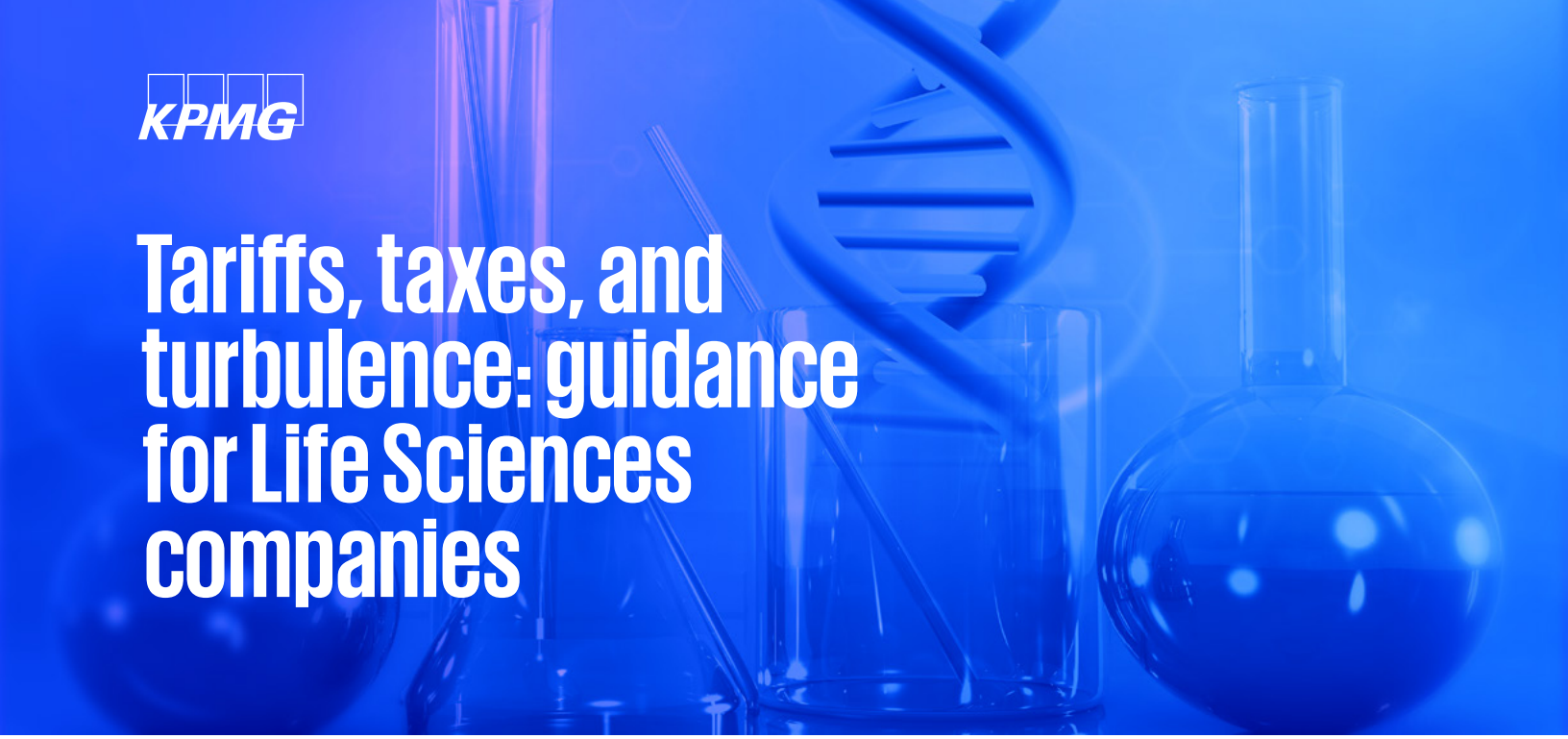

Tariffs, taxes, and turbulence: guidance for Life Sciences companies

The current tariff and tax policy environment creates both challenges and opportunities for the life sciences sector, particularly due to its complex, global supply chains. Below are three major developments with implications, as well as guidance, for life science companies. While each of these areas require specialized technical expertise, companies can benefit from the KPMG holistic, cross functional approach which considers the interconnectivity of each of these areas and how the sector can best prepare and react.

