The fiscal benefits of establishing and retaining medicine manufacture in the UK

Introduction

This paper highlights the factors which make the UK one of the most competitive tax and fiscal framework for medicines manufacture in the UK. This is not widely recognised and colleagues may want to explore how these benefits are being used in their companies.

This guide is relevant to all companies, large and small, in all stages of development from pre-clinical, through clinical to commercial. It is also relevant to all drug products from biotech to small molecule, drug products and drug substances.

Not only should a UK company which develops and manufactures here enjoy a long term effective tax rate of 11%-13% it will receive substantial R&D tax credits along the way of up to 33p/£.

Enterprises undertaking development and manufacture in the UK could achieve an ETR of 11% – 13%

- 17% headline tax rate by 2020
- Patent box tax rate at 10% on profits attributable to patents
- R&D relief 25p-33p/$ for SMEs and 11p/£ for large businesses
- Tax losses- These can be carried forward indefinitely and offset against future profits
- Significant clinical manufacturing expenditure eligible for the R&D incentive either at 33p/£ or 11p/£

The benefits of establishing and 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 access more competitive tax rates and incentives.

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 being made possible through the lower cost of compliance with reduced cross border transactions and product flow.

It is widely recognised that the Patent Box offers significant value for commercial manufacturing, but the UK's R&D tax credit can also be highly beneficial at all stages of pre-clinical and clinical development and manufacturing whether by SMEs, larger companies or the CDMO service sector. This may not be widely recognised and you may want to explore how that benefit is being used in your company. There is also a possibility of extending these tax benefits to other activities in the manufacturing envelope.

For more information, please visit abpi.org.uk/our-work/MMIP or email MMIP@bioindustry.org.uk.

"The UK is a much better place financially for medicine manufacturing than is generally believed and should be recognised as in the top tier globally." – Richard Turner, FTI Consulting

Exploring the medicines manufacturing financial landscape

- **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 including 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 third 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 were 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.

About this paper

As part of the Medicines Manufacturing Industry Partnership's work on the business environment, it has sought to improve its understanding of the current fiscal proposition in the UK for medicine manufacturing investments and activity. This work was led by Stephen Taylor (SCT Biotech and formerly Fujifilm) and Richard Turner (FTI Consulting). This paper is a headline summary of this tax framework in layman's terms. It illustrates the substantial benefits already available to businesses. This links to the work of the BioIndustry Association Finance and Taxation Advisory Committee (FTAC) which creates policies and initiatives to create a supportive financial environment for UK bioscience companies.

This summary is intended to be disseminated widely so we would welcome your help in sharing within your own organisations. This guide highlights the current financial landscape, but should not be considered as financial advice.

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