Navigating strategic tax challenges: a guide for tax leaders

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We take a look at the key issues that we will have to address in 2025, and how we can all best prepare for the year ahead.

What happened in 2024

This time last year, I wrote in *Tax Adviser* that 2024 would be a challenging year for tax and finance directors with one of the key themes being uncertainty. While there were some positives in 2024, such as an easing of inflation and a reduction in interest rates, the main game changer for anyone who works in tax in the UK was the general election.

However, clarity about what this would bring took time. Between Labour winning the election in July and the Budget in October, there was uncertainty. Speculation about tax changes intensified, with suggestions ranging from adjustments to inheritance

tax rates to a wealth tax on property.

When the Budget finally arrived, there were some obvious headlines. Businesses were most recognisably impacted by the changes in National Insurance. The newspapers focused on unhappy farmers and school fees, while investors were encouraged to make the most of the capital gains tax rates while they could. For large businesses, however, apart from a couple of attention-grabbing points, the reality for many was that the changes were less dramatic than many had feared.

So, as we hit 2025, is it true to say that uncertainty has moved to a greater confidence over future tax stability, or are we looking at more of the same?

Corporate Tax Roadmap 2024

To coincide with the Budget, the government released its Corporate Tax Roadmap 2024. Although it wasn't front-page news, this Roadmap should be on our radar as tax professionals as it outlines the government's plans for corporation tax, highlighting several areas for potential change.

Overall, it is the Chancellor's attempt to offer an element of stability and confidence in terms of the direction of future tax decisions, with the intention of making the UK an attractive place in which to invest and do business.

Key features of the Corporate Tax Roadmap include:

- capping the rate of corporation tax at 25% for the remainder of this parliament;
- retaining the small profits rate and marginal relief at current rates and thresholds;
- for capital allowances, full expensing will be maintained along with the £1 million annual investment allowance;
- for R&D, the current rates for the merged R&D expenditure credit scheme and enhanced support for R&D intensive SMEs will be kept;
- the patent box regime will be maintained as will the UK's competitive regimes for intangible fixed assets (IFAs);
- maintaining support for a territorial UK corporation tax regime underpinned by the substantial shareholding exemption, dividend exemption and a flexible approach to foreign branches.

All of this may be welcome for tax directors.

International issues

Internationally however, and especially for big business, 2024 was the year of preparing for and responding to Pillar Two. As a reminder, the OECD's Pillar Two framework aims to ensure that multinational enterprises with global revenues above €750 million pay a minimum tax rate on income within each jurisdiction in which they operate. The framework imposes a Top-Up Tax on profits arising in jurisdictions where the effective tax rate is below 15%.

Many businesses have already invested heavily in Pillar Two, recognising the significant compliance burden as the calculations are complex and many of the data points required may not currently be tracked. This may require updates to systems and processes, as well as revisiting global tax operating models.

The other big news item on an international basis that will impact all tax directors and keep them guessing is the re-election of Donald Trump as US President.

So, as we enter 2025, we find ourselves in a similar position to the start of 2024, but arguably with even greater uncertainty. This is particularly true for businesses with international operations, as new trade and tariff rules come into play. These changes could lead to higher costs and increased complexity for tax directors.

What we do and don't know about 2025

Let's start with the UK Autumn Budget and repeat what we know. For 2025, apart from the headline points above, other tax and pension changes appear minimal. The Chancellor confirmed that income tax bands, National Insurance rates (for individuals) and VAT will remain unchanged. The personal allowance will stay frozen until 2028.

However, several consultations are planned which are of interest:

- reforms to transfer pricing, permanent establishment rules and diverted profits tax, including the potential removal of UK-UK transfer pricing;
- widening the use of advance clearances for R&D reliefs to increase take-up;

- tax treatment of predevelopment costs in relation to capital allowances; and
- new rules governing tax certainty for major projects (with the purpose of providing investors with greater assurance about the tax impact when they invest in major projects).

So, watch out for these.

In the US, Donald Trump's return to the White House will be a significant moment for global trade and will be a reminder to all of the importance of tariffs in US domestic and foreign policy in the coming years. All tax directors with any business with the US need to start to understand and prepare for trade dynamics that could lead to increased costs, supply chain disruptions, greater administrative burdens, more tax complexity and uncertainty about traditional trade relations.

What are Trump's tariff-ic ideas?

Tariffs, also known as customs duties, are an indirect tax on imported goods. The duty assessed on an import depends on its tariff classification or commodity code, usually a 10 digit number under the Harmonized System. The US sets its own duty rates for all tariff codes.

