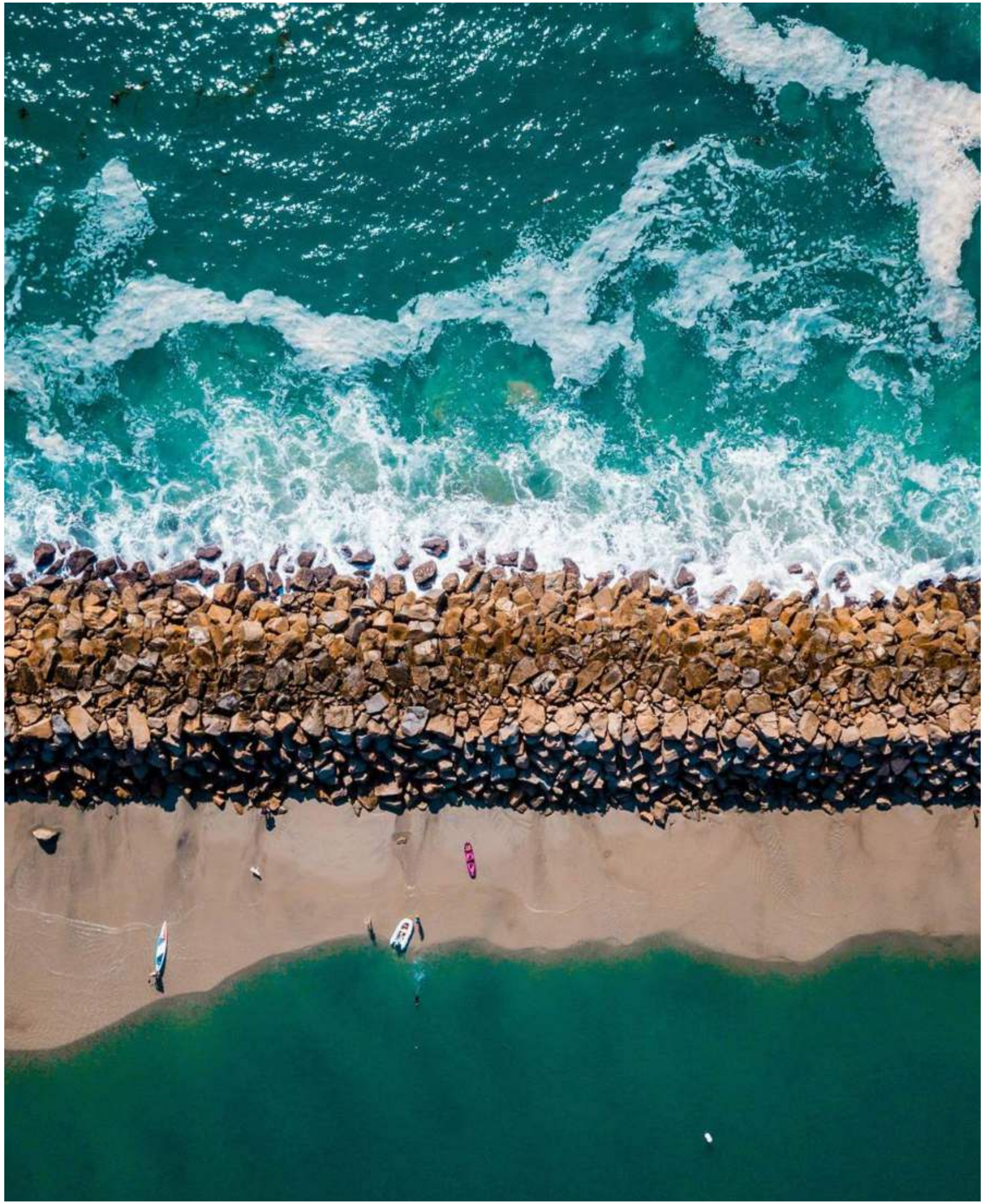
Employment tax – Budget impact

- Pension salary sacrifice cap - £2,000
  - Opportunity to maximise before 2029 ?
  - Future impact on benefit and reward strategies
  - Potential alternatives
- Other (limited) salary sacrifice schemes not impacted (for now)
- Other developments



Employment tax – Imminent changes and actions

- 'Tackling non-compliance in the umbrella company market' - April 2026
- Mandatory payrolling of benefits – now April 2027
- Imminent reporting of benefits:
  - P11Ds
  - PAYE Settlement Agreement (PSA)



Corporate Tax

David Stone
Tax Director

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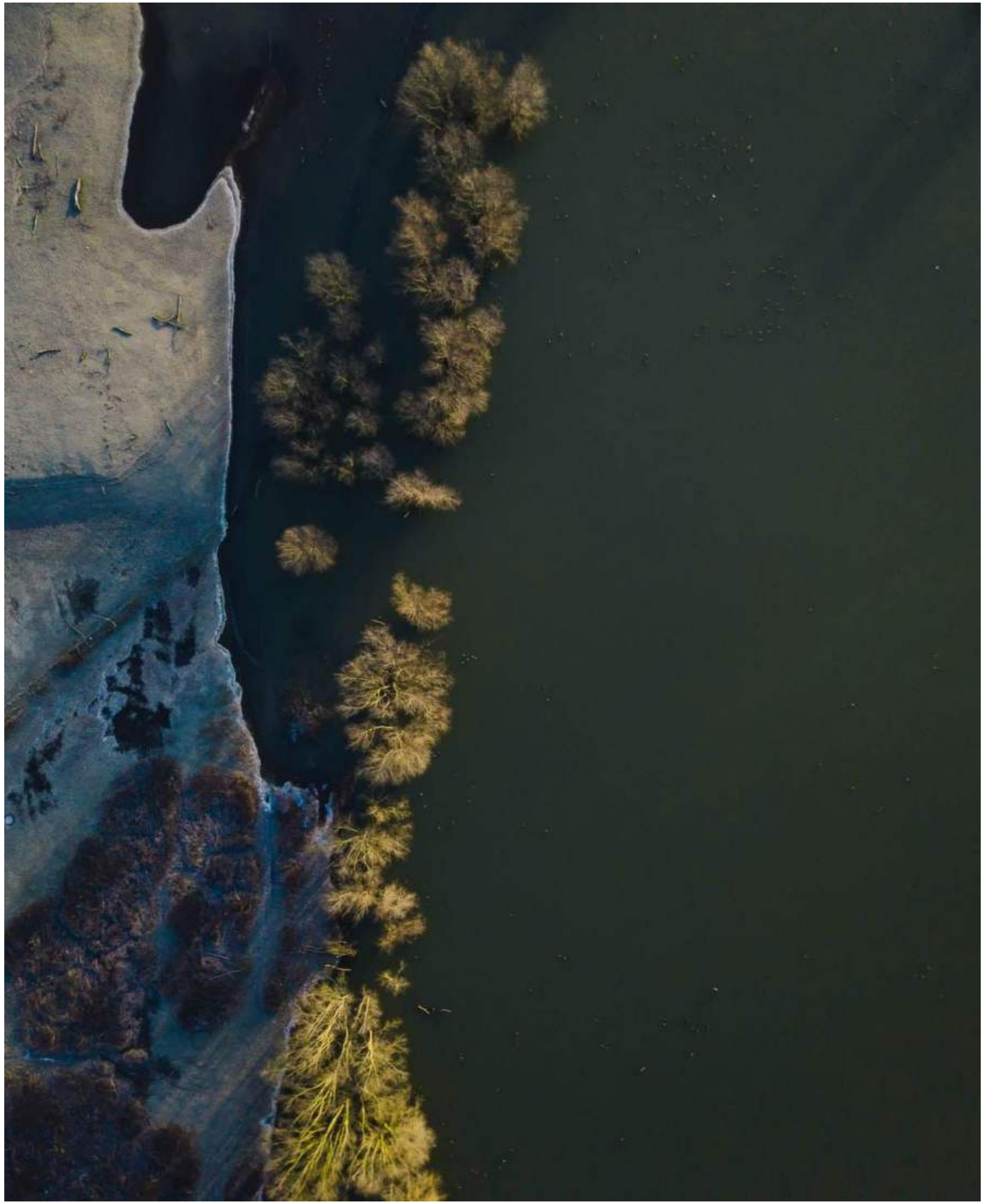
FD Corporation Tax Update

1. FA 2026
2. Capital allowances
3. Share exchanges
4. Associated companies



Corporation Tax

- Roadmap to 2029 published alongside Budget 2024

- No changes to corporation tax rates

- Key incentives retained:
  - Full expensing
  - R&D
  - SSE

- Doubling of late filing penalties

- Consultations concluded:
  - Advanced certainty on major investments
  - Transfer Pricing
  - Advanced certainty on R&D

Capital Allowances

Writing Down Allowance

- Main rate writing down allowances will reduce from 18% to 14% from April 2026.
- Special rate writing down allowances to remain at 6%.
- **New 40% first year allowance announced for main pool expenditure incurred on or after 1 January 2026.**
- **Available for unincorporated business and leased assets.**
- This is separate to the 50% first year allowance for special rate expenditure.
- The 100% first-year allowance for qualifying expenditure on plant or machinery for zero emission vehicles and electric vehicle charge points has been extended by one year to 31 March 2027.

Capital Allowances

Annual Investment Allowance (AIA)

No changes announced

- Remains at £1 million.
- AIA provides 100% relief on up to £1million of qualifying capital expenditure per year.
- Available for new and used assets.
- Likely to cover all qualifying expenditure incurred by most SMEs.

Capital Allowances

Full Expensing and 50% First Year Allowance

- Full expensing provides unlimited 100% relief for qualifying main rate expenditure on plant and machinery

- A 50% first year allowance is available for special rate expenditure (e.g. integral features, long life assets, solar panels etc).

- For companies only.

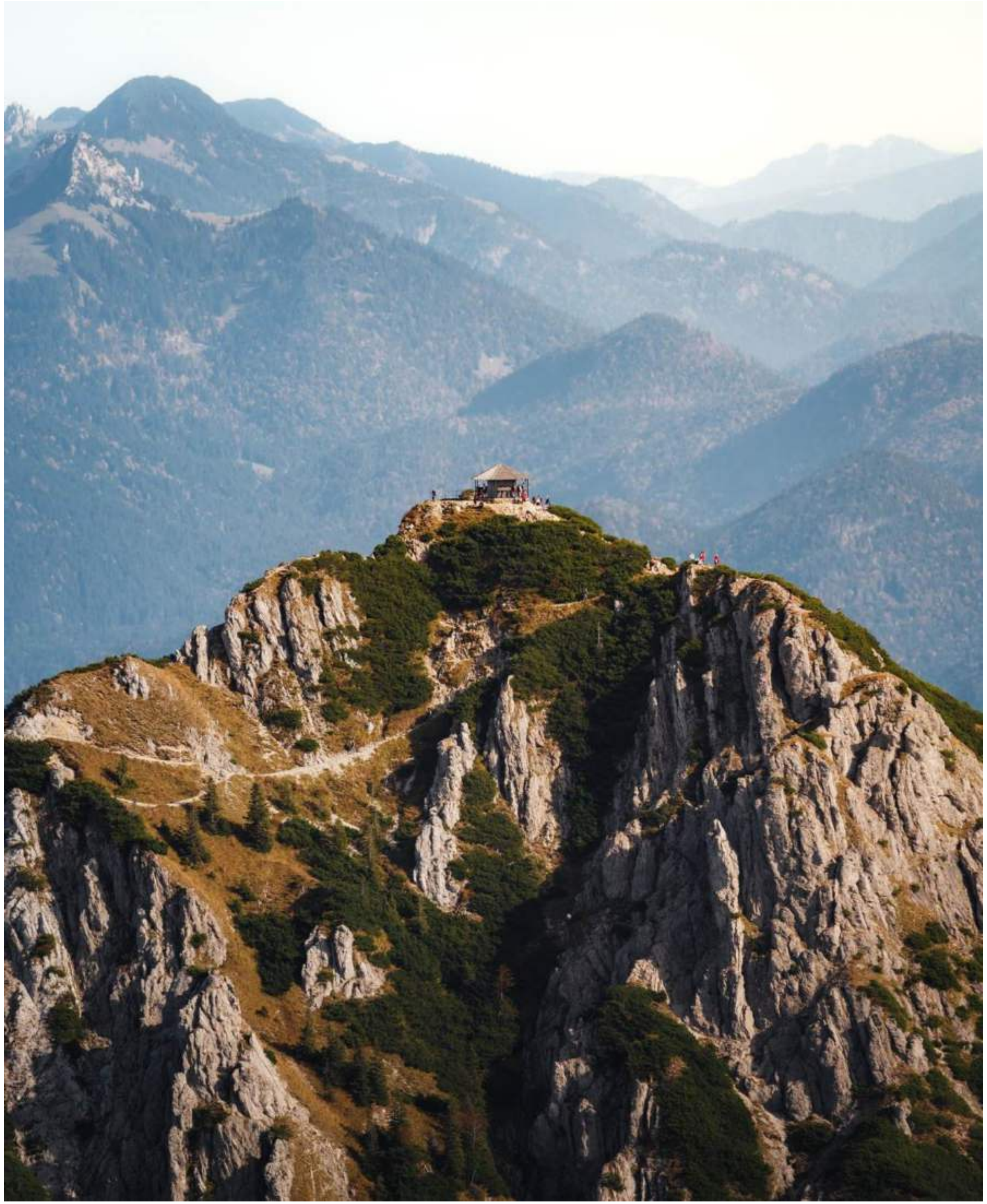
- Assets must be new and unused.

- Not available for cars (but other vehicles may qualify).

- Cash flow benefit compared to writing down allowances.

