



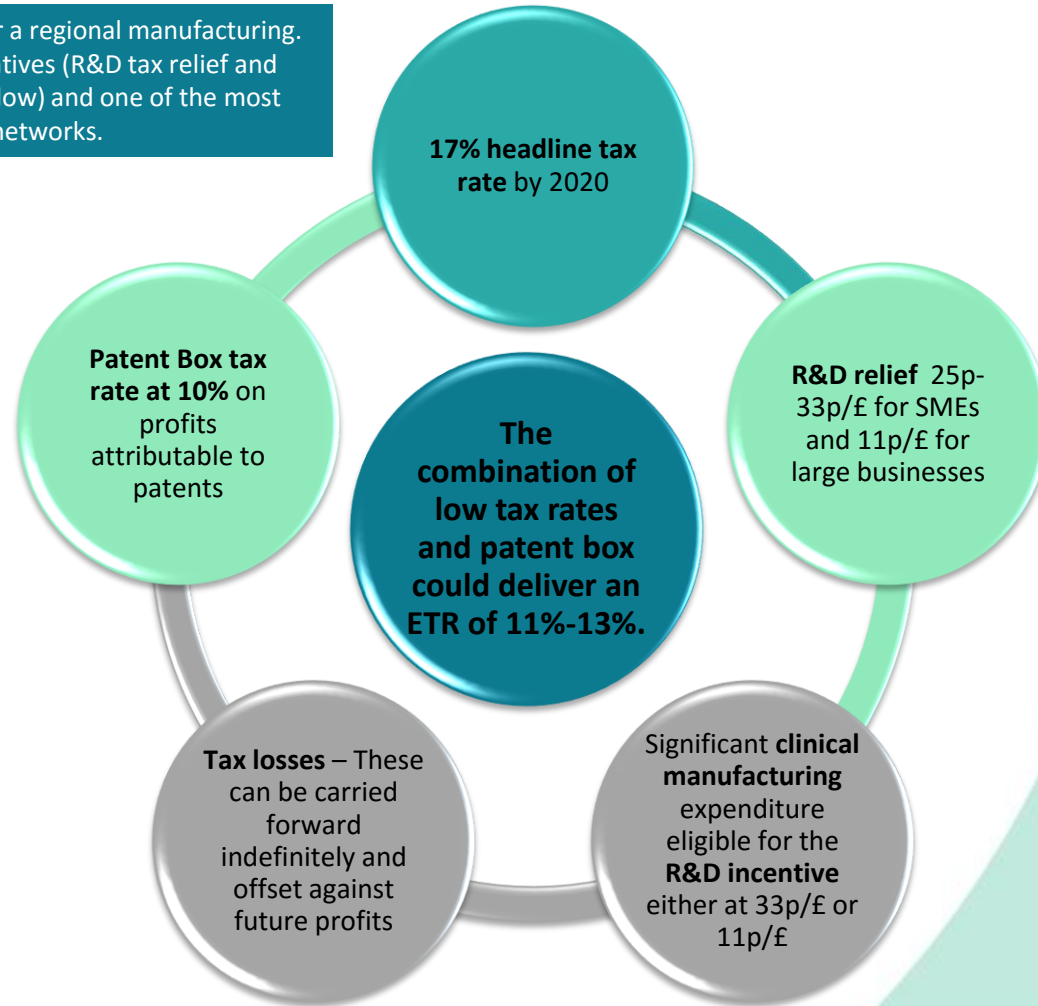
MMIP Fiscal Guide

April 2017

Benefits of the UK for EMEA medicines manufacture



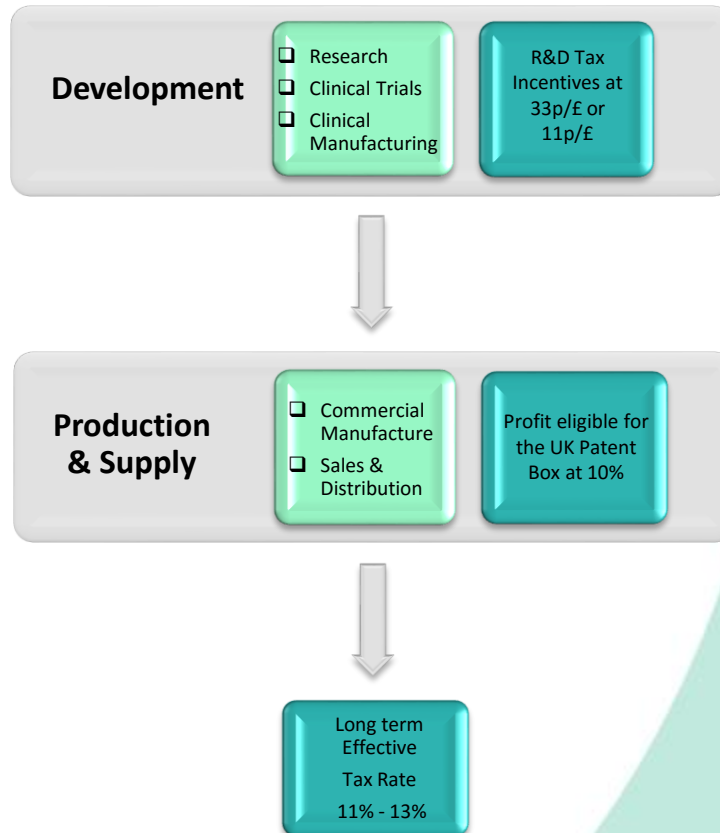
The UK provides a very attractive tax regime for a regional manufacturing. It combines low rates of tax, innovation incentives (R&D tax relief and Patent Box), other significant tax benefits (below) and one of the most comprehensive global treaty networks.



Benefits of retaining medicine manufacture in the UK

The UK has created a very favourable tax environment for innovation and commercialisation. In the past, UK companies would locate elements of the supply chain across two or more territories in order to optimise the tax position. The UK tax landscape has changed in recent years to present a much more compelling case for retaining the entire supply chain from development through to manufacture in the UK. The tax benefits of this are set out below with further efficiency through the lower cost of compliance with reduced cross border transactions and product flow.

- ❑ **Tax rates** – The current corporation tax rate is 20% regardless of the size of the business and will reduce to 17% by 2020. This is one of the lowest rates of tax among the developed economies, such as France (33%), Germany (30%-33%), US (35%-40%), Japan (30%), Ireland (12.5% trading income/25% non-trading income), Switzerland (10%-25%).
- ❑ **Patent box** – Tax on profits attributable to qualifying patented technologies is reduced to 10%. Enterprises undertaking all development and manufacture in the UK, might therefore expect a long term effective tax rate in the region of 11%-13%.
- ❑ **R&D relief** – Available to all companies undertaking qualifying R&D activities inc manufacturing for clinical development
 - For SMEs (less than 500 employees and either Annual turnover <€100m or Balance sheet <€86m) the relief ranges between 25p-33p/£ on qualifying expenditure and either reduces the tax liability or is repaid as a credit. Qualifying expenditure includes work contracted out to 3rd parties.