1 Tariffs

The dynamic tariff situation has the potential to significantly disrupt the life science industry. In particular, medical device companies, already subject to reciprocal tariffs, as well as those specific to raw materials such as steel and aluminum, will now navigate a period of heightened uncertainty as the U.S. Department of Commerce in September launched a Section 232 investigation into the national security impact of imported medical devices and consumables. Pharmaceutical companies are also now in unfamiliar territory as historically, most drug products have not been subject to tariffs. A Section 232 investigation was initiated last April into pharmaceutical imports, including drug products, medical countermeasures, API's, derivative products, and other raw materials. Further, negotiations of trade deals for reciprocal tariffs are ongoing, and at least two jurisdictions seem to include a pharma specific tariff. Finally, the latest breaking news includes the potential for a 100% tariff on the import of branded pharmaceutical products, unless the company is building a manufacturing facility in America. This is said to go into effect on October 1, 2025. This evolving landscape means that all life sciences companies must prepare for and take action to mitigate the impacts of tariffs. In this dynamic environment, the KPMG tax, trade, and supply chain professionals, supported by our modeling tools, are well-equipped to assist companies in their assessments and mitigation of these impacts. Read more: Thriving amid tariff uncertainty.

Pharma may be faced with a 100% tariff

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2 HR 1 (Public Law 119-21) *Popularly Known as the 'One Big Beautiful Bill Act' (OBBBA)*

Domestic Provisions

Research and Development (R&D)

Given the magnitude of R&D spend and the significant time from drug/device discovery to commercial launch, the R&D expensing provisions are a net win for the life sciences sector.

Beginning in 2025, on a permanent basis, taxpayers can deduct some or all domestic R&D expenditures, while foreign R&D expenditures (i.e., clinical trial costs for drug development conducted overseas) will continue to be capitalized and amortized over 15 years.

Taxpayers have the option to deduct some or all of their domestic R&D expenses, including the remaining amortization on those incurred in prior years. KPMG LLP (KPMG) recommends careful consideration of these options due to some traps for the unwary that could significantly extend the timeframe for capitalization given, the drug/device development timeline, as well as the impact of R&D expense on other complicated tax calculations.

Emerging biopharma with revenue under $31M can take a retroactive deduction of previously capitalized expenses

Emerging biopharma (early stage/pre-revenue companies) with revenue under $31M can take a retroactive deduction of previously capitalized expenses via an amended return.

There are some newly enacted provisions that may result in lower R&D tax credits for some life science companies, which should also be considered when modeling impacts of the OBBBA.

Modeling all of the above and considering the optimal approach to R&D capitalization/expensing will be extremely important prior to making any final determinations as to how to treat R&D expenditures given the magnitude of these expenditures and influence on other tax calculations (CAMT, BEAT, GILTI, FDII, Interest expense limitations, etc.).

Interest expense limitation

Many inbound life sciences companies have significant interest expense that will be impacted by the following provisions.

- Beginning in 2025, on a permanent basis, taxpayers will benefit from a change that includes depreciation and amortization addbacks to taxable income for calculating interest expense limitation.
- Capitalized interest will be subject to new limitations.
- The method of determining adjusted taxable income has been modified to exclude certain income related to foreign entities (largely affecting US multinationals with income from foreign subsidiaries).

Given these changes, life sciences companies may benefit from a reassessment of their current financing structures.

Bonus depreciation and production property deduction

The following two provisions are relevant for life sciences companies considering onshoring their manufacturing operations.