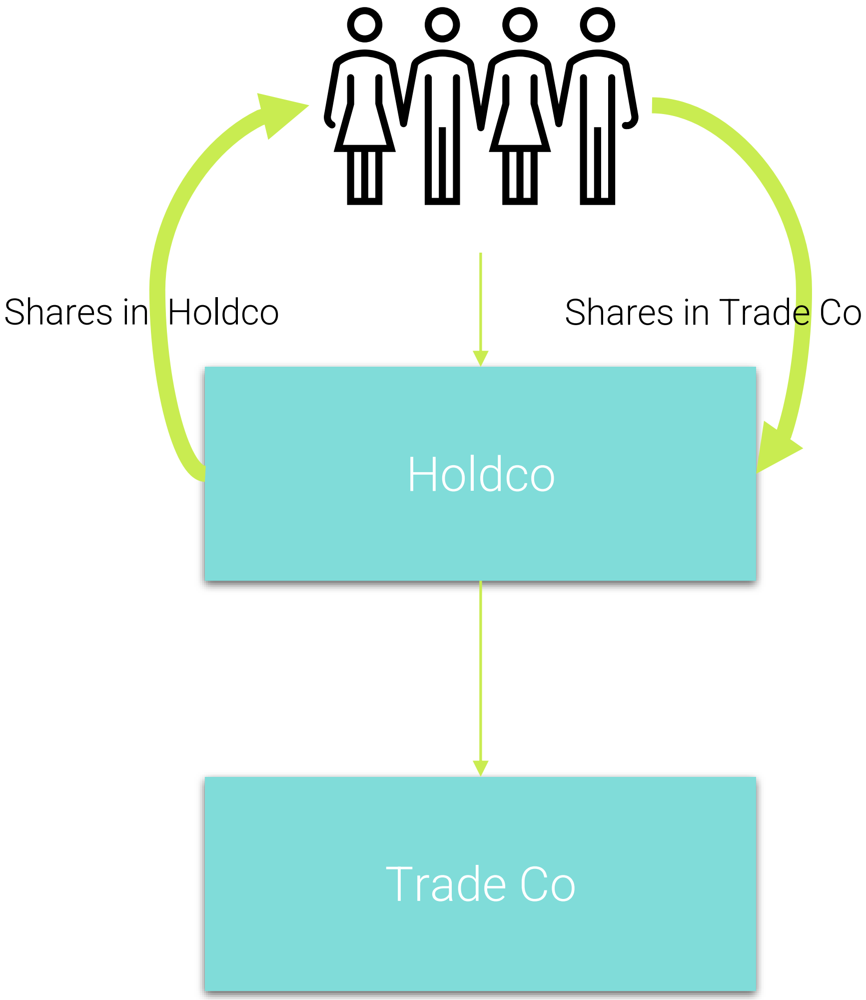
- Clawback of allowances where assets are sold - there will be a balancing charge.

- Keep track of expenditure throughout the year.



Share-for-share exchange (TCGA 1992)

- S137 and 139 significantly altered to allow counteraction of relief under s135 and 136
- Removal of commercial purpose test and exemption for <5% shareholders
- Insertion of a just and reasonable basis disallowance where:
  - the main purpose, or one of the main purposes, of any arrangements relating to an exchange scheme is to reduce or avoid liability to capital gains tax or corporation tax
  - Likely a reaction to the Wilkinson and Delinian cases which HMRC lost
  - Rules apply from 26 November 2025, if clearance submitted before this date, old rules apply as long as the transaction completes before 26 January 2026

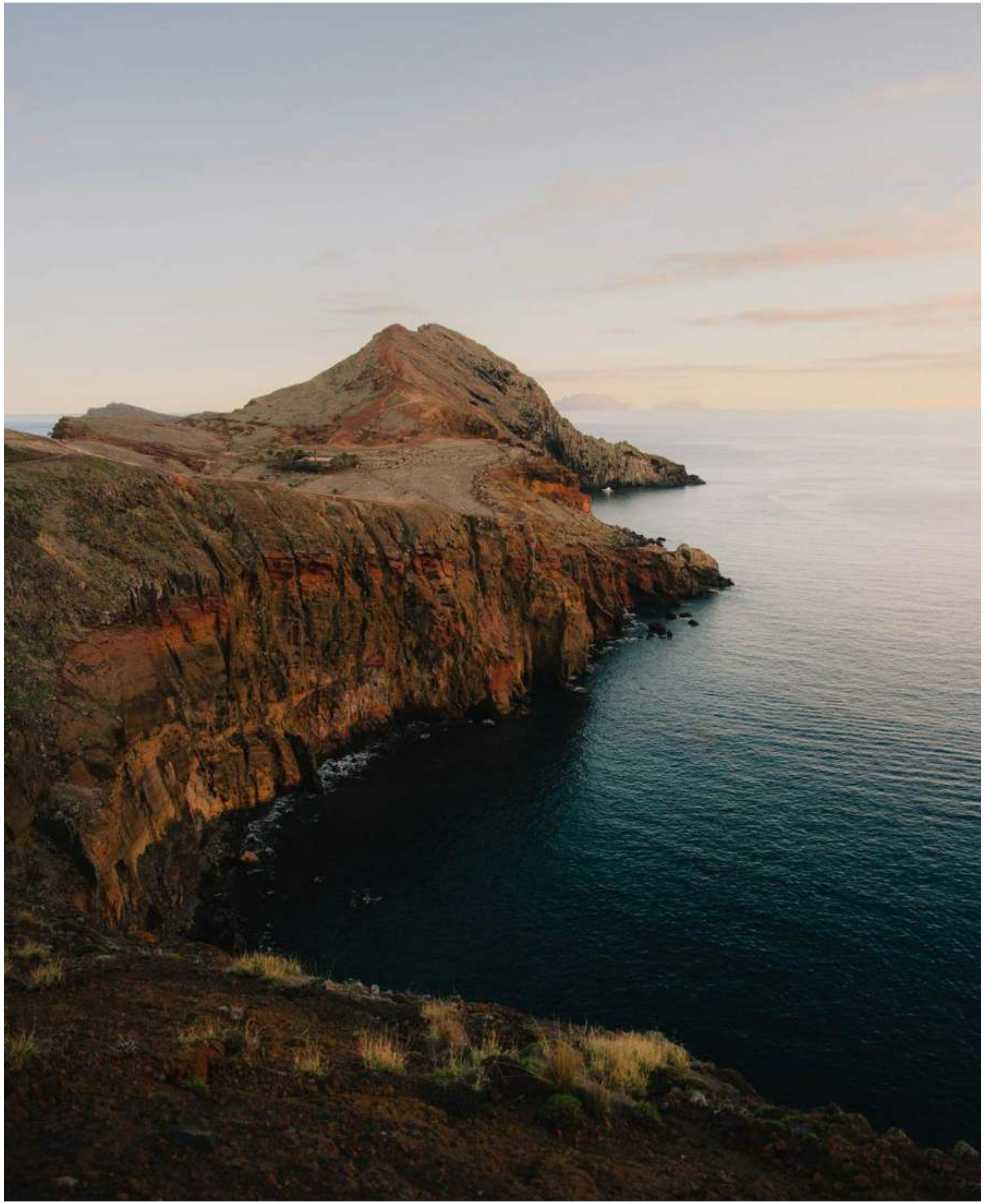


Associated companies

- An area of focus for HMRC – the subject of a one-to-many letter campaign
- Simplified definition of groups changed with effect from 1 April 2023 to become more encompassing:

“*A company is an associated company of another company if one has control of the other, or both are under the control of the same person or persons [individuals, partnerships and trusts].*” (CTM03940)

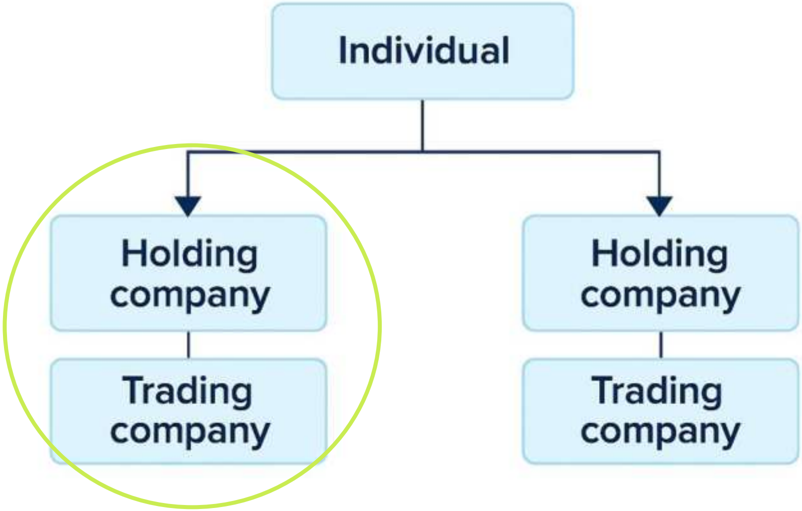
- Includes worldwide companies
- Excludes dormant companies



Group Companies
(Corporation Tax)

Main rate limit - £125,000
QIP Threshold - £750,000
Very large threshold - £10,000,000

Associated Companies
(Corporation Tax)



Main rate limit - £62,500
QIP Threshold - £375,000
Very large threshold - £5,000,000

R&D Tax Credits

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Introduction

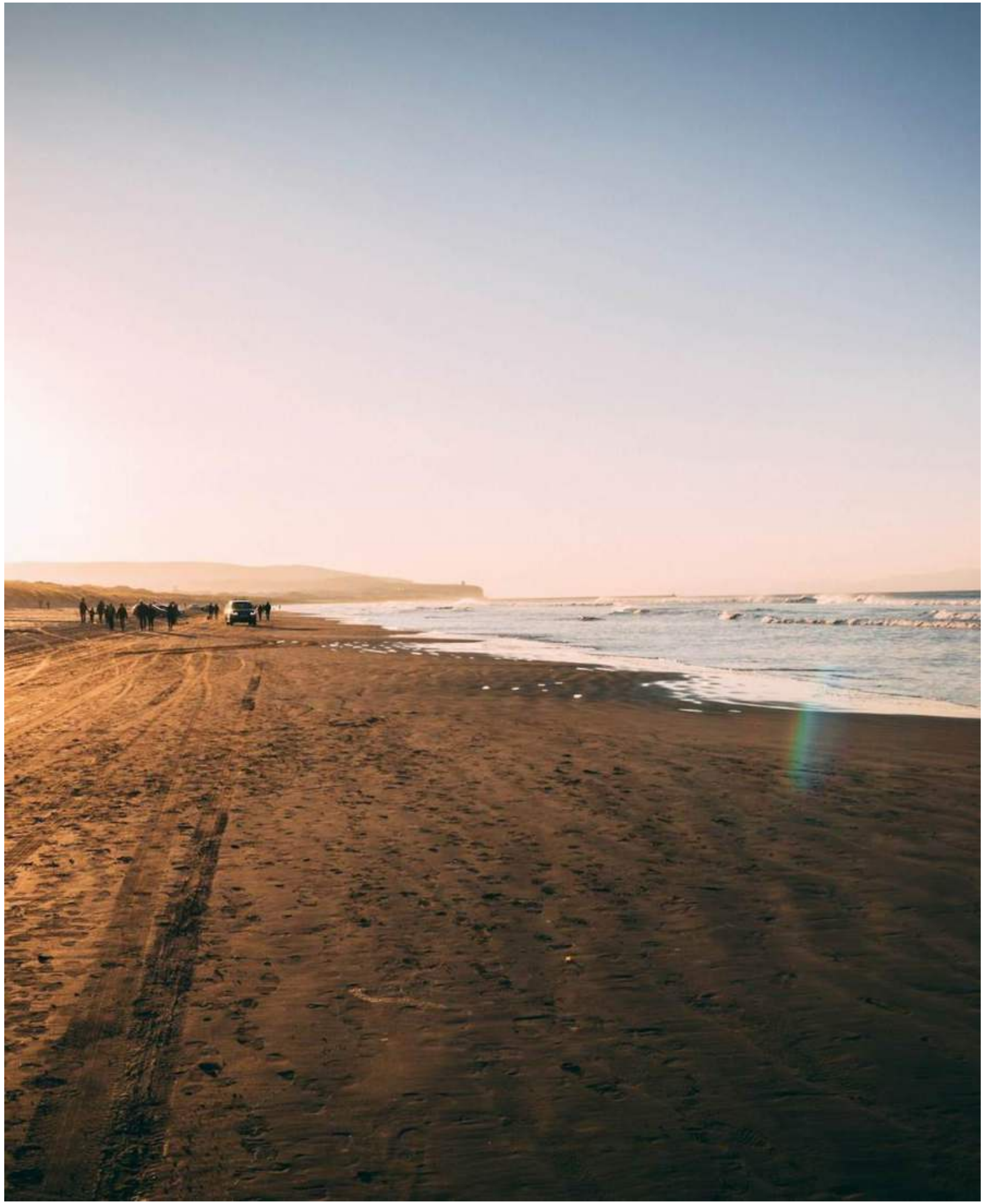
1 Merged Scheme and Rule Changes

2 Contracted Out R&D

- Old Rules
- New Rules
- Examples
- Record Keeping

Merged Scheme

- Accounting periods starting on or after 1 April 2024
- Enhanced R&D Intensive Scheme (ERIS) for R&D intensive SMEs
- Subsidised expenditure
- Limited Overseas relief
- Contracted out R&D
- Pre-Notification requirement



Contracted Out R&D - Old Rules

- Often unclear, however in principle the company performing R&D on behalf of another could not claim – If unable to argue the work was contracted out, HMRC would argue the work subsidised whenever any contract was.

