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Report

From: Mine & Pitt LLP

To: Board of Directors at Nuevo Pharmaceuticals plc

Date: 5 May 2026

Subject: Proposed expansion into Arcadia

Introduction

The purpose of this report is to advise on the proposed expansion of the Nuevo Pharmaceuticals Group ('Group') into Arcadia.

This report will explore the options available to the Group for the provision of the vaccine within Arcadia via a factory situated within the United Kingdom ('UK') or in Arcadia, and evaluate the tax implications of these.

This report has been prepared solely for the use of the Board of Directors of the Group.

No responsibility will be accepted for the reliance on this report by third parties.

The tax law included in this report applies at the time of writing.

Mine & Pitt LLP

Executive Summary

There are two options available to the company to expand operations into Arcadia, as discussed in the meeting with Lynne Robertson, Chief Financial Officer of the Group, on 28 April 2026. The two options are:

1) To build the factory in the UK
2) To build the factory in Arcadia

A summary of the options and the tax implications is listed below.

Build factory in the UK

If Nuevo opts to build the factory within the UK, it will ship the vaccine to Arcadia and suffer additional costs.

There will be a Government grant available on the construction of the factory which will give relief of £6m in the year of construction.

This will restrict the claims for capital allowances available, meaning that the £10.6m of

allowances that would have been available if the grant was not given is not available. Capital allowances will be deferred until later periods.

This also applies to the qualifying structures and buildings allowances for the period. These will be eligible for claim in later periods.

Profits of the Arcadia trade will be taxed in the UK and subject to UK corporation tax, meaning that these profits can be grouped with the other trading income of Nuevo.

Profits will not be required to be repatriated to the UK as they will automatically be in the UK, and therefore no withholding tax will be suffered. The after tax proceeds of the trade in the first year will be £2.7m, and £5.4m in the remaining periods.

The disposal of the factory will be subject to a chargeable gain in the UK. Various reliefs will be available, such as rollover relief and holdover relief. The gain will be taxed at 25% and can be offset by any capital losses within the group.

Build factory in Arcadia

If Nuevo opts to build the factory within Arcadia, it must do so via an Arcadian resident company.

The option is available for Nuevo to purchase a loss-making company resident in Arcadia. This will be subject to Stamp Duty on consideration at 0.5%. The consideration for the company will be 10% of the trading losses carried forward.

The trading losses within the acquired company can be offset against the profits of the factory trade, offering tax relief on profits at 25%.

The capital allowances available on the factory construction total £7m per year for the first four years of trade.

The company will be exempt from being a controlled foreign company under the tax exemption, so no charge in Nuevo to consider.

The Group will need to consider transfer pricing legislation on the royalties and interest payments made from the Arcadian company to Nuevo, but these will be deductible within the company.

The factory disposal will be relieved via the disposal of the shares and will therefore qualify for the substantial shareholding exemption, protecting the Group from a large chargeable gain in the future.

Recommendation

Nuevo should choose to acquire the loss making company and construct the factory within the Arcadian resident company. This will provide Nuevo with larger after tax proceeds when repatriated to the UK than if it were to operate from the UK.

This option will allow the utilisation of the trading losses that exist within the Arcadian company.

This option also protects Nuevo from the future chargeable gains that are likely to arise on the cessation of operations in the factory, as the disposal of shares will qualify for SSE.

Option A - Build Factory in Nuevo

The Group has the option to proceed with the construction of the factory within the UK, construction and ownership of the factory will be in Nuevo Pharmaceuticals plc ('Nuevo').

The vaccine will be manufactured within the UK and strictly distributed to the national health authority of Arcadia.

The company has ceased research and development work relating to the vaccine.

Residency

Arcadian law states that non-resident companies of Arcadia cannot operate within Arcadia, unless only shipping goods to customers in Arcadia.

This means that the factory could not be constructed and operated in Arcadia by Nuevo as it is not an Arcadian tax resident.

This tax law also states that foreign owned businesses must operate through a limited company, that is registered and tax resident in Arcadia. This means that Nuevo could not operate the factory in Arcadia through a permanent establishment.

