A 7-Point Plan to Retain, Grow and Anchor Life Sciences Scale-Ups in the UK

Current landscape

The UK has a globally recognised life sciences start-up ecosystem, consistently ranking among the leading countries for biomedical research output, citation impact and academic-industry collaboration. The UK produces approximately 7–8% of the world's most cited life sciences research despite representing less than 1% of the global population, reflecting the depth of its university and public research base.[1] This research excellence has translated into a strong pipeline of life sciences spin-outs, particularly in therapeutics, genomics and platform technologies.

The tax environment has been consciously structured to support this early-stage innovation. The UK's R&D tax reliefs have historically been among the most competitive in the OECD for research-intensive SMEs, providing critical non-dilutive funding during pre-revenue stages. Venture capital investment has been supported through EIS and VCT reliefs, which were extended and enhanced in the 2025 Budget, while the Enterprise Management Incentives (EMI) regime remains one of the most generous employee equity frameworks globally. Together, these measures have and should continue to be effective in supporting company formation, talent attraction and early growth.

As a result, the UK remains a location of choice for early-stage drug discovery and development companies ("Biotechs"). However, this success has not translated into scale. The UK has produced relatively few fully integrated, globally competitive pharmaceutical companies over the past three decades, particularly when compared with the US.

From a corporate tax perspective, the UK should be well placed to a headquarter territory of choice. It offers a competitive headline corporation tax rate relative to peer economies, a strong holding company regime, no withholding tax on dividends and an extensive double tax treaty network. So, drug pricing aside, why does the UK have such a poor record for scaling up in Life Sciences?

Why does the UK have such a poor record for scaling up in Life Sciences?

As UK Biotechs progress into later-stage development and seek Series B or Series C financing, the centre of gravity generally shifts decisively towards the US. US venture capital markets deploy significantly larger funding rounds into life sciences, with deeper specialist investor bases and greater tolerance for clinical and regulatory risk. In 2023–24, US life sciences venture funding exceeded UK funding by more than fivefold, with the gap widening at later stages.[2] At the same time, the UK public markets offer limited routes to scale. UK life sciences IPOs are infrequent, often poorly liquid, and typically trade at a discount to US comparables. By contrast, NASDAQ listings provide access to specialist investors, research coverage and follow-on capital. As a result, many UK companies either list in the US or structure themselves to be US-acquirable. This financial migration is usually accompanied by an operational one. Executive leadership, commercial strategy,

and regulatory engagement increasingly become US-based. Once senior management relocates, there is little incentive, commercial or fiscal, to maintain a substantial UK footprint in personnel or facilities.

Given the risks of progressing a single lead asset to approval, many Biotechs ultimately license their products to larger pharmaceutical companies or are acquired outright. In both scenarios, future development, manufacturing and economic ownership of IP are typically aligned with the acquirer's global structure, most commonly US-centred. UK activities are then reduced, resulting in a net export of IP, talent and long-term value creation. At this critical stage, the UK tax system does not do enough to incentivise investment and deter this migration. Patent Box benefits are often deferred until entity-level profitability, which frequently occurs only some time after a company has partnered or exited its lead asset. This timing mismatch reduces the relevance of the regime at the precise point when companies begin to exploit IP but are still incurring substantial R&D costs.

The need for significant and impactful changes

This is not a problem that can be solved through incremental reform. The UK already performs strongly at company creation but weakly at company retention and scale. Addressing this imbalance requires structural changes that alter incentives at critical inflection points in a company's growth. The 2025 Budget enhancements to EMI and venture reliefs were therefore an important signal, demonstrating that government is prepared to intervene meaningfully where there is a clear market failure. However, further measures are required to encourage companies to retain substantive UK operations as they grow particularly in employment, manufacturing capability and IP ownership.

Crucially, these incentives must be targeted. Benefits designed to anchor activity in the UK should not apply equally where the majority of personnel, decision-making and economic substance have migrated overseas. Tax measures must also be complemented by improvements in the UK drug pricing and market access environment and by an active international communications strategy to ensure global investors understand the UK's revised offer.

Recommendations – 7 Point Plan

Key structural adjustments

1. Include UK capital expenditure within RDEC

Extending the R&D Expenditure Credit (RDEC) and Enhanced R&D Intensive Support (ERIS) to include UK capital expenditure would align the regime with the realities of life sciences innovation. Evidence from international comparators suggests that early investment in clinical manufacturing

builds process knowledge, regulatory expertise and quality systems that materially reduce the risk of later commercial scale-up.[3] This creates strong path dependency: once capital, skills and compliance infrastructure are established, companies have a strong incentive to locate commercial manufacturing in the same jurisdiction. Several competitor countries effectively subsidise capital-heavy R&D infrastructure through investment tax credits. Including capital expenditure in RDEC would support long-term investment in UK research infrastructure, increase productivity, and materially improve the likelihood that successful products are manufactured in the UK rather than offshore.