- HMRC doubled down following key tribunal cases including **Quinn Engineering v HMRC**, having elected not to appeal

- Subsequent tribunal cases backed the taxpayer

Contracted Out R&D Under the Merged Scheme

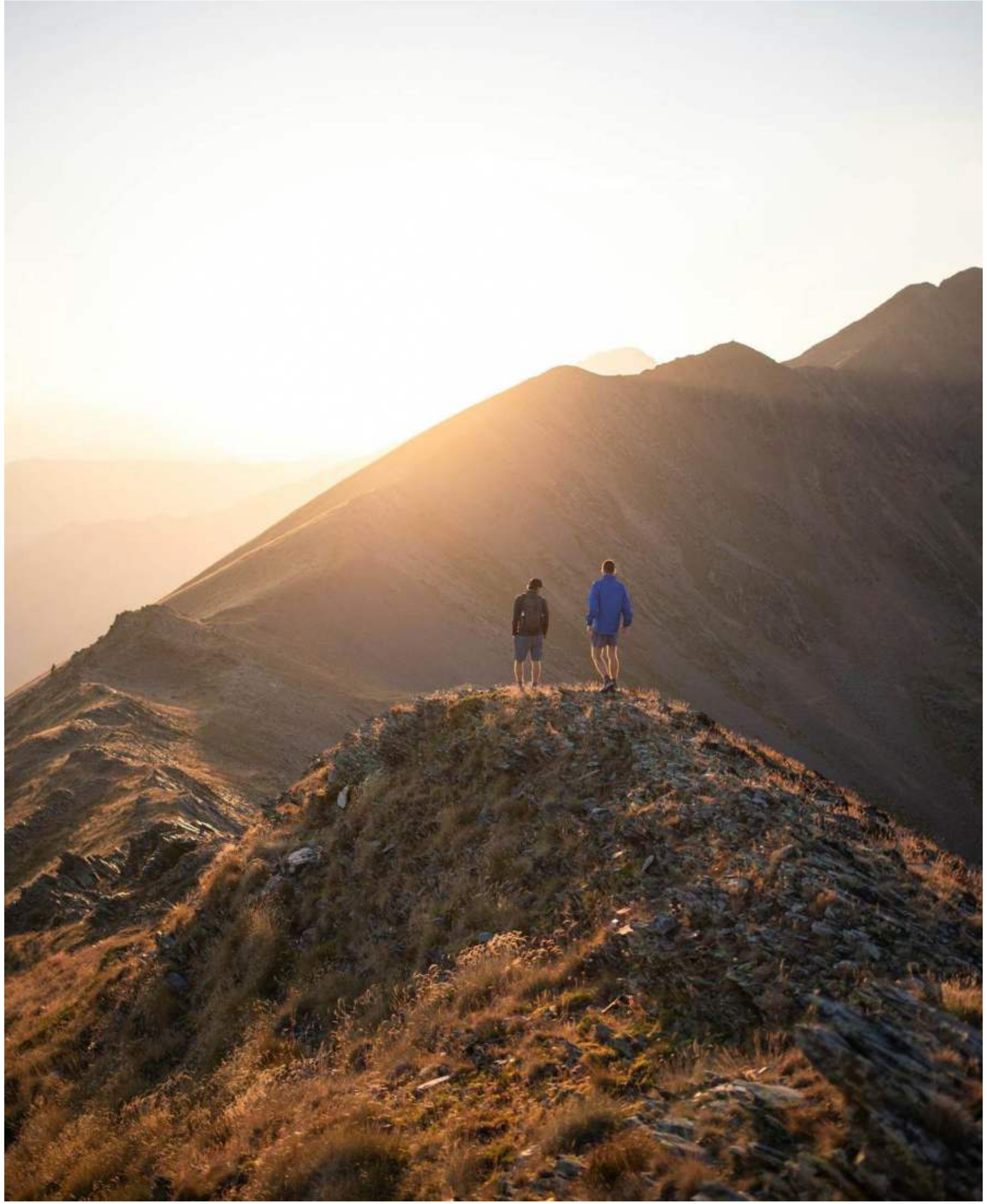
R&D is contracted out by a person (A) where:

"*A enters into a contract (which may be written, verbal, or implied) for activities to be done for it.*

The activities done to meet the contractual obligations include R&D

*Having regard to the terms of the contract (which may be written, verbal, or implied) and any surrounding circumstances, **it is reasonable to assume that A intended R&D** of that sort would be done when it entered into the contract.*"

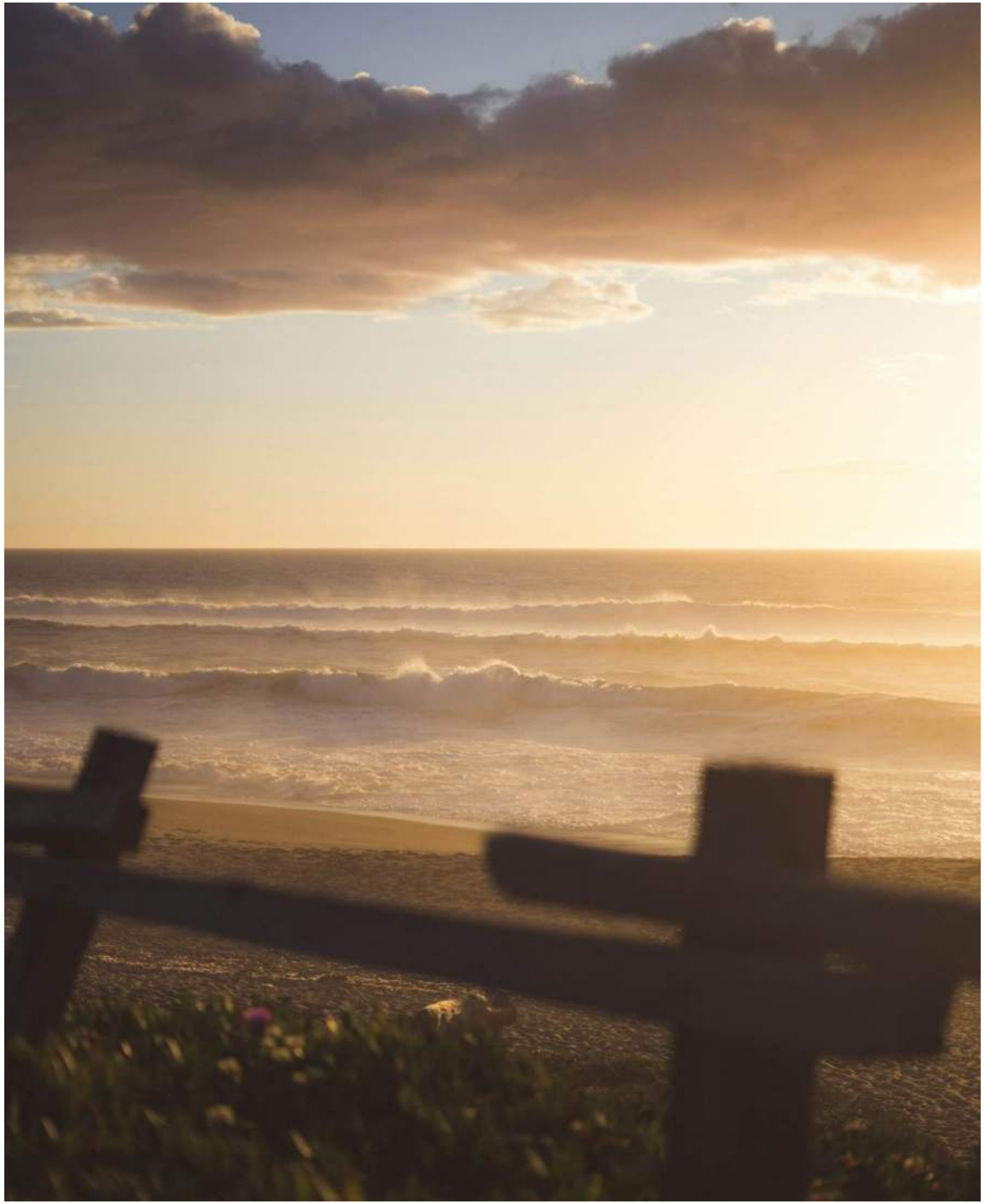
- Only the party that **initiates and decides** to undertake the R&D can claim
- It was **intended or contemplated** at contract inception that R&D would be undertaken
- According to HMRC guidance the customer will generally claim



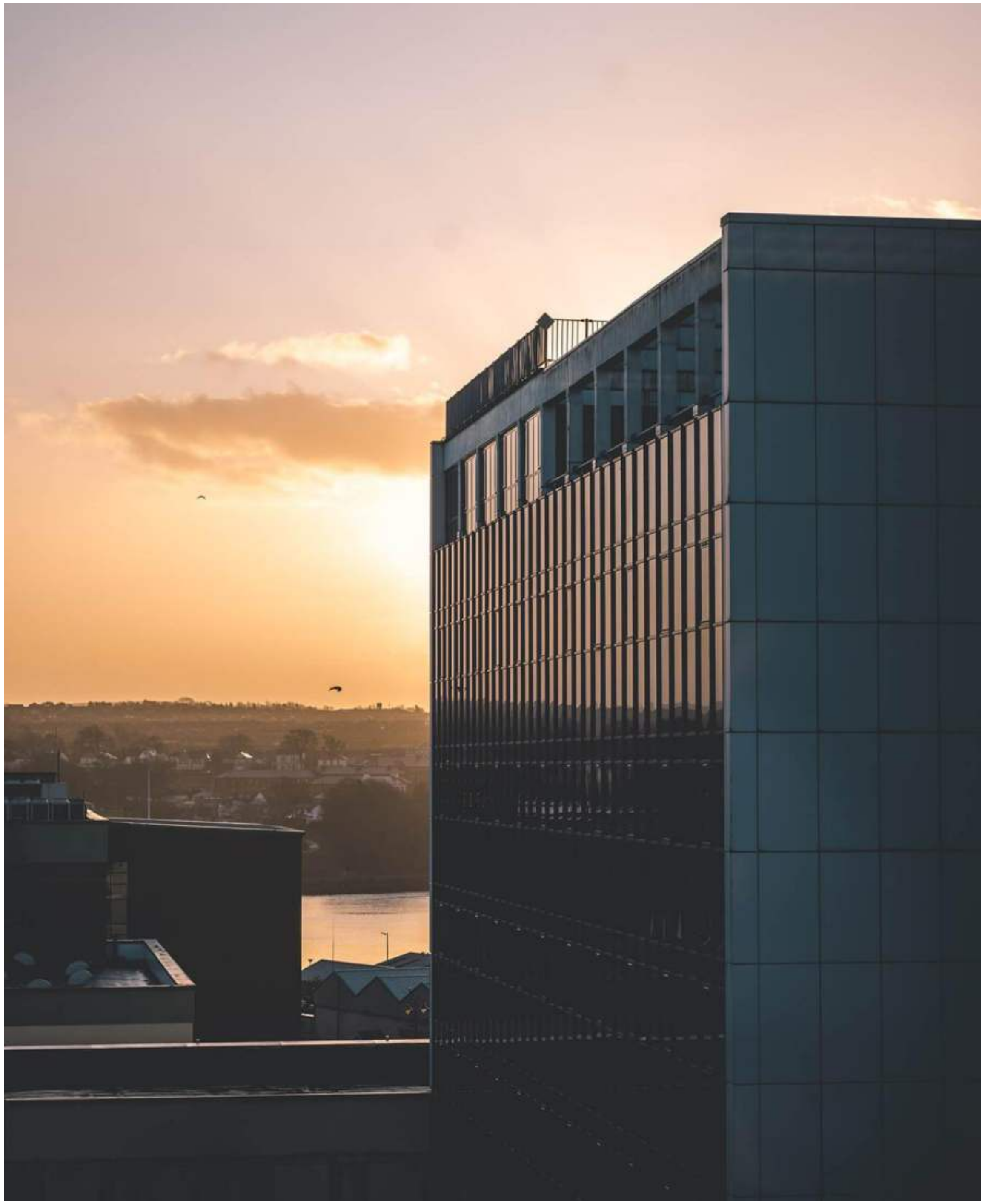
Surrounding circumstances

These circumstances might include (but are not necessarily limited to):

- Intellectual property (IP) ownership*
- Financial risk in undertaking the work*
- Autonomy in how the activity is executed*
- Means by which the R&D is ultimately to be exploited
- The decision-making process (for example whether the motivation to undertake the R&D flows from the customer's wider strategy or an immediate tactical challenge recognised by the contractor)
- The experience and seniority of decision-takers
- The nature of the parties (for example whether it is evident that B specialises in providing R&D services and the contract is typical of those R&D activities).



Examples

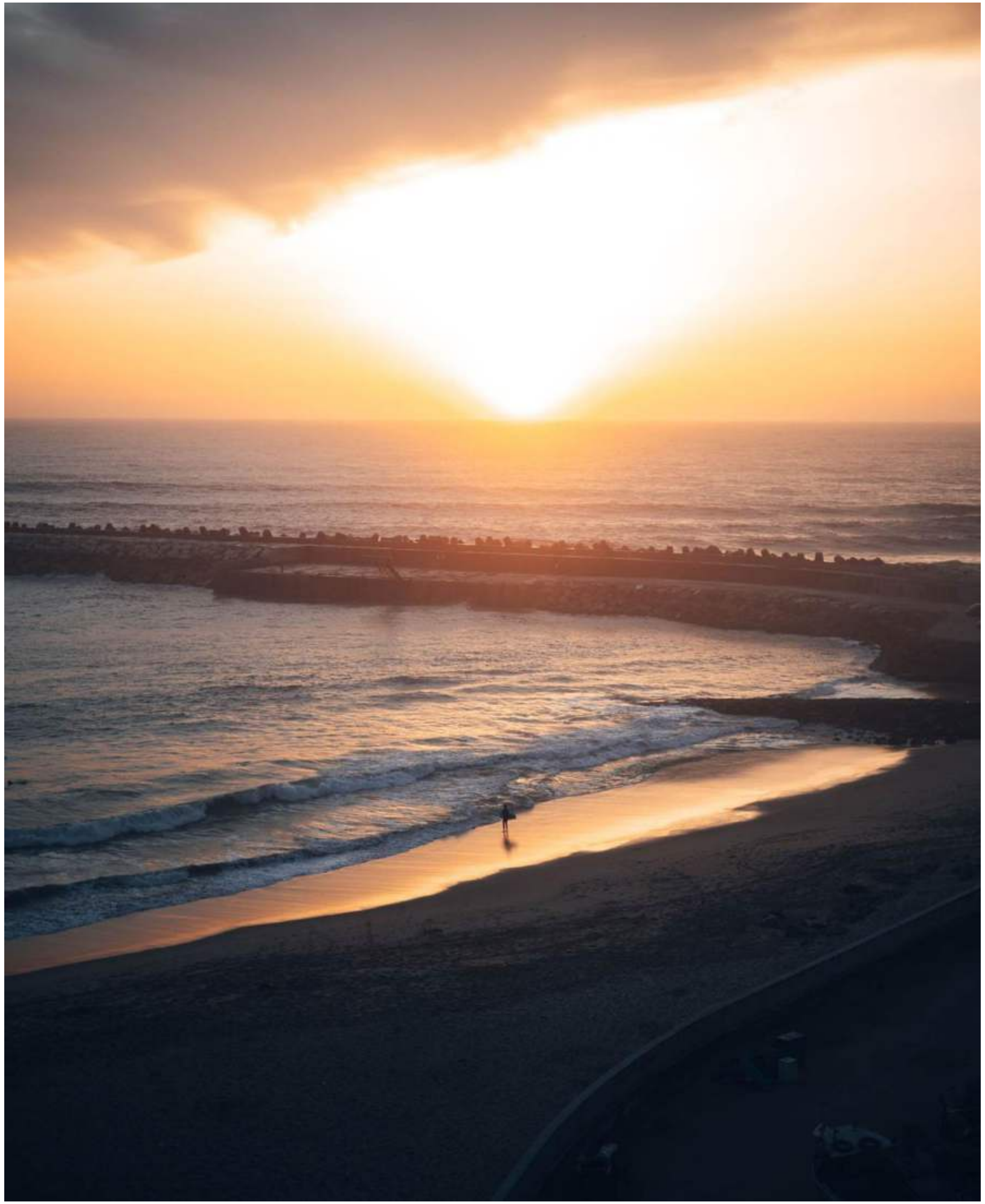


Example 1

- Company A undertakes an R&D software project.
- It engages Company B – also a software development company to undertake an aspect of the development work which constitutes R&D.
- Company A specifies in detail the nature of the R&D work to be done in its contract with B.
- It is likely that A intended or contemplated that R&D of this sort would be done.
- A can claim, and B cannot claim

Example 2

- Company A undertakes an R&D project to develop a drug.
- As part of this project, it contracts out testing to Company B.
- Testing is relevant R&D of A, not B.
- Company A can claim.



