
Reproduced with permission from Daily Tax Report, 107 DTR G-3, 6/3/16. Copyright © 2016 by The Bureau of National Affairs, Inc. (800-372-1033) <http://www.bna.com>

Tax Credits

Insurers Receive More R&D Tax Benefits As IRS Softens Stance, Lawyers Say

The IRS is warming to the idea that insurance companies perform research and development that qualifies for the R&D credit, tax specialists said.

“Over the past year or two, I’ve definitely seen an uptick with clients that are now stepping back and taking a look at the R&D credit,” John Peel, a partner at PricewaterhouseCoopers LLP, said June 2 at the Federal Bar Association Section on Taxation’s insurance tax seminar. “I’m seeing some significant credits going through.”

The Internal Revenue Service had previously taken a harder stance—that insurers weren’t engaged in research to qualify for the credit, which can be worth up to 14 percent of development expenses, Peel said. Now, if the issue comes up in an audit, insurers are retaining about 80-100 percent of the claimed credit, whereas they used to be “lucky to walk away with 20-30 percent,” he said.

The credit amount claimed by finance and insurance companies in 2012, the most recent year for which IRS data is available, more than doubled to \$412.6 million from a decade earlier. There were 304 companies that

claimed the credit that year, up from 191 in 2002 (50 DTR G-5, 3/16/15).

Incremental Increase. One reason for the increase is the alternative simplified credit, introduced in 2007, which dramatically reduced the amount of financial data needed to claim the credit. Around the same time, insurers also became interested in building more complex systems to handle claims data and to use the information to predict risk for future underwriting.

“The IRS has recently come around to the idea that you don’t have to do things that no one would ever do,” Mary Monahan, a partner at Sutherland Asbill & Brennan LLP.

She said the IRS used to stereotype some corporations, including insurers, as the types of companies that would never engage in enough technical risk to qualify. Now, the agency considers more incremental developments to qualify, Monahan said.

BY LAURA DAVISON

To contact the reporter on this story: Laura Davison in Washington at ldavison@bna.com

To contact the editor responsible for this story: Brett Ferguson at bferguson@bna.com

The IRS research credit data is at <https://www.irs.gov/uac/soi-tax-stats-corporation-research-credit>.