The Harmonized Tariff Schedule of the United States lists over 17,000 tariff code descriptions, each with its own duty rate, with most duties assessed 'ad valorem' – as a percentage of the declared value.

Correctly classifying imported goods determines the correct 'landed cost' and is crucial for business decision-making. This is a highly technical, specialised analysis and getting it wrong can have significant economic consequences, especially because tariffs are 'above the line' cash costs, have strict deadlines for claiming duty refunds, and could increase to levels not seen since the late 1800s if President Trump's tariff proposals come to pass.

Throughout his election campaign, President Trump emphasised his commitment to revamping US trade policies to prioritise US manufacturing and reduce trade deficits. Central to this strategy is the imposition of new tariffs, seen as a tool to negotiate concessions from US trading partners, to address perceived trade imbalances and protect domestic industries by incentivising the return of manufacturing jobs to the US.

Following his first tenure as President and the previous tariff proposals discussed during his campaign, it is expected that some, but maybe not all, of his tariff proposals will eventually be introduced. Some of his tariff proposals must gain the support of Congress to progress and also avoid challenges from the WTO. However, bipartisan congressional support for any new tariffs on Chinese goods seems almost guaranteed, making it very likely these proposed additional Chinese tariffs will come into effect.

So, what are the likely tariffs? In practical terms, President Trump pledged to introduce the 25% additional tariff rates for Canada and Mexico, plus an extra 10% on the current Chinese tariff rates of 7.5% and 25%. This is being written before his inauguration on 20 January 2025 so already things may have happened or may have changed. Such is the nature of uncertainty!

All this will likely have a significant impact, but for those with operations in the US, there are other storm clouds on the horizon!

Potential ‘Taxpocalypse’: a whirlwind of tax regulatory change

Staying in the US, many tax provisions from the 2017 Tax Cuts and Jobs Act will automatically expire at the end of 2025, leading to potential tax increases for nearly all American taxpayers, including businesses with US interests, unless President Trump can pass his proposed extensions and new tax cuts.

The Tax Cuts and Jobs Act reduced individual income tax rates and made several changes to the tax code, including cutting the corporate income tax rate and creating a new system for taxing the overseas income of US companies. While some business tax changes have already taken effect, the pass-through deduction will expire after 2025. The 21% corporate income tax rate remains, but the new international tax system will see increases after 2025.

Although both parties in Congress are interested in extending individual tax cuts for different groups and addressing the expiration of the pass-through deduction, they are also considering changes to the corporate rate and the international tax system. The only real advice at this time is to prepare for the end of the Tax Cuts and Jobs Act but there are various potential outcomes of future tax reforms as different scenarios and coalitions develop during the year. Again, ambiguity remains.

Getting ready for 2025

When I spoke to Miranda Chamberlain, Head of Tax at Mace, about the year ahead, she mentioned that she saw 2025 as bringing in ‘Winds of Change’. Given the potential developments on an international level, this prediction may very well hold true.

What remains certain is that tax continues to be a strategic issue, especially in times of uncertainty. As Miranda continued: ‘The impact of sustainability is a recent but fixed Board agenda item, as it is now a top priority for stakeholders and investors to assess the longevity and resilience of a business. Tax has a key role to play in that narrative. The “race to the bottom” for effective tax rates is over and a tax director of the future must be able to robustly demonstrate a responsible tax agenda providing certainty in a climate of uncertainty.’

Boards are seeking assurance over the effectiveness of all their global operations, and tax is a key part of that. This has become even more demanding in these times of economic challenge and political turmoil, with the additional pressures on all countries to maximise tax revenues. For all their stakeholders, tax directors need to demonstrate transparency and, wherever possible, provide a culture of ‘no surprises’ when it comes to tax risk.

It is evident that governments worldwide are continually tightening tax laws and tax governance. The impact, especially in the UK, is an increasing focus on the tax behaviours of businesses and the need to produce evidence of effective tax governance and tax risk management. This risk-based approach is a growing trend.

In simple terms, good governance and robust tax risk management is no longer a nice-to-have. The tax director needs practical ways to gain control and assurance over tax risk within the business’s operations and demonstrate control over their tax profile and external reputation.

A consistent approach to tax across the business is imperative. Where there is uncertainty in the wider environment, it is vital to minimise inconsistencies, additional risks and error within the business’s internal tax operations.

Tax directors need to establish the right mechanisms, governance structures, controls, escalation and reporting lines – essentially a ‘tax control framework’ –

to identify tax issues before they become a surprise. Most view this as a journey towards leading practice, which is why many tax directors have developed their own tax roadmap to gain greater certainty over their tax operations so they can manage change.