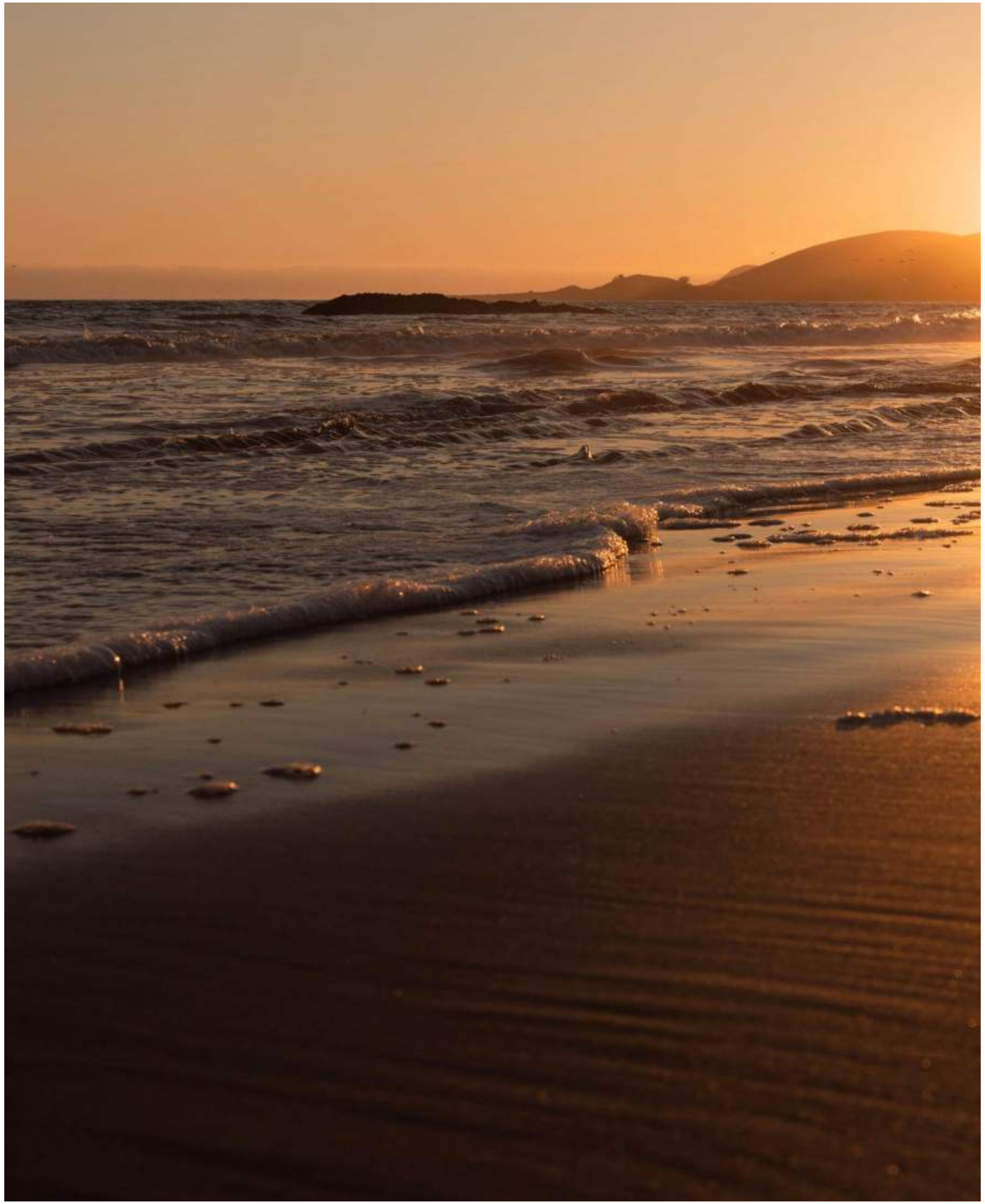
Example 3

- Company A has a trade of property development.
- It enters into a contract with company B, a building contractor, to build a residential tower block.

- When the contract was signed, neither A nor B anticipated that R&D would be required to complete the project.

- In the course of groundworks an unexpected issue with the site is identified. B initially attempts to overcome this by undertaking R&D at its own expense.

- B can claim for this, because the contract and circumstances make clear that A did not intend or contemplate that R&D of that sort would take place when A entered into the contract.



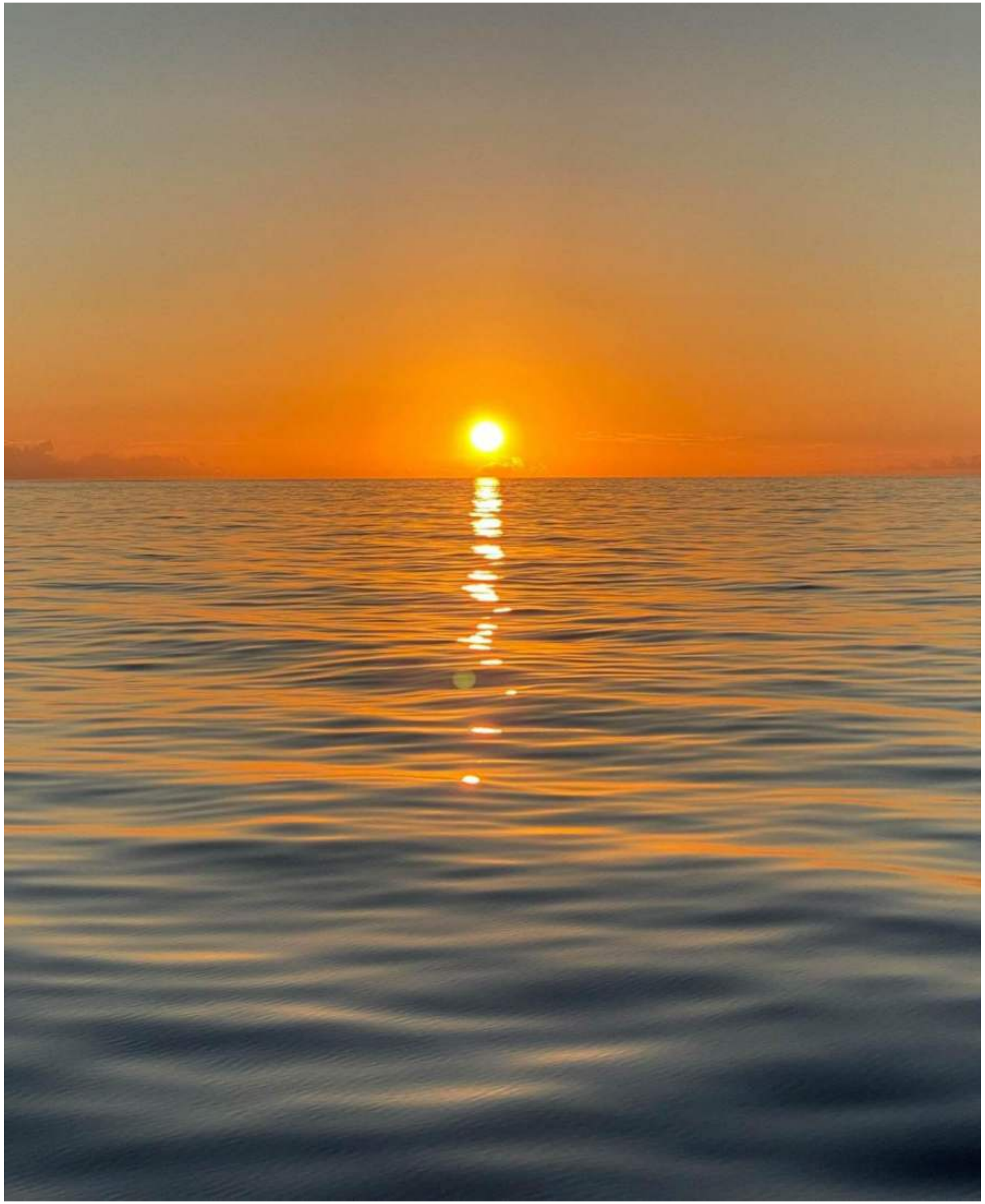
Example 4

- A manufacturer (Company A) contracts a third party (Company B) to provide specialist tooling and knows that R&D is likely to be required to develop this. The contract however is just for the provision of the prototype tooling.

- These products form part of a wider R&D project of Company A. Although Company A understands that R&D is required and provides a detailed specification of product requirements, it does not possess the specialist expertise in this specific area of engineering.

- Company B retains significant financial risk associated with the contract as it is undertaken at a loss (in the hope that Company A's R&D project progresses through to manufacturing, which would ultimately result in large orders being made to Company B).

- Although Company A understands that R&D will be required by Company B to fulfil the contract, Company B undertakes the associated economic risk. Furthermore, Company A does not specify for Company B, or set out internally, the R&D required (it is unable to as it lacks the expertise in this area) Company B would therefore (assuming it meets all other conditions) be in a position to claim the R&D relief.



Example 5

- Company A, (property letting), commissions Company B, a construction firm, to supply a landmark new building. The building's size, location, and required performance parameters (carbon neutrality, safety features, lifespan etc) mean that company B will need to conduct R&D.

- Company A appreciates this, but it does not, in contract negotiations or the eventual contract itself, specify this work in anything but a general sense.

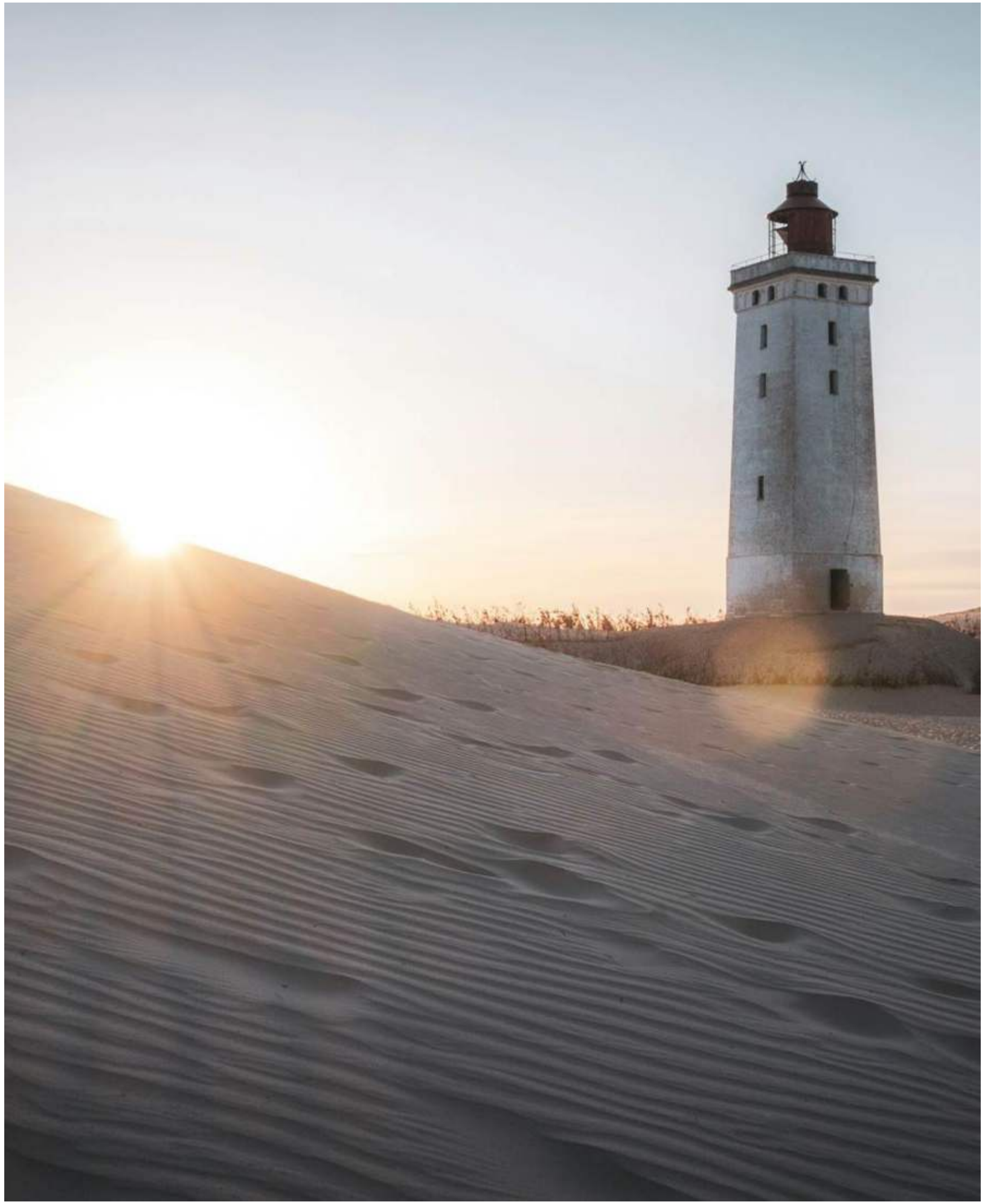
- Company A takes expert advice on Company B's capability to carry out the required work

- Company A cannot 'intend or contemplate' that R&D of a particular "sort" (as referred to in section CTA09/S1133(2)(c) will be undertaken.

