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UK budget introduces Patent Box regime and increases R&D benefits; reduces corporate tax rate to 20%

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In brief

The UK Chancellor of the Exchequer delivered his 2013 Budget on March 20, 2013. The Chancellor reinforced the message that the United Kingdom is 'open for business'. In addition to confirming a number of previously announced pro-business provisions (see European Tax Newsalert, *UK announces a further corporate tax rate reduction*), the Chancellor also announced additional developments relevant to companies operating in the pharmaceutical and life sciences industry. These include: a further reduction to the main corporate tax rate, an increase to the research and development tax credit and confirmation of the introduction of a patent box regime. Under the proposed budget, the main corporate tax rate will be reduced to 20% effective April 1, 2015 and the above-the-line research & development tax credit would increase to 10% effective April 1, 2013. The budget confirmed introduction of the Patent Box regime that would apply a 10% tax rate on profits attributable to patented inventions. As well as these amendments the Chancellor confirmed that the government will protect spending on the National Health Service and he specifically stated that "research and development is absolutely central to Britain's economic future" which are encouraging messages for the UK's pharmaceutical industry.

These changes, along with recent UK corporate tax reform, are likely to impact US based MNCs with pharmaceutical businesses that have, or are considering, investing in the United Kingdom.

In detail

Main corporate tax rate reduced to 20%

The Chancellor confirmed the reduction in the main corporate tax rate to 21%, effective April 1, 2014. He also announced an additional reduction to 20%, effective April 1, 2015. Once effective, the UK will have the lowest tax rate of any major western economy.

The 20% and 21% rates should not be regarded as substantially enacted for US GAAP purposes until the 2013 Finance Bill receives Royal Assent. We expect this to occur in July 2013.

Commitment to innovation

The Chancellor announced an increase in the above-the-line R&D credit from 9.1% to 10%. The increased R&D credit rate means there is now a significant difference between the net rate of relief available under the old regime (6%) and the new regime (8%). US MNC's should consider this differential when deciding whether to elect for the new R&D credit, while also noting that the elective system (until April 1, 2016) could potentially restrict the ability to claim a credit for tax incurred in the United States.

The budget confirmed introduction of the Patent Box regime. This regime will apply a 10% tax rate on profits attributable to patented inventions (products, processes or services) and will be phased in over four years beginning April 1, 2013.

Improvements to stamp duty and stamp duty reserve tax

The Chancellor announced the intention to abolish stamp duty and stamp duty reserve tax on transfers of shares quoted on growth markets such as the Alternative Investment Market and the ISDX Growth Market, which is expected to encourage investment in bioscience.These measures will be included in Finance Bill 2014.

Government procurement

The Chancellor confirmed that companies bidding for government contracts will need to disclose compliance with certain UK tax anti-avoidance rules. These include amendments to tax returns that result from the general anti-abuse rule, the Halifax abuse principle (VAT related), changes to schemes disclosed under the Disclosure Of Tax Avoidance Schemes rules; and cases of tax-related offenses or civil fraud or evasion.

These rules will apply to tax returns filed on or after October 1, 2012 and to contracts over £5 million.

General anti-abuse rule

The Chancellor reiterated the commitment to targeting aggressive anti-avoidance with the introduction of a general anti-abuse rule in 2013. We anticipate that this will be a narrowly targeted rule and will apply to transactions entered into after Royal Assent (expected July 2013).

The takeaway

The UK government continues to focus on encouraging investment into the United Kingdom and in creating the most competitive tax environment in the G20. The budget's announcements are likely to be of significant interest to US MNCs who have, or are considering, investing in the United Kingdom.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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