2. Reform the PAYE/NI cap exception to apply specifically to UK centric companies

The existing exception to the PAYE/NI cap (3x UK PAYE/NI) is intended to protect companies with low headcount that outsource significant R&D activity, a common feature of the biotech business model. However, it does not do enough to discourage companies from progressively relocating personnel and decision-making overseas. To address this, the exception could be re-designed so that it applies only where more than 50% of total salary costs across connected parties are subject to UK PAYE to ensure the maintenance of substantive UK employment and to deter the gradual erosion of the UK footprint. This will also remedy a current structural failing of the cap (Note 1).

3. Accelerate the impact of the Patent Box for loss making companies investing in R&D

While conceptually well designed, the Patent Box often delivers benefits too late to influence scale-up decisions. Firstly, Patent Box losses should be calculated at the sub-stream level rather than at the entity level. This would allow profitable IP streams to benefit from the regime even where the company remains loss-making overall due to continued R&D investment. Secondly, loss-making SMEs should be permitted to monetise Patent Box deductions at the applicable RDEC rate (currently 16.2%) or ERIS rate (currently 26.97%). This would bring forward cash support to the point at which it is most impactful and align the regime more closely with the funding needs of scaling companies.

4. Limit Patent Box benefits on exit where UK activity is reduced

To reinforce retention incentives, Patent Box benefits should be limited where there is a substantial reduction in UK activities following an exit, acquisition or restructuring. Ideally, this would be implemented through a clear, prescriptive test such as the RDEC PAYE/NI cap with the same exception proposed in 2, above. This approach would not restrict exits or partnerships but would reduce the attractiveness of extracting IP value from the UK while dismantling the UK operational base. In other cases, it will provide an incentive to grow UK headcount to maximise the patent box benefit.

5. Reform the Research Intensity (RI) definition to ensure it is not denied through current anomalies

The current RI definition produces inconsistent outcomes and does not always target the intended beneficiaries. The definition of control should be aligned with the SME definition to improve coherence. In addition, the RI test should either be limited explicitly to trading companies (with this reflected in HMRC guidance) or adjusted so that loan relationships, derivatives and impairment charges are excluded from total relevant expenditure. An exclusion for venture capital funds from the connected-party test would further ensure the regime operates as intended. This exclusion could be extended to all measures set out above.

Enhancing the incentive

6. Commit to increasing the ERIS credit rate

Subject to affordability, government should commit to increasing the ERIS credit rate. International evidence indicates that the generosity and certainty of R&D incentives materially influence location decisions for late-stage development and manufacturing, particularly where activities are mobile.[4]

7. Enhance the Patent Box rate

Finally, enhancing the Patent Box deduction to deliver a lower effective tax rate would strengthen the UK's competitiveness as a location for IP-rich life sciences groups. Combined with earlier access to benefits and stronger retention conditions, this would create a coherent framework that supports not only innovation, but long-term scale-up and value retention.

Notes and references

1. UK Office for Life Sciences; OECD science and technology indicators.
2. PitchBook / BVCA life sciences venture funding data, 2023–24.
3. ABPI, *The UK Life Sciences Industrial Strategy and Manufacturing Competitiveness.*
4. OECD, *R&D Tax Incentives: Evidence on Design, Incidence and Impact*.

Note 1: Biotechs often have more than one IP assets or a platform that can generate multiple IP assets. Taking a programme in drug discovery from early research through to regulatory approval allowing it to be commercialised typically takes in excess of ten years and the cost in the region of $1bn. For this reason, drug development companies will often look to partner with larger global pharmaceutical companies in the development of these programmes by entering into co-development, licensing rights or selling the IP in return for milestones and royalties. To facilitate

this, programmes are often managed in separate legal entities. For example, a group can be set up such with a parent and principal employment company, the plans are for additional R&D programmes to be worked upon in the future, with each distinct programme taking place within a different entity, albeit with the work undertaken by a common pool of employees.

Whilst the calculation of R&D for the purposes of Part 13 allows this type of corporate structure and set up, unfortunately the exception does not. This was highlighted to HM Revenue and Customs during the consultation phase ahead of the PAYE cap being implemented. Where one company provides R&D support to a connected party the attributable PAYE and NI is included in the calculation of the cap for Dev under Section 1112B CTA 2009. However, there is no legislative mechanism to be able to take into consideration of the activities of the same UK personnel for the purposes of Condition A of Section 1112E.

Furthermore, Condition B of Section 1112E is now superfluous given the restrictions expenditure undertaken overseas under Section 1138A.

RICHARD TURNER
Senior Managing Director
+447717702162
Richard.turner@fticonsulting.com