- Company B can claim

Key Takeaways

- Specify exactly what work is necessary, and how it should be done
- Specify the R&D that's required
- Keep in mind (amendments to) the contract terms may impact eligibility



Record Keeping

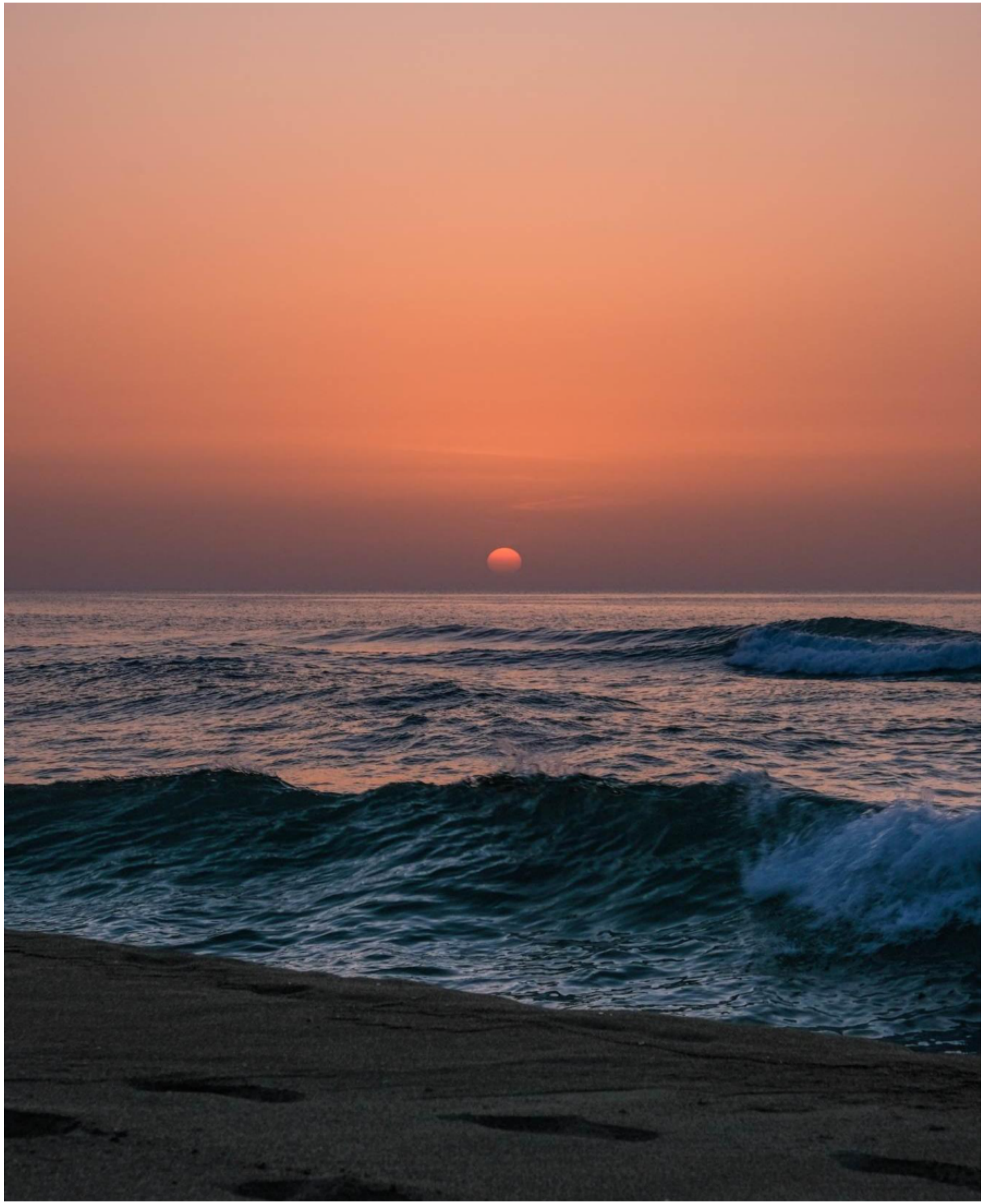
- Contracts
- Correspondence relating to re-negotiated contracts based on R&D activities
- Actual working relationship – meeting minutes, emails, technical documentation.

Group Election

Two group companies can make a revocable joint election under CTA09/S1142(5). The effect of this election is that:

In respect of any R&D contracted out by one to the other, the one contracting R&D out is to be treated as an ineligible company.

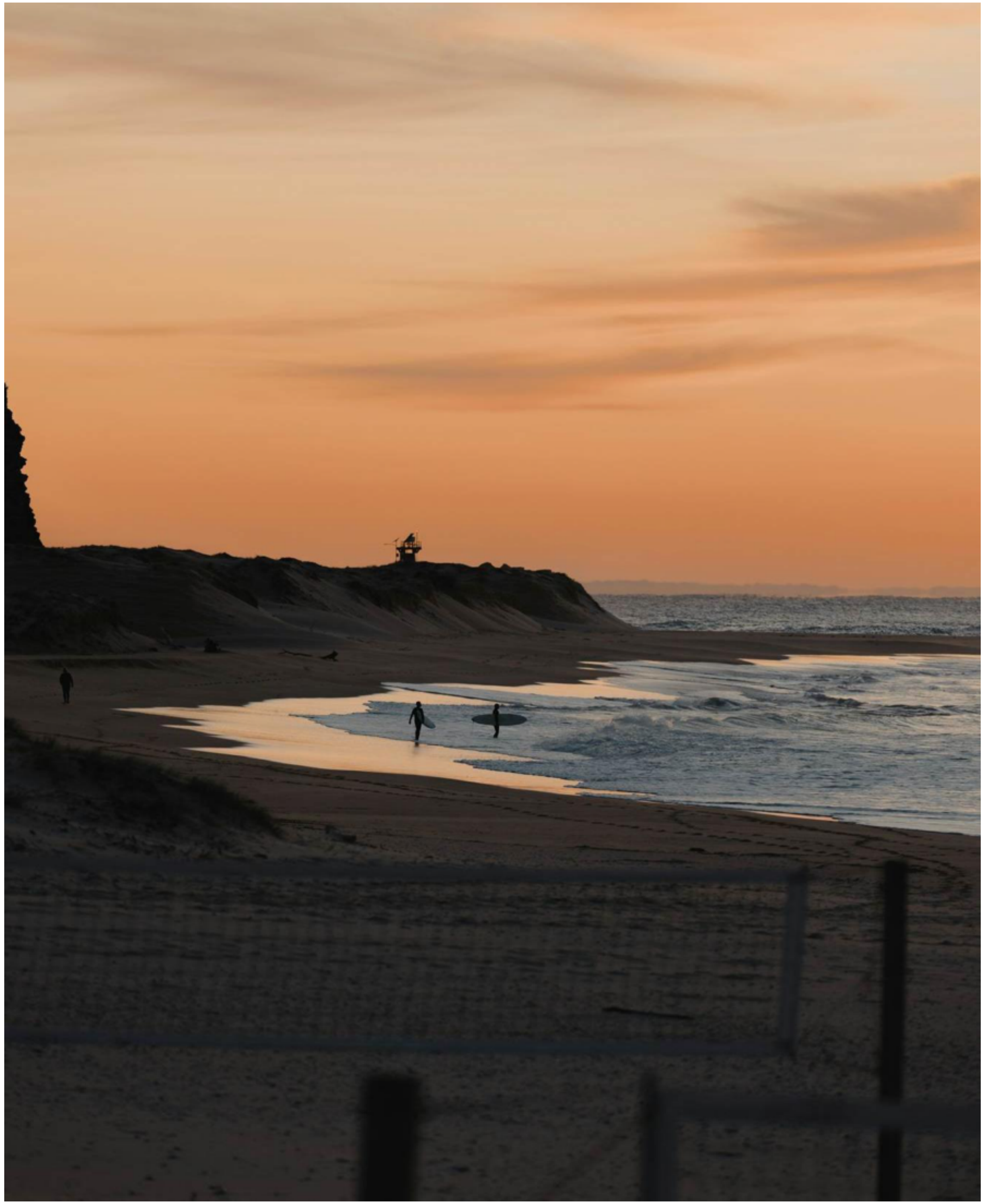
Where relief would not otherwise be available for activity undertaken by the contractor, because it is not R&D in that company's hands, but it is R&D for the customer, the activity is treated as if it were R&D for the contractor



Transitional rules

Can occur where R&D is contracted out between companies, one has expenditure in a pre-1 April 2024 accounting period (i.e. beginning before 1 April 2024), and one has expenditure in post-1 April 2024 accounting period (i.e. beginning on or after 1 April 2024).

Where, in respect of expenditure attributable to the same R&D activities, a company (A) would be entitled to old R&D relief, and another company (B) would be entitled to new R&D relief, the general rule is that A is entitled to relief and B is not.



VAT & Indirect Tax

Sue Rathmell
VAT & Indirect Tax
Partner

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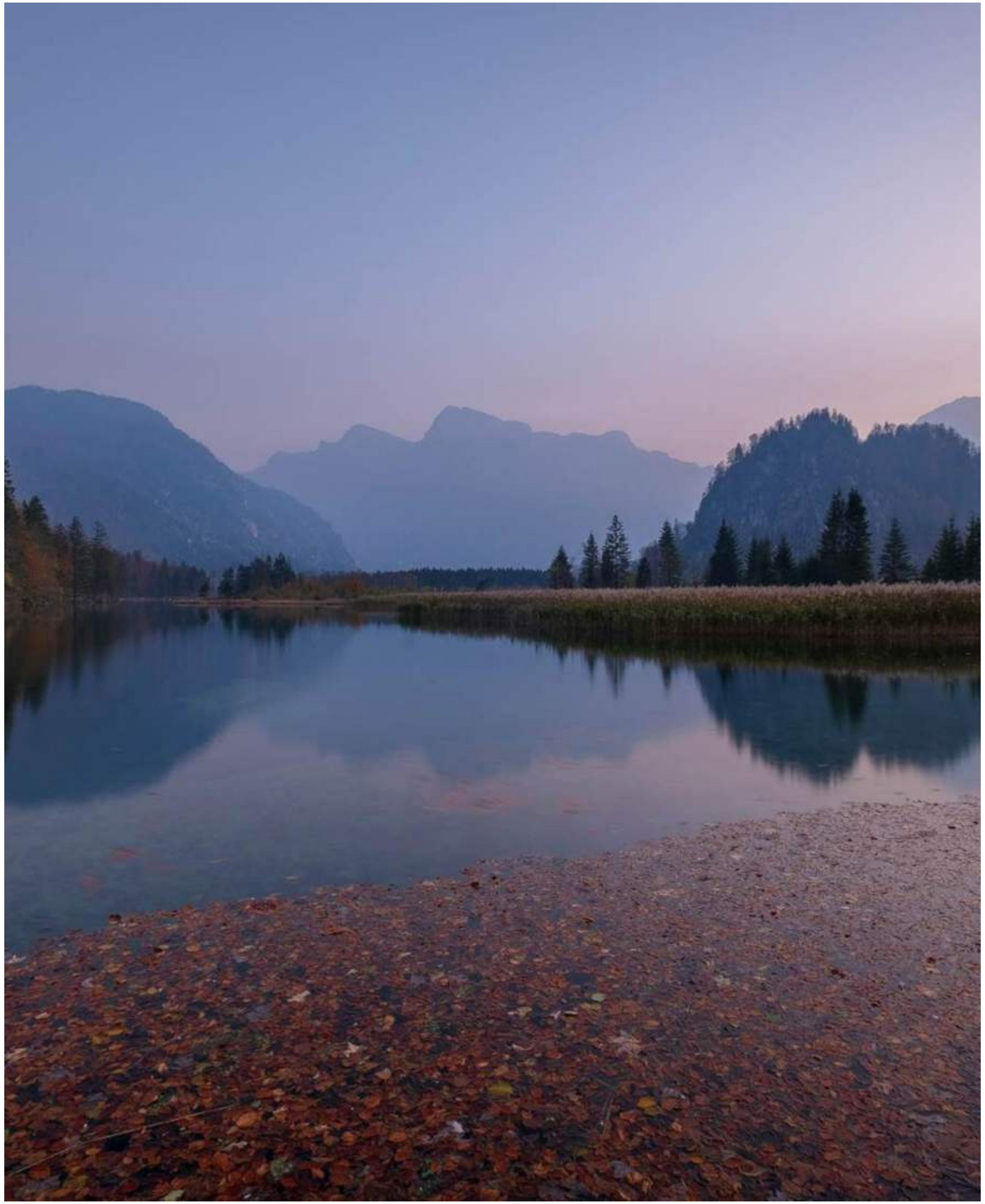
Budget changes

- Gifts of goods to charities will be zero rated from 1 April 2026
- TOMS changes from 2 January 2026
- HMRC's revised position on cross-border VAT grouping and the *Skandia* judgment - claims invited
- A proposed zero-rating for the sale of land intended for new social housing. HMRC and the Treasury are currently working on a consultation document.
- A tax clearance service being introduced for 'major projects' of £1bn or more
- Mandatory e-invoicing in the UK from 2029 – roadmap will be published in 2026 Budget
- But where is the change to the Capital Goods Scheme?



What is e-invoicing?

