Senate Standing Committees on Economics
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Inquiry into Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014

The BioMelbourne Network welcomes the opportunity to make this submission regarding the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014 to the Senate Economics Legislation Committee. This submission is made in reference to the proposed amendments to the *Income Tax Assessment Act 1997* to: reduce the tax offset rates available under the research and development tax incentive by 1.5 per cent.

The BioMelbourne Network is the peak industry forum for the leaders of the biotechnology and medical technology industries in Victoria. The Network's membership is representative of the broad Victorian life sciences and research sector, including pharmaceuticals, medical devices and diagnostics, digital health, engineering and advanced manufacturing. Our corporate members include both private and publicly listed businesses prominent within the local and global life sciences technology sectors. The ultimate commercial success of these businesses will typically be built upon a strong foundation of research and development.

The R&D tax incentive provides significant financial support that enables our members to develop and extend their R&D programs. The consistent and continued Federal Government support in this manner is critical in maintaining and growing the jobs and exports of Australian life sciences innovation companies. The R&D tax incentive is particularly critical for start-ups, spin-outs and SMEs who are in tax loss, as the cash refund has allowed these entrepreneurial enterprises to maintain consistent R&D programs for longer. This results in a broader more robust R&D pipeline and increased employment opportunities for highly skilled life sciences professionals. The result of the R&D incentive is that Australian companies have retained their ownership of intellectual property of significantly greater value and across multiple programs than would have been the case if they did not have access to this initiative.

The R&D tax incentive is also a significant factor in attracting foreign investment into Australia, by increasing Australia's competitiveness as a preferred location for R&D activities, such as clinical trials. The benefits of the R&D initiative are extended across the health care chain, by providing Australians with access to early stage therapeutics, diagnostics and medical devices during clinical trials. There are an increasing number of life sciences companies who are choosing to relocate their R&D activities to Australia, from places such as the US, in response to progressive policy settings such as the R&D tax incentive.

The amendment to reduce the refundable R&D tax offset from 45% to 43.5% in the 2014/2015 Federal Budget sends uncertain messages to the business community, both in Australia and globally. Certainty around the maintenance of this initiative is critical to Australian businesses and the Australian economy. The reduction in the R&D tax offset is being considered in the context of the Government's commitment to cut the company tax rate by 1.5%, which will preserve the relative value of the tax paid by eligible R&D-active companies. However the implementation of this amendment will create negative impacts for R&D active companies and create a disincentive for Australian companies investing in R&D.

The proposed reduction in the R&D tax offset will be enacted from the start of the financial year, July 1st, 2014, however there is no guarantee that the company tax rate reduction will be passed into law. There is no certainty around the timing of these changes and this will create a negative impact for businesses engaging in innovation in the 2014/2015 FY and decrease the benefit for companies engaging in eligible R&D activates.

The amendment will also have a disproportionate impact on companies who are in tax loss and currently receive the R&D tax incentive as a refund. This impacts the smallest and most vulnerable companies, such as start-ups, spin-outs and SMEs, who make up a majority of companies in Australia’s pharmaceutical and medical technology sectors. These spirited entrepreneurs are engaged in commercialisation activities that seek to transform Australia’s ideas and discoveries into valuable products and services that benefit patients and create better health. The proposed reduction in the R&D tax offset will have real negative impact on the ability of BioMelbourne Network members to development and deliver health products and services to the Australian public.

BioMelbourne Network Member Case Study: Dimerix Bioscience Limited

Dimerix Bioscience Limited is an Australian biosciences company with a phase II clinical program for patients with chronic kidney disease. Dimerix is not currently in a profit position, and therefore does not benefit from reductions in the company tax rate, however has the potential to develop new pharmaceuticals to meet unmet needs, and provide employment and investment returns to Australia.

> “The R&D tax cash refund is integral to achieving our product development goals, in an environment where raising funds for early stage biotech technologies is very difficult until a company is able to obtain evidence of efficacy in human clinical studies. The R&D tax incentive is critical for conducting our clinical studies to generate the necessary data that demonstrates the potential of our new therapy. The R&D tax incentive will allow Dimerix to maintain a cash positive position while collecting the critical data during the 2014/2015 period. **Every dollar from the R&D tax incentive counts, reducing it by 1.5% equates to 1 patient fewer recruited to the Dimerix trial.**” – Ms Kathy Harrison, COO, Dimerix Bioscience Limited

Medical technology (including pharmaceuticals) is an area in which Australia has a promising manufacturing future and is an area of comparative and competitive advantage. It is imperative that Australia enhances the strengths in this area to capitalise on the existing capacities that consistently deliver growth. Maintaining the R&D tax at 45% will allow the medical technology and pharmaceutical companies to compete globally, create more jobs and increase Australia's attractiveness for investment. In addition, the R&D tax supports the development of Australian intellectual property in the health and medical research sector into products and services that benefit the health and wellbeing of Australians. These drugs, diagnostics and medical devices are valuable not only to patient health, but also essential for transforming the health care system. For this reason, we recommend that the R&D tax incentive be maintained at 45% in areas of demonstrated competitive advantage, including medical technology and pharmaceuticals.

Recommendations:

1. Delay the introduction to changes in the R&D tax incentive until enacting the reduction in the company tax rate.

2. Maintain the R&D tax incentive at 45% for companies in areas of identified comparative and competitive advantage, such as medical technology and pharmaceuticals.

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