Migration

As stated previously, to trade within Arcadia (other than shipping), a company must be resident, registered and physically located within Arcadia.

Nuevo has the option to migrate its operation from the UK to Arcadia. This has many tax consequences.

The stock and assets of Nuevo that would be leaving the scope of UK corporation tax are deemed to be sold at market value and immediately reacquired. Chargeable disposals and trading profits/losses arise and become taxable.

As Nuevo holds intellectual property, this would be treated as sold at market value and reacquired, giving rise to a trading profit.

Any profits in relation to the intellectual property would no longer be eligible for the Patent Box election to tax profits at 10%.

Balancing adjustments would arise on the disposal of any pooled fixed assets, which must be included in the final tax computation.

This would only be beneficial to Nuevo if Arcadia offered a lower tax rate, or extraction of profits from Arcadia was subject to high levels of tax.

As Arcadia offers the same level of tax as the UK and profit extraction is possible, this is not recommended.

Taxation of Profits

UK resident companies for tax purposes are taxed on worldwide income within the UK, including overseas profits. Typically, UK resident companies operating overseas would be charged local tax on the overseas profits in the relevant jurisdiction, and suffer UK corporation tax on the same profits. Relief is usually given for this as double taxation relief.

As Arcadia has a double tax treaty with the UK that follows the OECD model, the profits of the Arcadia contract will only be subject to tax in one jurisdiction. To determine this, a tiebreaker is used which determines the place of effective management of the company. As this is the UK, the profits will be taxed exclusively within the UK.

Income and expenses relating to the Arcadia contract will be incurred within Nuevo and should be included within the UK tax computation and return. These will be taxable and deductible against regular trading profits of the UK trade.

The profits will not need to be repatriated to the UK, as they go directly into Nuevo who is UK resident.

Assuming the UK Government grant aid is given rather than capital allowances (see below), the taxable profits in the first year of trade in Arcadia will be £3.6m, giving tax of £900k (see appendix A).

As Nuevo is a member of a UK group relief group, with multiple UK companies sharing 75% ownership, losses can be surrendered between UK members. The tax liability could be reduced by any group relief surrenders to Nuevo.

Government Grant, Capital Allowances and Structures and Buildings Allowances

If Nuevo opts to build the factory in the UK, capital allowances and structures and buildings allowances will be available as a deduction to trading profits on eligible expenditure.

The £10m expenditure on plant and machinery within the construction of the factory will be eligible for first year allowances (100%) if they are brand new and unused.

Structures and buildings allowances are available on qualifying construction costs that are incurred after October 2018. The rate of the structures and buildings allowance is given at 3% per annum from the date the asset is first used in the trade. The purchase of the land will not be qualifying expenditure, the construction of the factory will be qualifying expenditure, meaning a potential £600,000 allowance is available per annum (see appendix A), this must be apportioned in first year of use.

As the UK Government have indicated that grant aid will be available at 20% of the capital cost, this will restrict the claim Nuevo can make for capital allowances.

Capital allowances cannot be claimed on expenditure that a grant is being received for. Assuming that the grant is only received in the first period, the assets can be pooled and writing down allowances can be claimed in subsequent periods.

The Government grant that will be given is 20% of qualifying expenditure, meaning a grant is given of £6m (see appendix A). This is given as a non-taxable credit.

In subsequent periods following the claim of the grant, the plant and machinery can be pooled and writing down allowances can be claimed at a rate of 18%.

As a result of claiming the grant, Nuevo will receive less tax relief in respect of the factory in the first year of the Arcadia trade of £4.6m (see appendix A). In subsequent periods, more tax relief will be available.

VAT

Nuevo will not have the option to tax the factory as it will be used exclusively for the manufacture of exempt supplies (vaccine).

This means that input tax suffered cannot be recovered in relation to the factory and that VAT will not be charged on a future disposal of the factory.

Option B - Build Factory in Arcadia in Acquired Company

The Group is considering the option to purchase a company resident in Arcadia ('Lossco') with exisiting trading losses.

Administration

The acquisition of Lossco by Nuevo will mean the company joins the Group. Accounts and a tax return must be prepared and filed for this entity, increasing the administrative burden of the Group.