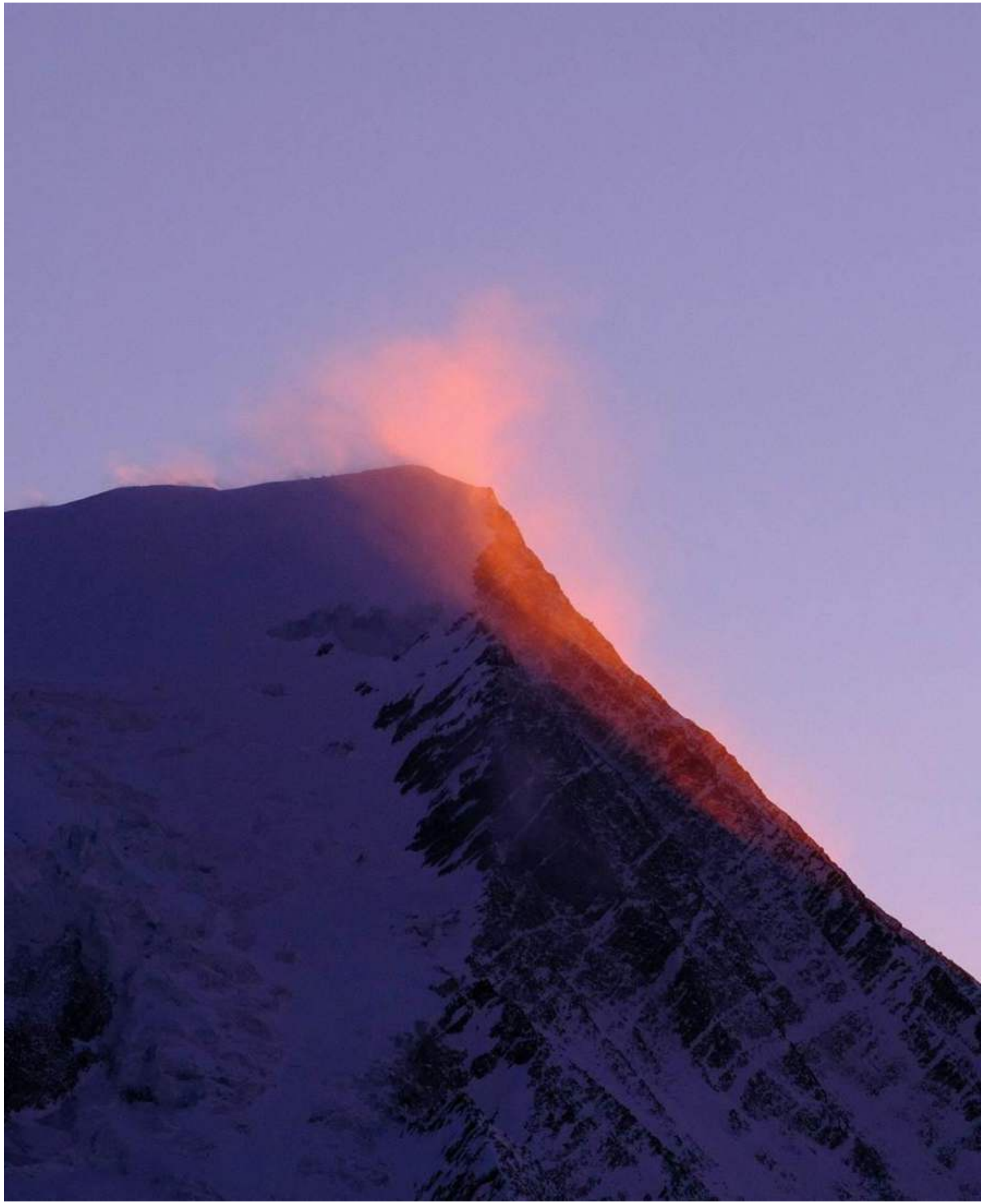
- The digital exchange of invoice data directly between buyers' and suppliers' financial systems, even when those systems differ
- This process enables invoices to be automatically integrated into the buyer's system, reducing the need for manual processing and improving efficiency
- PDFs, word documents, jpeg images, HTML invoices on a webpage or in an email – are **not** e-invoices
- It will mean big changes for accounting systems and new software
- Real time reporting is on its way!

Consultations – have your say

- Visitor levies consultation:
  - Deadline for comment 18 March 2026
  - Will VAT be payable on the levy?
  - Burden on hotel chains etc who will have to administer the scheme

- Electric Vehicle Excise Duty eVED for electric vehicles and plug-in hybrids
  - To be introduced from April 2028
  - Deadline for comment 18 March 2026
  - Mileage based tax – 3p per mile for electric vehicles which is half what a petrol/diesel driver pays in fuel duties. 1.5p per mile for hybrids

- Removal of £135 customs duty relief for low value imports from March 2029 at the latest
  - Closes 6 March 2026



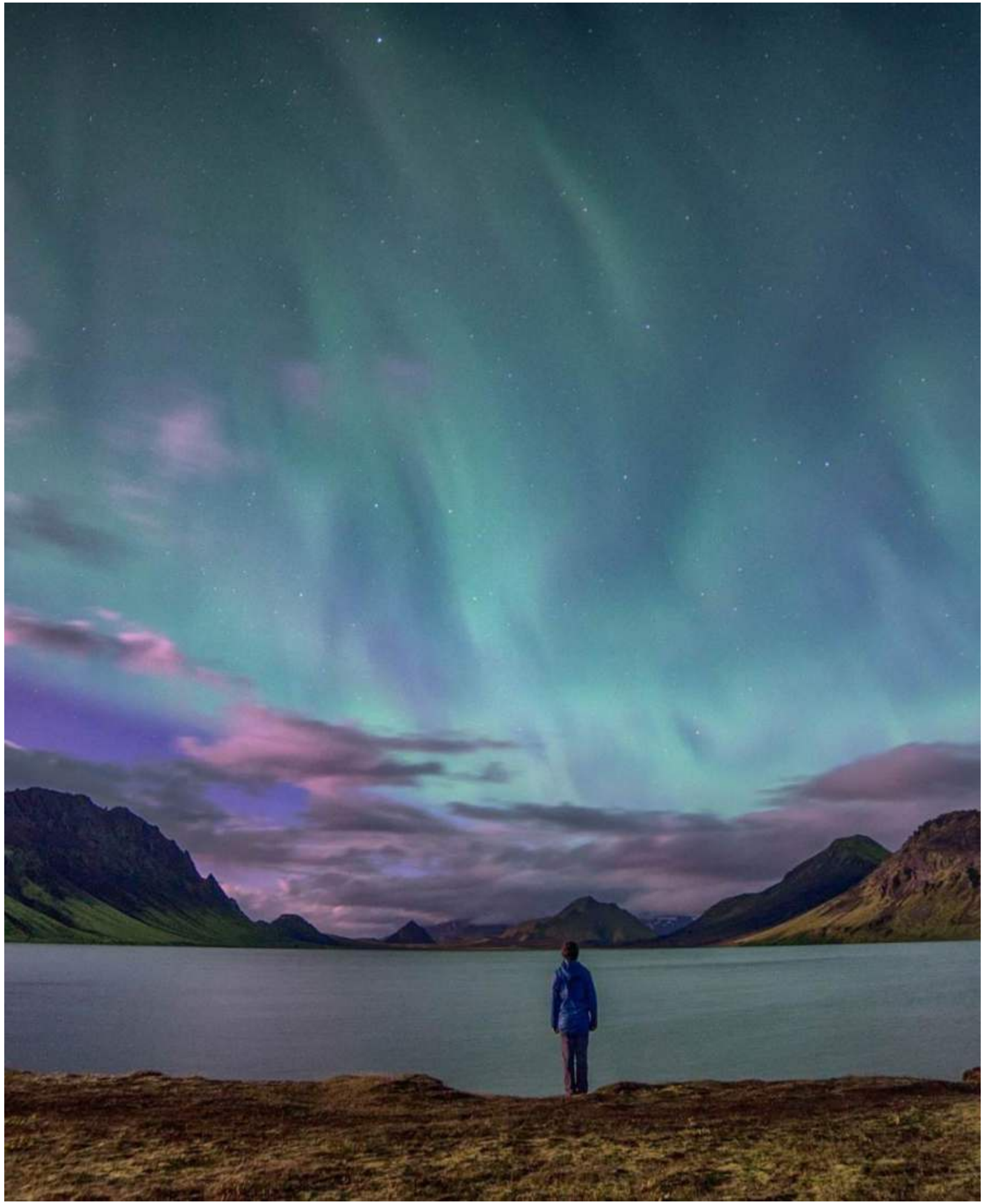
Other VAT news

- HMRC is considering what supplementary data they might require businesses to report in addition to VAT returns. This is in addition to real time reporting and e-invoicing requirements

- HMRC intends to 'digitalise' correspondence with taxpayers and reduce post by 75% to save £50m by 2028/29

- HMRC say service performance is all within SLAs except for new VAT group applications which are taking 55 working days currently

- Trouble ahead for solicitors? HMRC attacking interest received on client accounts

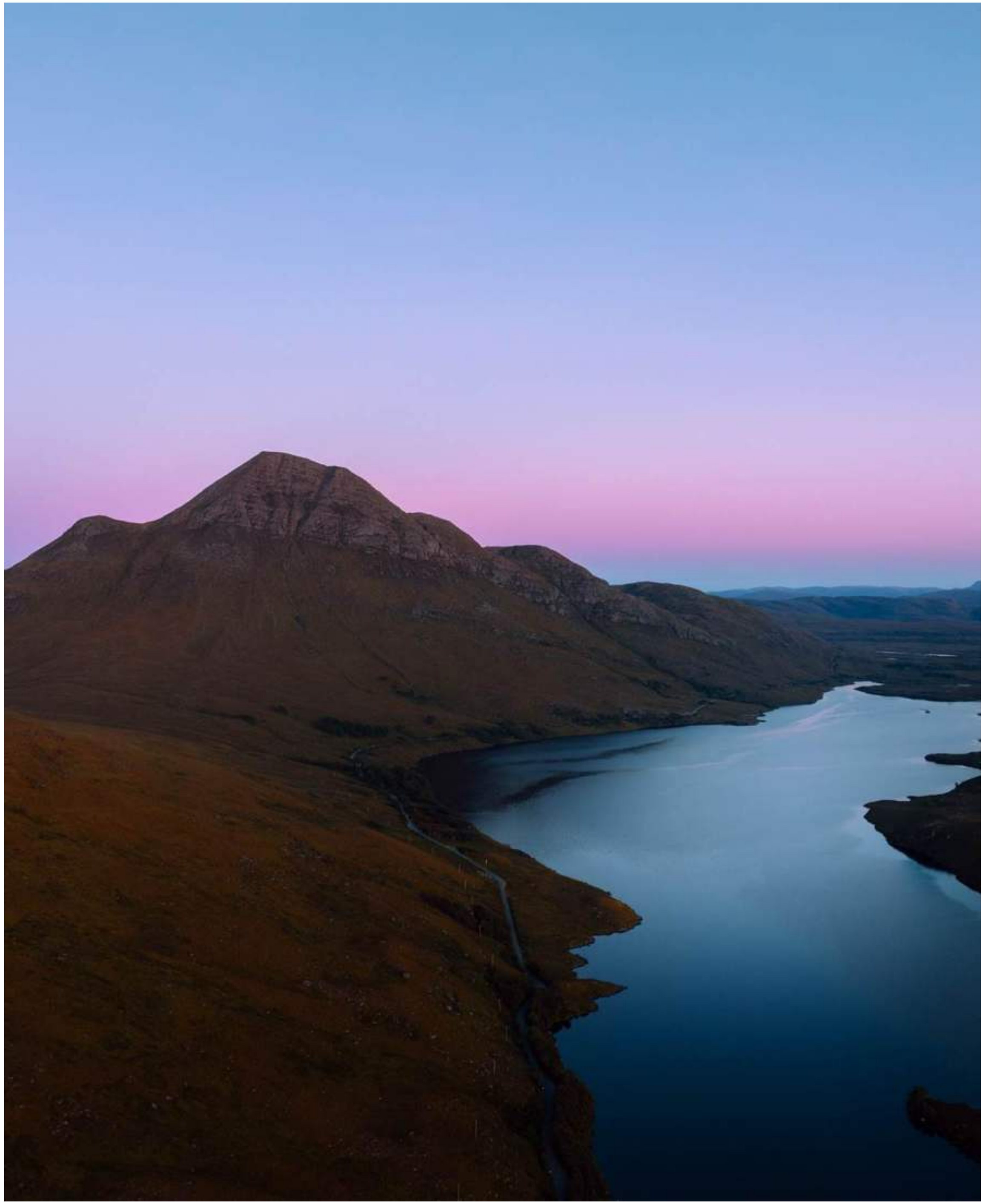


VAT cases update

- Hotel La Tour – HMRC won at the Supreme Court. Opinions are divided!

- TOMS VAT - Sonder Europe Ltd – postponed at Court of Appeal. HMRC granted permission to appeal Bolt at Court of Appeal

- Ferrero UK Ltd – Nutella biscuits



Challenge to US import duties

Current status:

President Trump’s use of IEEPA (International Emergency Economic Powers Act) – is it legal?

The U.S. Supreme Court heard oral arguments on 5 November 2025. No decision yet.

Impact:
- Importers could get refunds of duties, potentially over $300 bn
- Claims could take 2 years with possibility of rejection
- Reduce landed costs on a wide range of goods.
- Improve importer margins or allow price reductions.
- Trump likely to increase duties through other means.

Action:
- Wait for decision.
- Review viability of submitting a claim to US Customs (CBP).
- Sellers to US businesses should open discussions on potential price negotiations, especially if agreements were made to reduce sales prices.
- Get help with a claim.

