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11 October 2014

Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee

Submission on the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014

It has come to our attention that the above Bill will, if passed, reduce the tax offset rates available under the research and development (R&D) tax incentive by 1.5 percentage points. This will have a direct and adverse impact on our R&D activities.

R&D incentives have helped fund our R&D activities. We are deeply concerned that the above Bill is ill conceived and will adversely impact our Industry Participants' ability to utilise the benefits of the incentives in furthering our R&D and its commercialisation.

The CRC program provides funding to build critical mass in research ventures between end users and researchers to deliver significant economic, environmental and social benefits across Australia. There are approximately 40 CRCs across Australia and all have been established to address major challenges that require medium to long-term collaborative efforts.

The Cooperative Research Centre for Cell Therapy Manufacturing will facilitate the cost-effective manufacture and rapid translation of cell therapies into clinical practice. With a total of \$59M in cash and in-kind resources, including a \$20M grant from the Australian Government, the CRC will provide new treatments and develop new materials-based manufacturing technologies for the treatment of conditions such as diabetes, chronic wounds, cardiovascular disease, and immune-mediated diseases such as graft versus host disease.

The CRC's 15 national and international partners (including two US-based companies) comprise research providers, manufacturers, hospitals and charities. Through these partnerships, the CRC brings together the spectrum of skills and facilities required to turn a promising cell into a viable cell therapy. Underpinning this partnership is a newly established cGMP manufacturing facility, designed to deliver cell-based therapeutics for the CRC's first-in-man clinical trials

We anticipate that our industry participants' contributions may be eligible for the R&D Tax Incentive. Most of this will be spent on labour; employing Australians to develop innovative solutions to problems.

Under the R&D Tax Incentive, our industry participants receive either a 40 percent non-refundable or a 45 percent refundable tax offset, depending on their turnover. This equates to a 10 or 15 percent permanent tax benefit. Under the proposed reduction, this would reduce the benefit by 10-15 percent. Such a large reduction will directly reduce their R&D funding.

The object of the R&D Tax Incentive is, in part, to support R&D likely to produce net-benefits for the Australian community. We believe that our R&D activities meet this object in two ways; not only are we employing and benefitting the Australian community with our R&D efforts right now, but if successful, our R&D will result in innovative products and services that can compete globally and benefit the wider Australian economy.

We question the rationale for the proposed reduction as not only is it decoupled from the proposed company tax rate reduction, it immediately precedes a tax white paper, serving to generate unwarranted confusion, uncertainty and unpredictability in the government's approach to taxation.

We strongly believe that a cornerstone objective of Australia's R&D incentive should be to encourage R&D activities within Australia in order to, amongst other things, make eligible enterprises internationally competitive. Reducing the benefit, even if temporarily, is likely to have an adverse impact on encouraging investment in R&D in Australia. We note that in today's global community, companies can choose to undertake all or part of their R&D in jurisdictions that are cheaper or provide greater incentives.

We hope the Committee considers seriously the impact of the proposed reduction both on companies such as our Industry Participants, but also on the wider community that our R&D activities support and promote. We urge the Committee to recommend the rate reduction be paired with the company tax rate reduction and that further thought be given to this draft legislation before being put before the Senate.

Should you have any queries, please do not hesitate to contact us.

Yours faithfully

Dr Leanna Read
Chair

Dr Sherry Kothari
Managing Director