 - Where a group exceeds the SME criteria, it can claim a taxable credit (RDEC) of 11p/£ of qualifying expenditure. For Large Enterprises (non SMEs), qualifying expenditure does not include work contracted to 3rd parties or overseas connected companies.
- ❑ **Clinical manufacture** – With planning, a significant element of clinical manufacturing expenditure should attract the R&D incentive either at 33p/£ or 11p/£. This would include labour cost, materials and attributable utility costs. If this activity was undertaken in-house but outside the UK not only would these incentives no longer be available for large enterprises, it could impact the amount of patent box relief that is subsequently available.
- ❑ **Tax losses** – These can be carried forward indefinitely and offset against future profits and therefore shelter taxable income arising after product launch. Group relief also allows effective loss relief between connected parties.



Benefits of the UK for EMEA medicines manufacture



- ❑ **The UK as a Holding Company**
 - There is no withholding on dividends paid by UK companies
 - There is typically no corporation tax charged on dividends received from overseas subsidiaries
 - There is a capital gains tax exemption for gains arising on the sale of substantial shareholdings (where the holding company owns more than 10% of the ordinary share capital).
- ❑ **Double Tax Treaties** – The UK enjoys a comprehensive treaty network worldwide, resulting in the reduction or possible elimination of withholding taxes.
- ❑ **Tax Losses** – These can be carried forward indefinitely and offset against future profits and therefore shelter taxable income arising after product launch. Group relief also allows effective loss relief between connected parties.
- ❑ **CFC regime** – That only targets profits artificially diverted from the UK.
- ❑ **Tax Relief on Intangible Assets** – Intellectual Property Rights transferred to UK companies will attract tax relief in the UK as the assets are amortised or at 4% p.a.