Trading losses

The losses in Lossco are not yet finalised due to the tax return not yet being filed. As the basis of purchasing Lossco would be for the acquisition of the trading losses, we would suggest that the Group acquires indemnity insurance which covers any potential changes to the losses stated at the time of the acquisition.

Under Arcadian tax law, trading losses brought forward in a company can be utilised when the company has been acquired and a new trade is undertaken.

If the Group acquire Lossco and operate the trade from this company, the trading losses brought forward in Lossco at acquisition will be eligible for future tax relief on trading profits, giving a tax asset of 25% of the losses.

Trading losses suffered in the trade in Arcadia post acquisition will not be eligible for group relief surrender to the UK members of the Group, and must be carried forward to offset against future profits.

Stamp Duty

The purchase of shares is subject to Stamp Duty at a rate of 0.5% on the consideration paid. The consideration paid will be 10% of the amount of losses that exist in Lossco.

Royalties

Once acquired, Lossco will undertake the construction of the factory and the manufacturing of the vaccine in Arcadia.

As the vaccine is intellectual property (IP) of Nuevo, Lossco will be required to pay royalties for the use of the IP. This will be taxable income in Nuevo and a trading expense in Lossco.

Under Arcadian law there will be no withholding tax charged on the royalty payments made for the use of the IP in the UK, meaning Nuevo will not suffer any withholding tax.

The trading expense deductible in Lossco is restricted to 5% of the sales relating to the use of the IP. As the full sales amount relates to the vaccine, the deduction for the royalty payment is limited to £1m per annum. To avoid a hybrid mismatch treatment, Nuevo will only report £1m of royalty income from Lossco.

Capital allowances

Capital allowances are available in Arcadia at a rate of 25% on all qualifying expenditure. Qualifying expenditure includes the land, meaning allowances could be claimed of £7m per year (see appendix B).

Interest on intercompany loan

To fund the acquisition of the factory in Arcadia, cash will be used from within the Group. Capital will be raised in Lossco through an intercompany loan of £28m from Nuevo to Lossco.

Nuevo should charge Lossco an interest rate of 7% on this loan as this is the arm's length rate for similar loans. This will avoid transfer pricing issues arising, and avoiding the need for an adjustment to be made.

The relief available on the interest payable is limited to the debt equal to the equity investment as a 1:1 ratio. Lossco should consider issuing Nuevo with additional shares to raise the equity within Lossco so no adjustment is required.

Controlled Foreign Company

If Nuevo acquires all of the shares in Lossco, Lossco will be considered a controlled foreign company (CFC). The profits of Lossco could be subject to a CFC charge within Nuevo if the profits fall into one of the five gateways or an exemption is not met.

The CFC exemptions are:
- The exempt period exemption
- The low profits exemption
- The excluded territory exemption
- The low profits margin exemption
- The tax exemption

The tax exemption applies to companies that operate in jursidictions with tax that is more than 75% of the UK tax rate. As Arcadia and the UK have the same tax rate of 25%, Lossco is exempt from the CFC rules and no charge will apply.

Transfer pricing

The Group is large for transfer pricing purposes and therefore must consider the transfer

pricing legislation when making intercompany transactions otherwise adjustments may be required.

The Group must ensure that any intercompany transactions with Lossco are conducted on an arm's length basis, such as ensuring the royalty payments are charged at an appropriate rate, and ensuring the interest rate on the loan is at the market rate.

There are multiple transfer pricing methods available to determine the arm's length price of transactions. As the vaccine is IP and only used within the Grouo, it is difficult to compare the price to that charged to third parties.

Therefore, the most appropriate method to determine the arm's length price charged for the royalty payments would be to apply the transactional net margin method. This method will compare the mark up applied to the royalties in Lossco and compare it to the average market mark up rate.

The Group will need to benchmark the average mark up rate across the pharmaceutical sector to determine this.

Repatriation of profits

Under the Group's policy, all profits are repatriated to the UK. The profits that arise in Lossco can be distributed to the company via a dividend.

The dividend will likely qualify for the controlled company dividend exemption in Nuevo, meaning that it will not be taxable.