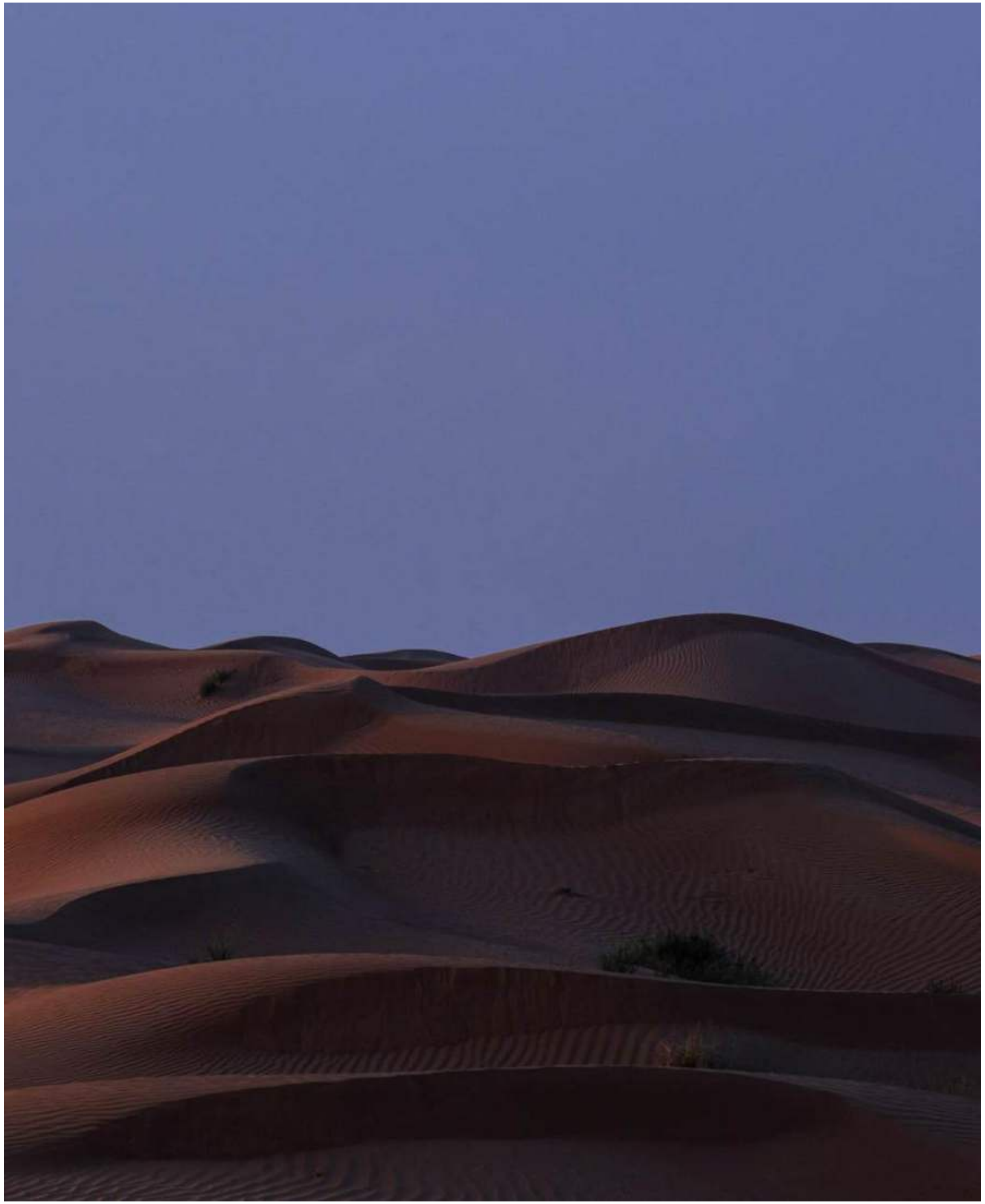
Trade Reporting and Extracting (TRE) service

Overview:
- Full rollout expected by March 2026
- Provides access to your UK customs declaration data.
- 4 reports available (3 import and 1 export)

Current Issues:
- Only 31-day report – no expectation of this to change
- Limit of 25 report creations per day.
- Accessible only via CDS subscribed GG account holder.
- Non-user-friendly reports may require more than one report type per month.
- Does include Northern Ireland TSS declaration data.

Benefits:
- Allows free of charge access to customs data.
- Aids management of customs compliance.

Key Considerations:
- Importers/exporters need customs compliance controls in place.
- Could result in more stringent penalties due to lack of processes.
- The data is very complex and may require specialist analysis.
- Can aid review of customs exposure



UK Carbon Border Adjustment Mechanism

Addresses carbon leakage and supports UK net zero goals. Due to be implemented from 1 January 2027.

Importers must register if the total value of CBAM goods imported into the UK equals or exceeds **£50,000**

CBAM will apply a carbon price on emissions to certain imports including:

- Aluminium
- Cement
- Fertilisers
- Hydrogen
- Iron and steel

First CBAM period is from 1 January 2027 to 31 December 2027 with return payment due by 31 May 2028.

Default emissions data can be used for calculations. Will be published online each year.

HMRC would prefer actual emissions data but default data will be acceptable if you cannot obtain verified actual emissions data.

Action:

- Review imports against in-scope commodities to assess CBAM exposure.
- Review supply chains, emissions data, compliance obligations and sales contracts now.
- Early engagement will be key to ensuring minimum disruption.

Break

We will resume shortly

Global Mobility & International Tax

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Short Term Business Travellers

Tax is not the only risk for employers for business travellers

Income tax

- Individuals may become taxable in the host country

Immigration

- Many countries restrict what is allowed under a business visa (e.g., meeting clients is fine; delivering services may not be)

Social security coordination

- Reciprocal agreement confirm which country's social security legislation applies - relevant to prevent double social security

Posted Workers Directive (Europe)

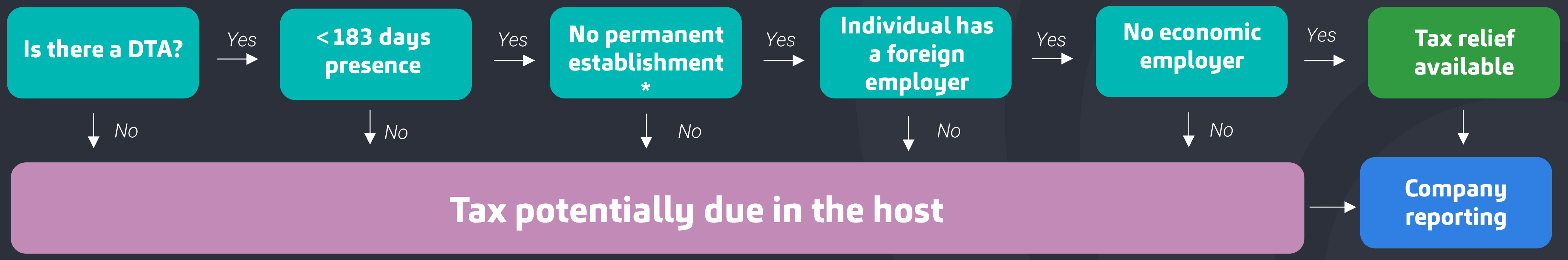
- Ensures employees temporarily sent to work in EU/EEA country receive the host country's minimum employment rights

Other

- GDPR
- Employment law / duty of care
- Corporate Tax and Permanent Establishment

Short Term Business Travellers

Common myth: The travel is for less than 183 days so no action is required



Actions:

- Understand where global business travellers are
- Confirm if there are any other reporting obligations
- *Don't forget – this covers income tax – social security coordination and other compliance may be required*

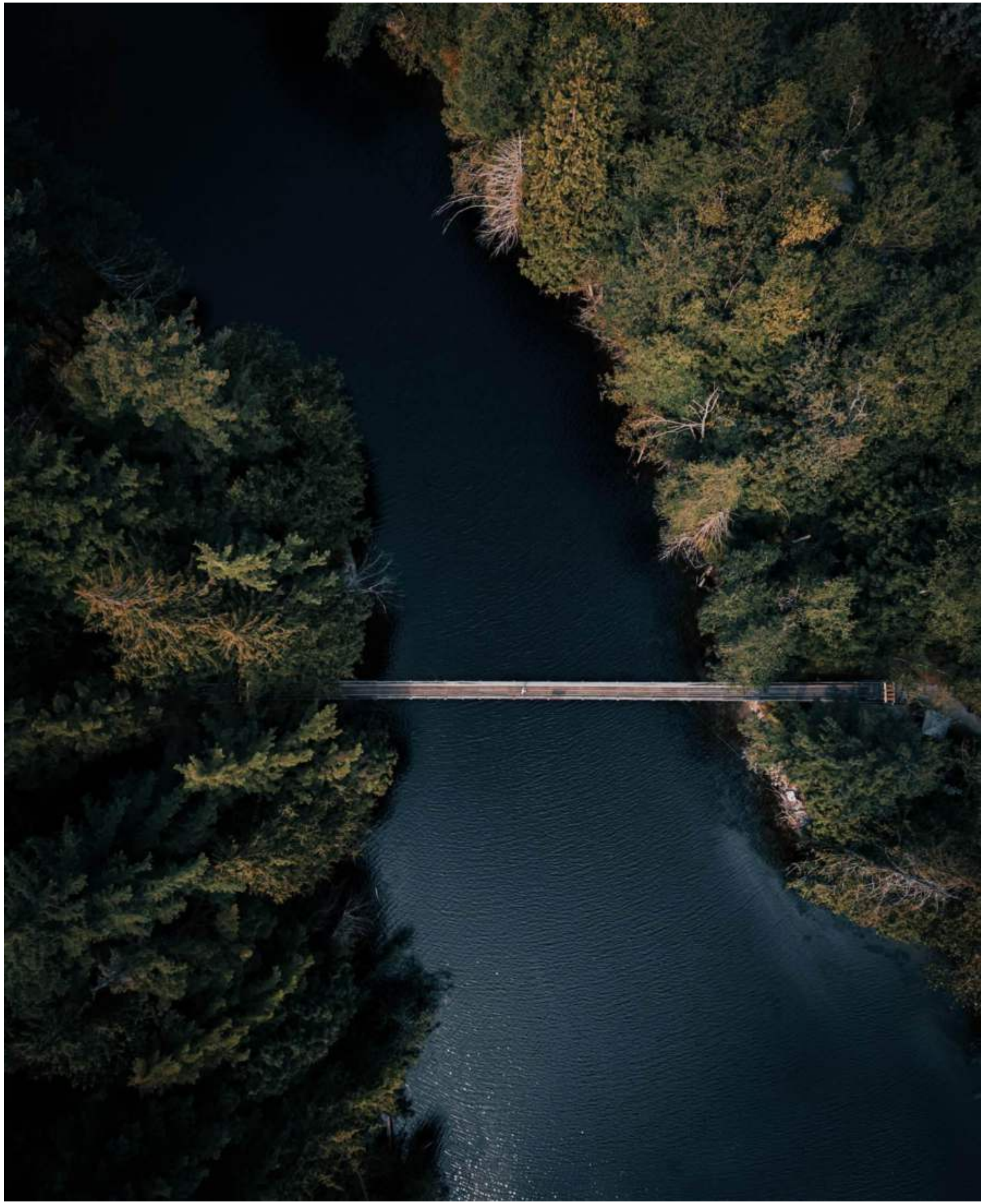
Economic Employer Principle

Tax authorities increasingly focus on substance over legal form

Economic Employer in Practice

- Are the services integral to the host entity
- Does the host entity benefit economically from duties
- Does the host entity carry the risk from duties
- Which entity supervises/directs the work
- Are the costs borne or should be borne by host entity

Impact: Treaty exemption lost & payroll obligations possibly apply



Poll question

1) For those who have international businesses and international business travellers, do you track, monitor and understand where your employees are?

   Yes
   No
   N/A

2) For those who have UK inbound business travel from overseas entities, do you undertake the required Appendix 4 ("Short Term Business Travel") reporting to HMRC?

   Yes
   No
   N/A

What is a Permanent Establishment (PE)

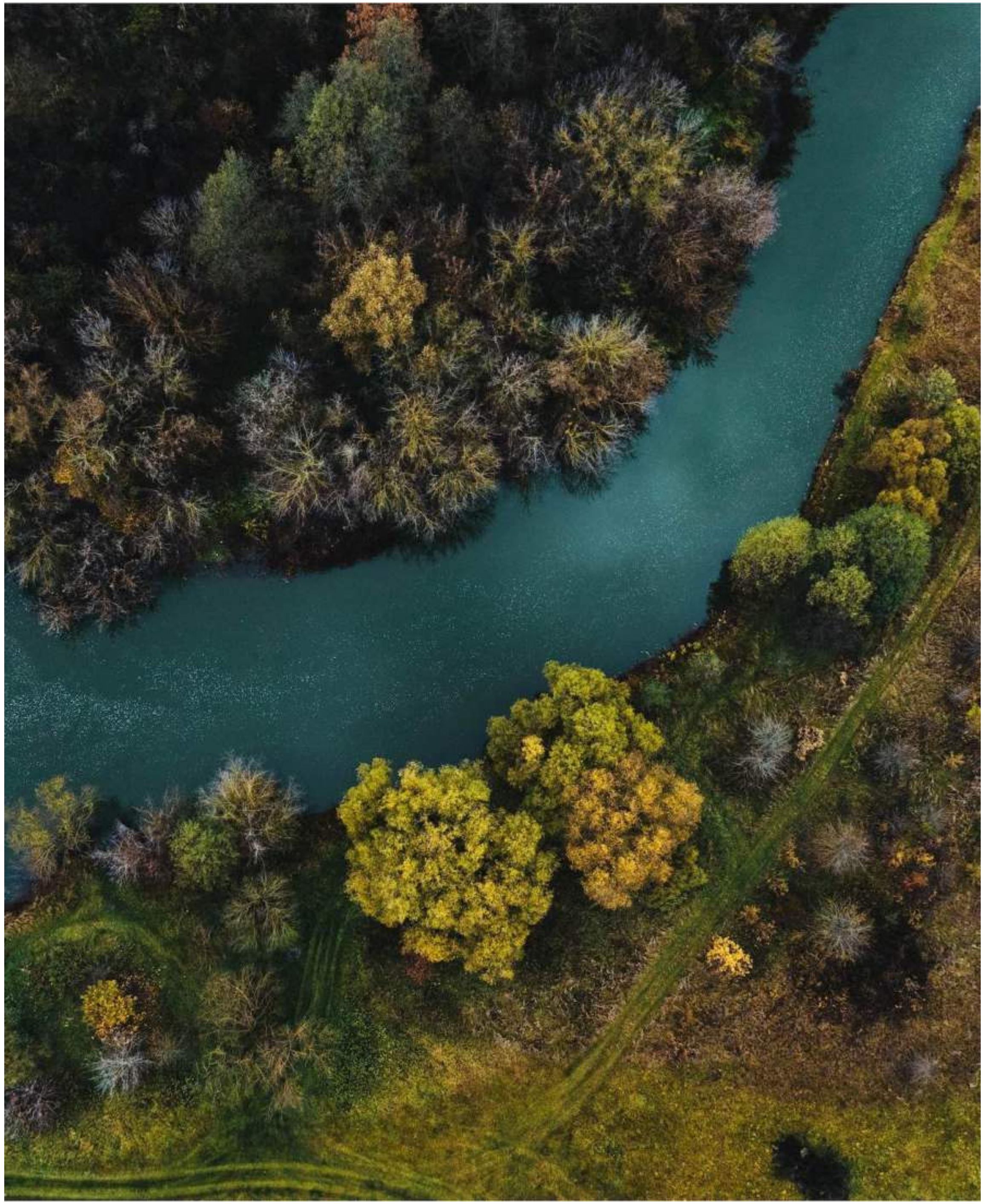
- A PE can be created by a non-resident company carrying on a trade overseas (e.g., a US company a UK office, and UK employees, carrying on a trade in the UK).