- 100% bonus depreciation on personal property will be restored on a permanent basis beginning with property placed in service beginning on January 19, 2025.
- For qualified production property (i.e., a new manufacturing facility), 100% bonus depreciation on real property will be permitted for property placed in service before 2031.

Major pharma multinationals have announced a cumulative total of over $350 Billion of investment in the US, with a focus on production and strengthening their supply chains. Depending on the timelines, these provisions could be beneficial.

For more information on domestic provisions of the OBBBA, please contact:

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International Provisions

Global Intangible Low-Taxed Income (GILTI)/ Foreign- Derived Intangible Income (FDII)

GILTI changes that may be beneficial to U.S. multinational life sciences companies:

Prior to OBBBA, the effective corporate tax rate on foreign earnings was 21%, but with a full section 250 deduction, the effective rate was 10.5%. Under the new rule, the effective tax rate remains the same (21%) after December 31, 2025. However, a reduced section 250 deduction of 40% results in an effective tax rate of 14%. Even though the rate is higher, it may be offset by tax credits. Also, there are other GILTI provisions favorable to life science companies.

For taxable years beginning on or after January 1, 2026, interest expense and R&D expenditures are no longer apportioned to the net CFC tested income (NCTI) basket. Instead, they are allocated to U.S. source income. Many companies will benefit from the increased amount of NCTI available for offset, or they will see the elimination of these expenses allocable to NCTI companies. The new GILTI provisions only permit direct expenses to be allocable to NCTI. These modifications are likely to increase foreign source limitation income. Because of this, it may reduce or eliminate double taxation of foreign income.

Increases to the GILTI and FDII rates and other OBBBA changes warrant a review of these calculations

Observation: *In some cases, the expenses are no longer allocable against NCTI (and are thus allocated against US source income), the re-directed expenses could reduce US source income and create an overall domestic loss (ODL). If an ODL exists, that loss will reduce the foreign source income available to offset foreign tax credits, reducing or eliminating the benefits of the expense allocation changes.*

GILTI updates less favorable to taxpayers:

Section 250 of the OBBBA reduces the deduction from 50 to 40%, increasing the effective tax rate (ETR) to 14%.

The OBBBA reduced the existing 20% haircut of federal tax credit related to NCTI income and replaced it with a 10% haircut. Beneficial expense allocation rules can help companies avoid double taxation. Notwithstanding the favorable reduction of the haircut for GILTI from 20 to 10%, the OBBBA extended the 10% haircut to foreign tax credits associated with distributions of Previously Taxed Earnings and Profits (PTEP) derived from GILTI inclusions after June 28, 2025. This provision may affect multinational corporations, particularly those with significant foreign earnings and operations. The elimination of Qualified Business Asset Investment (QBAI) means that life sciences companies can no longer exclude the deemed return on their tangible assets from their GILTI. This change could increase the taxable income for life sciences entities with significant tangible asset investments in foreign subsidiaries.

FDII updates potentially beneficial to taxpayers:

The elimination of QBAI from the Foreign-Derived Deduction Eligible Income (FDDEI) calculation broadens the scope of eligible income, potentially increasing the tax benefits for the life sciences companies, especially those with substantial US-based operations and exports with a more favorable effective tax rate on foreign-derived income.

Interest and R&D expenses are not allocable to Foreign-Derived Intangible Income (FDII); only other allocable expenses can reduce FDDEI. This update is particularly beneficial for life sciences companies with significant R&D investments.

FDII changes that may be unfavorable to taxpayers:

The FDII deduction is reduced to 33.34%, resulting in a 13.99% effective tax rate (ETR). This change may increase the tax liability for life sciences companies. A course of action would be to reassess your tax planning strategy to optimize positioning under the new rules.

Income eligible for FDII no longer includes intellectual property (IP) transferred offshore. This change may impact life sciences companies with IP held in foreign jurisdictions.