Withholding tax is applied on dividends made to non-residents in Arcadia at a rate of

25%. As the double tax treaty between Arcadia and the UK follows the OECD model, the maximum withholding tax rate that can be charged is 5%.

Lossco must withhold the tax on the dividend made to Nuevo, and pay this to the Arcadian authorities on behalf of Nuevo.

Nuevo will receive the dividend net of the 5% withholding tax suffered. As the dividend received is exempt, no tax relief will be available for the withholding tax suffered of 5%.

Nuevo should report the withholding tax suffered on a CT61 return, and submit this to HMRC with any other withholding tax withheld/suffered. This is due for submission quarterly.

The after tax dividend received in the UK in each year (pre-loss utilisation) will be £7,505,000 (see appendix B).

Disposal of factory

The Group expects that the vaccine will become obsolete in 10 years and therefore plans to shut down the production of the vaccine through the factory, and conclude operations in Arcadia.

The Group has two options, to sell the factory, giving rise to a chargeable gain in Lossco, or to sell the company, giving rise to a chargeable gain in Nuevo on the shares.

If the factory is sold, a chargeable gain will arise in Arcadia on the difference between proceeds and the qualifying construction costs. This will be subject to tax at 25%.

Alternatively, the factory is not sold in Lossco and Nuevo could sell the shares in Lossco which would be a chargeable gain in the UK.

There is a substantial shareholding exemption (SSE) available on the disposal of shares if the shares are in a trading company, and a shareholding of at least 10% has been held for a 12 month period in the previous 6 years.

If the shares are sold at the end of the 10 year period, the substantial shareholding exemption will likely apply and therefore would be exempt from tax in the UK.

Appendix A - Factory constructed in the UK

Capital allowances

Capital allowances are available on the plant and machinery purchased for £10m. Assuming that these assets are brand new and unused at purchase, first year allowances are available at 100%. £10m of relief available in the year of purchase.

Structures and buildings allowance

Qualifying expenditure is the construction of the factory, not the land. Available from the date the asset is first used in the trade, apportioned from date of first use. SBAs available: £20m * 3% = £600,000 per annum.

Grant aid

Grant aid is available at 20% of the qualifying capital expenditure. Qualifying expenditure is construction and plant, not land: £30m.
Relief: £30m * 20% = £6m.

Difference between allowances and grant = £10.6m - £6m = £4.6m

Profits of factory

First year:

Operating profits		7,600,000	
Add: depreciation		2,000,000	
Grant aid		(6,000,000)	
Profit		3,600,000	
Tax @ 25%		900,000	
After tax proceeds		2,700,000	

Subsequent years:

Operating profits		7,600,000	
Add: depreciation		2,000,000	
Less: capital allowances (18%)		(1,800,000)	
Less: SBAs		(600,000)	
Taxable profits		7,200,000	
Tax @ 25%		1,800,000	
After tax proceeds		5,400,000	

Appendix B - Factory constructed in Arcadia

Capital allowances

Allowances given at 25% of cost on straight line basis, land included. Allowances: £28m * 25% = £7m per year.

Interest on intercompany loan

Assuming an intercompany loan of £28m is given from Nuevo to Arcadia, with an interest rate of 7%.

Interest payable = £28m * 7% = £1,960,000 per annum.

Amount deductible is limited to interest on debt equal to equity investment. Company must increase equity, issue more shares to Nuevo.

Royalties payable

Royalty payments deductible are restricted to 5% of sales:
£20m * 5% = £1m per annum.

Operating costs do not include royalty payments for use of IP.

Acquire company with losses:
Consideration paid for company = 10% of losses in company.

Relief available on losses @ 25%. Net benefit = 15% (25-10)

Profit

Operating profit		8,000,000
Depreciation		2,000,000
Capital allowances		(7,000,000)
Interest payable		(1,960,000)
Royalty payments		(1,000,000)
Profits/(loss)		40,000
Losses brought forward?		
Tax @ 25%		10,000

Dividend and WHT

The dividend that can be issued to Nuevo is the operating profits, less tax and WHT:
£8m - £10k = £7,990,000 * 0.95% = £7,505,000.
WHT = £485k