- The existence of a PE gives rise to various local registration, and filing obligations, as well as local tax liabilities.

- Two main forms of PE based on the OECD Model Tax Convention, though domestic rules, and the interpretation of OECD guidance can vary by jurisdiction; these are:

    1. Fixed Place of Business PE ("FPOB PE"); and,
    2. Dependent Agent PE ("DAPE").

- Double Tax Treaties can reduce PE risk or provide relief against double taxation on the same activities, where applicable.



Permanent Establishment Key Developments

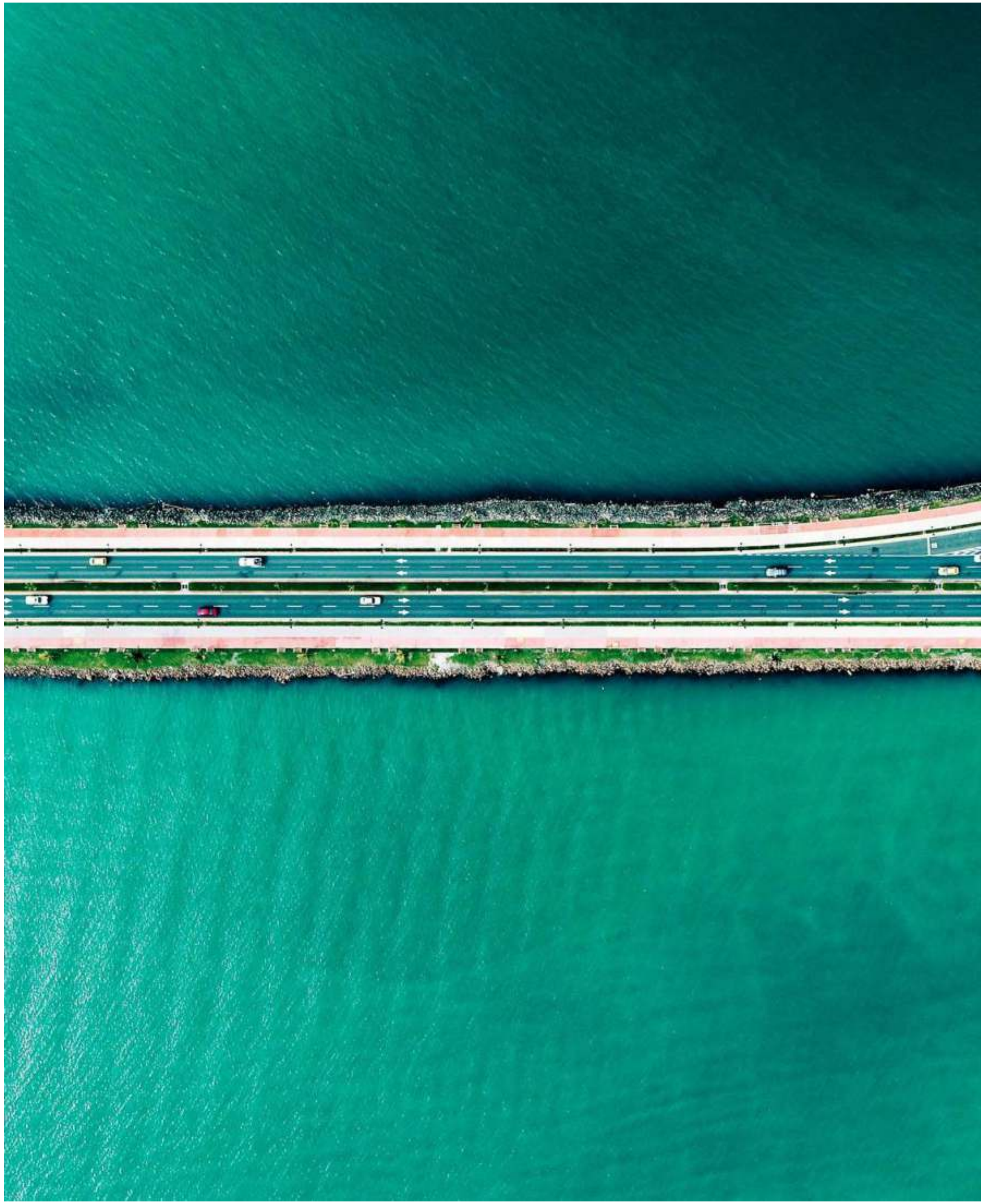
- The OECD released an update to the Model Tax Convention in November 2025, which provided new detailed guidance on when a ‘home office’ can create a FPOB PE.

- New tests to meet, in addition to other conditions such as the requirement for a degree of permanence:

  - 50% of working time test; and
  - Commercial reason test.

- The new guidance applies to existing double tax treaty provisions and is also being adopted in domestic rules and guidance.

- This update reinforces the importance of cross-border businesses having clear internal policies, and processes for documenting decisions around their remote workforce.



Corporate Tax Residency Risks

- UK domestic law provides two tests for determining whether a company is UK tax resident:

    1. Incorporation Test; and
    2. Central Management and Control Test.

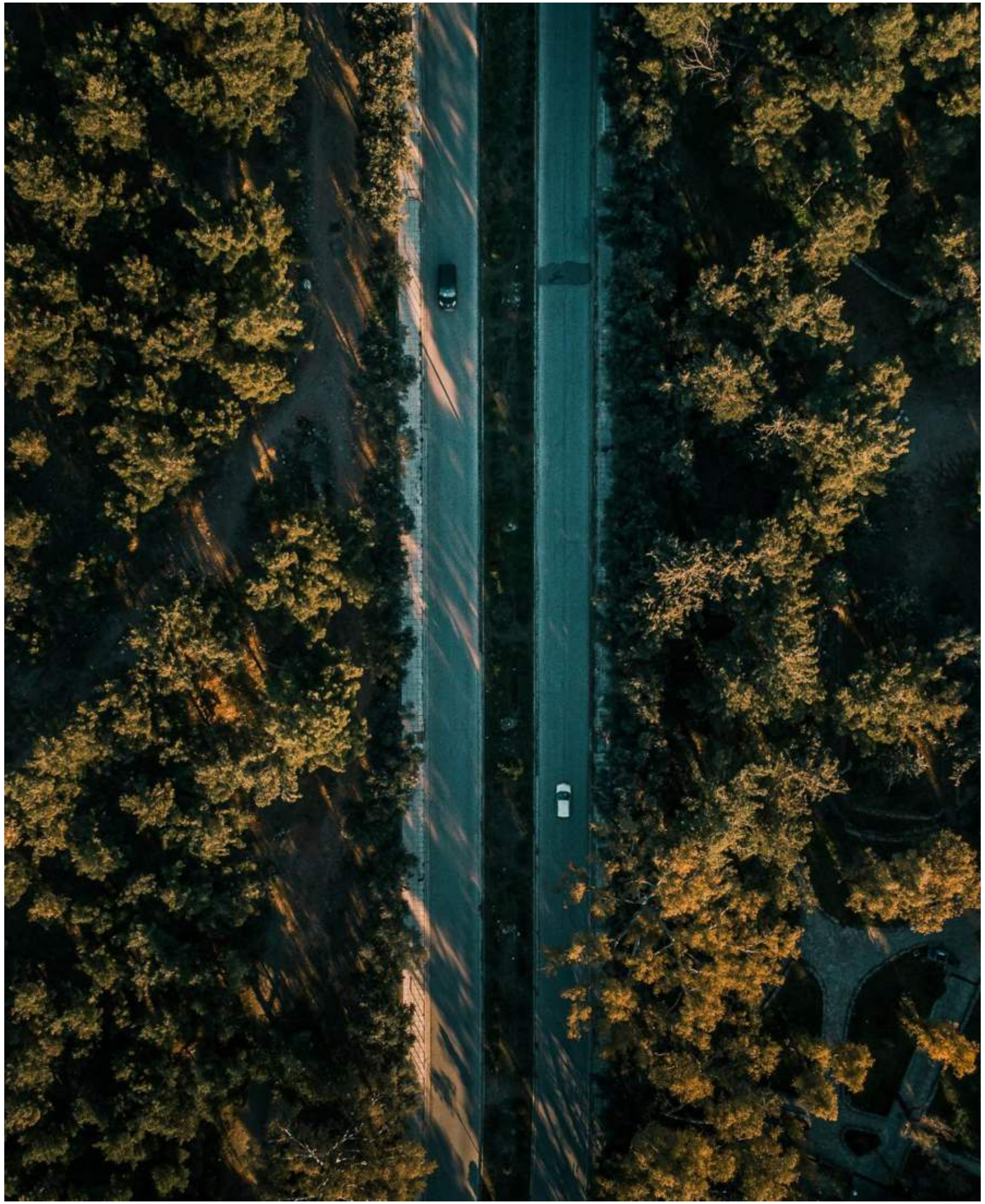
- Dual tax residency risk where a company is incorporated in one jurisdiction but controlled from another.

- Double Tax Treaties include a tiebreaker test to determine which jurisdiction has primary taxing rights.

- MLI and move to Mutual Agreement Procedure (“MAP”) approach rather than ‘self assessment’ approach has increased administrative complexity in most cases.

- No tax relief under a Double Tax Treaty where MAP is required but incomplete.

- Important to manage dual tax residency risks and to robustly document where decisions can and are being made.



Transfer Pricing

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Transfer pricing

A summary of key updates in the UK transfer pricing legislation

- Major UK transfer pricing updates effective from 1 January 2026 include:
    - Exemption for UK-to-UK transactions,
    - New rules for financing/intangibles aligning with OECD,
    - Harmonising Permanent Establishment (PE) definitions with OECD, and
    - Replacing Diverted Profits Tax (DPT) with Unassessed Transfer Pricing Profits (UTPP) rules.

- A new International Controlled Transactions Schedule (ICTS) for reporting cross-border data starts in 2027, requiring structured data submission to HMRC. The consultation is expected in the first half of 2026.

- HMRC's letters on value chain analysis and management expense deductibility

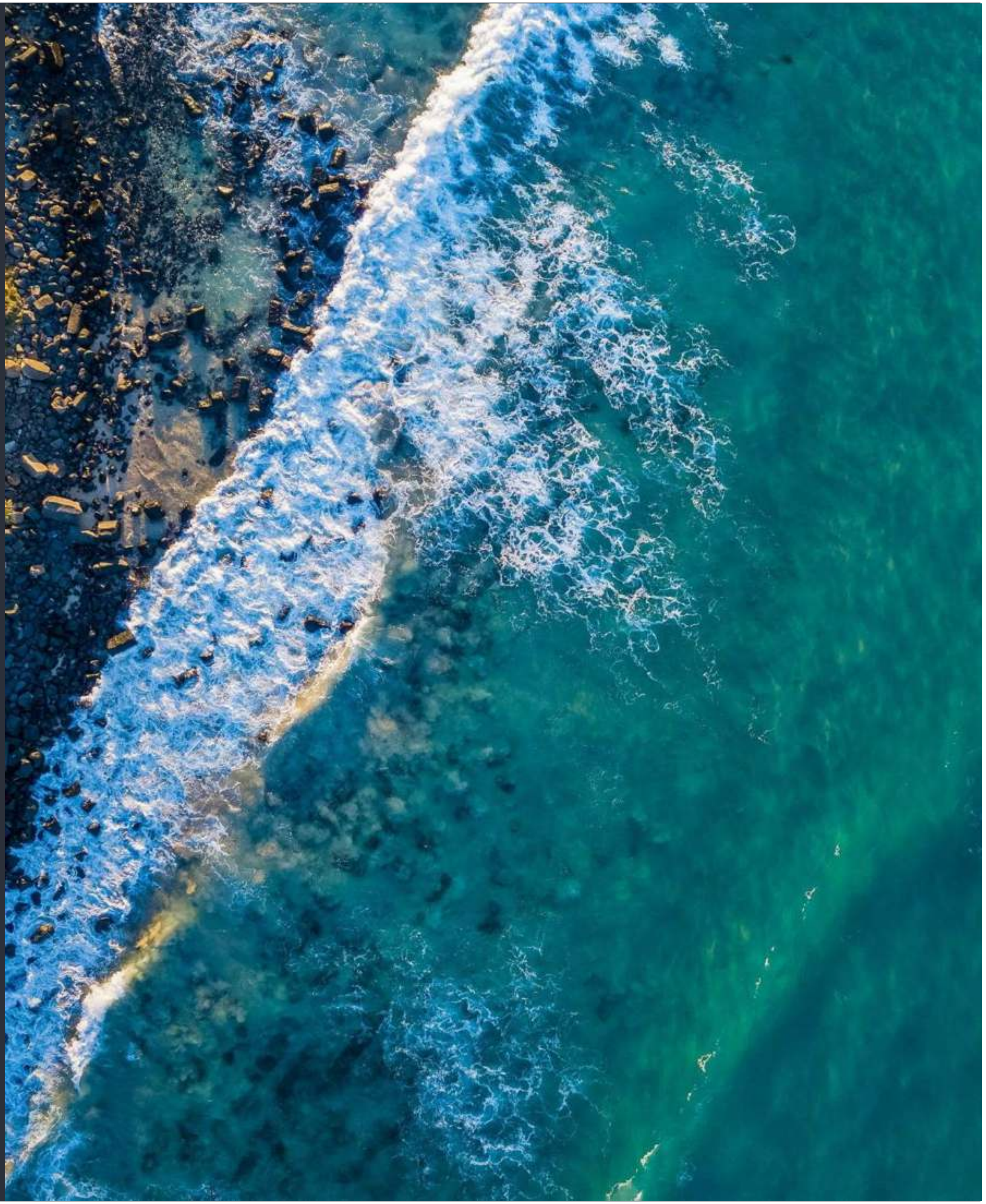
Practical considerations through the life cycle of transfer pricing

- Planning

- Implementation

- Monitoring

- Documentation



Questions

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Save the date

Finance Directors Update Course

Date: 17th September 2026
Time: 8:30 – 12:30
CPD: 3 hours

www.mha.co.uk/events/finance-director-update-webinar-september-2026

Thank you for joining us today!