Observation: *FDII changes reflect the current administration's preference for maintaining income in the United States.*

2 HR 1 (Public Law 119-21) *Continued*

Base Erosion and Anti-Abuse Tax (BEAT)

The BEAT rate before the OBBBA was 10% and has been slightly increased to 10.5%. BEAT is a potentially punitive provision preventing the deduction of outbound payments, warranting careful review and reconsideration of cross-border transactions. Additionally, the favorable treatment of R&D credits has been retained, which represents a positive development for life science companies with R&D investments.

OBBBA provides tax and incentives to life science companies to move manufacturing to the U.S., while tariffs (and perhaps some of OBBBA international tax provisions) may be the mechanism to penalize imports of drug and device products.

KPMG modeling tools are a great resource to navigate the OBBBA. It's the first step for life science companies to consider as they plan for these changes. Learn more.

More details regarding the new tax provisions can be found here: KPMG reports: Tax subtitle for "One Big Beautiful Bill"

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3 Drug pricing executive order

On July 29, 2025, President Trump sent a letter to 17 pharmaceutical companies demanding significant action within 60 days after initial proposals fell short of expectations for "immediate relief." This followed the executive order issued on May 12, 2025, which sought to address drug prices by implementing a "most-favored-nation" (MFN) pricing policy.

The MFN order aims to reduce prescription drug prices for Americans. The goal of MFN drug pricing enjoys bipartisan support. However, the order and subsequent letter pile on the challenges for the industry.[1]

Here are the KPMG major takeaways and where we go from here.

Tariffs and potential policy changes present industry with a complex, multifaceted set of challenges.

The pharmaceutical industry is grappling with the potential implementation of tariffs and other policy changes that could impact their operations and the financial health of life science companies. Companies are being asked to implement MFN drug pricing while also having to address changes to tax and tariff policy.

There are good things in the order but to be effective, it will demand enforcement. Two enforcement strategies cited include withholding FDA approvals and revisiting government contracts. They add another layer of complexity that companies must consider.

Pharmaceutical companies may delay or limit drug launches in other countries to maintain higher pricing in the United States.

Navigating the new policy landscape has resulted in companies revisiting drug launch plans. Changes could have unintended consequences on global health, particularly in the availability of new products. To avoid these issues, companies might choose to launch new drugs after the MFN pricing window, which could impact the perception of the U.S. as a leader in advanced drug therapies.

Continued on next page

1 Source: The White House. "President Trump Demands America First Prescription Drug Pricing." August 2025.

3 Drug pricing executive order *Continued*

In terms of pricing, pharmaceutical companies may implement transparent and fair pricing strategies in other countries, while also using confidential rebates to manage costs and maintain financial stability. This approach aims to balance the need for accessible drug prices with the sustainability of the industry.

Opportunities exist to address the administration's MFN demands

Many pharmaceutical companies have stated their openness to working with the administration and collaborating on solutions to lower drug prices and improve patient access.

For example, the CEO of one major company has confirmed being in direct contact with the Trump administration, describing the discussions as "productive" and acknowledging the significant challenges while aiming for reasonable solutions. Another company has endorsed the goal of aligning international drug prices, though it opposes tariffs on medicines.

Other manufacturers have similarly expressed their willingness to collaborate on improving access and affordability. However, while some new facilities have been announced, there has been limited, industry-wide, longterm commitment to U.S. manufacturing over a multiyear timeline. There are more opportunities for pharma companies to think outside the box.

The industry is actively engaging in dialogue and exploring alternative solutions, such as reassessing supply chains and focusing on direct-to-consumer (DTC) sales to remove agents who contribute to higher costs but also provide other benefits to the industry. By taking these steps, the industry aims to align with the administration's goals and reduce its vulnerability to further actions.

KPMG professionals are available to discuss a proactive strategy for these uncertain times. At KPMG, we leverage our deep understanding of the evolving life sciences landscape to help clients navigate complex environments and achieve their strategic goals.

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