Many develop their tax control framework using building blocks that include:

- an established tax strategy that is applied comprehensively, typically through a formal tax policy or similar document that sets out expected standards of conduct in managing tax within the business;
- documented governance supporting tax, including assigned accountabilities and responsibilities for tax management;
- tax procedures that support the tax strategy and policy, embedded in everyday operations;
- an effective tax risk management framework; and
- regular testing and assurance.

It is important to remember that every business and tax function is unique, with different facts, circumstances and priorities. This drives different expectations and demands on the tax director. The most useful question to ask at the start of 2025 is where you are in terms of how you benchmark your tax operations against your peers and – more importantly – against where you want to be. Using a tax maturity assessment model or similar helps businesses to understand each component of their tax control framework and where they rank, from ‘best in class’ to ‘ad hoc unmanaged’ (and possibly non-compliant).

Other areas of impact in 2025

HMRC’s drive to greater certainty

As part of the Corporate Tax Roadmap, the government provided details on HMRC’s modernisation ambitions. This includes HMRC’s continued commitment to co-operative compliance and the customer compliance manager model as the most efficient route to manage the tax compliance of the UK’s largest and most complex businesses.

For tax directors, this continued theme from last year is no surprise. As a reminder of what we highlighted last year, the most significant issue identified from BDO's 2023 Global Tax Survey (collating the views of more than 630 senior decision makers across 48 countries) was 'increased tax authority funding and scrutiny' with 70% of all respondents saying it was a key challenge.

Building strong relationships with tax authorities is essential. Today, it's not just about meeting compliance and legal duties. Tax authorities increasingly expect tax functions to show that they operate effectively and optimise tax delivery through the smart use of people, processes and technology. They want proof of an effective Tax Control Framework.

In the UK, tax authorities have developed ways to collaborate with businesses to prioritise this, and judging from the government's Corporate Tax Roadmap, this will continue to be the case, even for smaller businesses with the relatively recent introduction of the of the temporary Customer Compliance Manager model. If this does result in providing greater taxpayer certainty, then this should be welcomed.

Caught in the act: new fraud regulation

The Corporate Criminal Offence of failing to prevent facilitation of tax evasion has been around since the introduction of the Criminal Finances Act 2017. However, the focus on tax fraud prevention has magnified since the introduction of Failure to Prevent Fraud legislation (FTPF) within the Economic Crime and Corporate Transparency Act (ECCTA) 2023 and specific FTPF guidance that was released at the end of 2024.

The new FTPF offence makes organisations potentially liable where any fraud offence is committed by employees and associated persons intending to benefit either the organisation or any person to whom the organisation provides services. It will take effect from 1 September 2025, giving organisations a short while to develop and implement fraud prevention procedures.

From a tax perspective, we expect this offence to enhance and reinforce Corporate Criminal Offence (CCO) measures within businesses, prompting them to refresh or implement their CCO response. While the offences are distinct and require separate responses, there is interaction between them. Notably, cheating the public revenue (including tax evasion) can fall under both the new legislation and CCO, but

defences under one do not apply to the other. Prosecutors will decide whether to charge organisations for failure to prevent facilitation of tax evasion, failure to prevent fraud, or both.

BDO, in partnership with Censuswide, released the 2024 BDO LLP Fraud Survey of 500 directors and business owners from entities with 200 or more employees. As part of this survey, when asking businesses about preparations for the forthcoming FTPF legislation, respondents said that anti-fraud expenditure had increased, with 63% of businesses recording higher spending. Fraud risk awareness among employees has increased to 43% since the introduction of ECCTA. A lot of this has an obvious overlap with CCO and prevention of tax fraud where HMRC has increased its focus over the past few years. Although I have been saying this each year for a while, my prediction for 2025 is that we will see the first prosecution under CCO.

With a backdrop of increased CCO activity at HMRC and the threat of prosecutions, the FTPF guidance is a timely reminder of the importance in 2025 of monitoring and reviewing CCO risk – including through refreshing risk assessments, refreshing training and testing key controls. From conversations with our economic crime specialists and our clients, we are hearing that businesses are seeking to refresh their CCO (and bribery) monitoring framework and then building on it to meet the requirements of the new legislation. This should be on your to-do list in 2025.

Conclusion

Despite the Chancellor’s Corporate Tax Roadmap seeking to provide an element of stability in 2025, the wider global tax environment means uncertainty is hard to shake off in 2025, and for the tax director, nothing can be taken for granted. Basing tax decisions on future expectations is risky, as external regulatory changes or economic shocks could radically change the situation. Managing tax risk and having flexibility in your own tax roadmap is critical. Be ready to adjust your plans as circumstances change. 2025 will likely favour those who can be adaptable.

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