aamri

Association of Australian Medical Research Institutes

SUBMISSION TO

R&D TAX INCENTIVE REVIEW REPORT CONSULTATION

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ABOUT AAMRI

The Association of Australian Medical Research Institutes (AAMRI) is the peak body representing medical research institutes (MRIs) across Australia. Our 47 member institutes are leaders in health and medical research, working on an extensive range of human health issues, from preventative health and chronic disease, to mental health, Indigenous health and improved health services. Collectively Australia's MRIs have over 15,000 staff and students and an annual turnover of more than $1.2 billion. MRIs are engaged at all stages of the research commercialisation pipeline. In 2014-2015 MRIs recorded 150 invention disclosures, were awarded 207 new patents, were active in 1,220 clinical trials, undertook nearly 1,200 contracts, consultancies and collaborations, and generated nearly $90 million in commercial income from research IP.

EXECUTIVE SUMMARY

The Association of Australian Medical Research Institutes (AAMRI) welcomes the opportunity to provide a submission to the consultation on the recommendations of the Review of the R&D Tax Incentive.

Panel recommendation 1

- AAMRI is in favour of retaining the current definition of eligible activities and expenses.
- AAMRI expresses support for the proposed development of plain English summaries, case studies and public rulings.

Panel recommendation 2

- AAMRI supports the proposal for a 20 percent collaboration premium for the collaborative element of R&D expenditures undertaken with PFROs.
- AAMRI welcomes the definition of PFRO used within the report as including medical research institutes, universities and public research agencies. AAMRI strongly recommends the inclusion of medical research institutes as eligible PFROs for the purposes of the proposed collaboration premium.

Panel recommendation 3

- AAMRI is of the view that a cap in the order of $2 million on the annual cash refund payable under the R&D Tax Incentive should not be applied where companies are pursuing the commercialisation of health and medical research.

Panel recommendation 4

- AAMRI recommends that if an intensity threshold of 1-2 percent is introduced those companies that exceed the threshold should be able to receive the non-refundable component for all of their R&D expenditure, and not just the expenditure that exceeds the threshold.

Panel recommendation 5

- AAMRI recommends that modelling needs to be undertaken and made available to assess the likely combined impact of recommendations 4 and 5.

Panel recommendation 6

- AAMRI supports the publication of the names of companies claiming the R&D Tax Incentive and the amounts of R&D expenditure claimed.

RESPONSE TO REVIEW RECOMMENDATIONS

Panel recommendation 1

Retain the current definition of eligible activities and expenses under law, but develop new guidance, including plain English summaries, case studies and public rulings, to give greater clarity to the scope of eligible activities and expenses.

AAMRI is in favour of retaining the current definition of eligible activities and expenses, and agrees with the panel that it is too soon after the programme's introduction in 2011 for changes to the definition to be made. Making changes to the definition has the potential to negatively impact on investor confidence, as concerns will be raised that anticipated future benefits may no longer be payable. As most drug developments take 10-15 years to materialise, increased uncertainty about whether benefits will be available throughout the R&D process has the potential to reduce or displace R&D activities.

AAMRI expresses support for the proposed development of plain English summaries, case studies and public rulings, and expresses hope that when combined with other measures this could reduce dependency R&D consultants and tax agents.

Panel recommendation 2

Introduce a collaboration premium of up to 20 percent for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations. The premium would also apply to the cost of employing new STEM PhD or equivalent graduates in their first three years of employment. If an R&D intensity threshold is introduced (see Recommendation 4), companies falling below the threshold should still be able to access both elements of the collaboration premium.

AAMRI shares the panel's view that the low levels of collaboration with publicly-funded research organisations within the programme, and the low-levels of Science, Technology, Engineering and Mathematics (STEM) PhD graduates in Australian industry relative to other OECD countries is a lost opportunity. Addressing this issue would allow for greater opportunities for spill-overs of knowledge between larger companies, publicly-funded research organisations (PFROs), and the broader marketplace.

AAMRI supports the proposal for a 20 percent collaboration premium for the collaborative element of R&D expenditures undertaken with PFROs. Such an incentive is in line with the Government's broader efforts to increase collaboration between industry and publicly-funded research organisations.

AAMRI welcomes the definition of PFRO used within the report as including medical research institutes, universities and public research agencies. AAMRI strongly recommends the inclusion of medical research institutes as eligible PFROs for the purposes of the proposed collaboration premium.

Panel recommendation 3

Introduce a cap in the order of $2 million on the annual cash refund payable under the R&D Tax Incentive, with remaining offsets to be treated as a non-refundable tax offset carried forward for use against future taxable income.

AAMRI is of the view that a cap in the order of $2 million on the annual cash refund payable under the R&D Tax Incentive should not be applied where companies are pursuing the commercialisation of health and medical research. When compared to other sectors, the commercialisation of health and medical research and transforming research into new treatments and medical devices is very research and investment intensive. This is because of the long timeframes involved in the commercialisation process (in part caused by regulatory hurdles that are in place to ensure patient safety), and the significant cost of later stage R&D activities such as clinical trials.

There is an expectation that typical firms spending beyond $4.5 million per year on R&D (the approximate amount required to reach the proposed $2 million cap) will be large and have substantial revenues. However, this is far less likely in the case of SME companies that are seeking to commercialise health and medical research. In many cases the sole activity of the company will be the R&D it is undertaking. Exempting health and medical research from the cap would be administratively straight forward as field of research data is already collected by AusIndustry, and this would have only a small financial impact as the best available data shows the sector represents just 5.5% of the overall R&D Tax Incentive Programme.

Panel recommendation 4

Introduce an intensity threshold in the order of 1 to 2 percent for recipients of the non-refundable component of the R&D Tax Incentive, such that only R&D expenditure in excess of the threshold attracts a benefit.

The panel's view that the R&D Tax Incentive should encourage additional R&D rather than rewarding R&D that would have already been undertaken appears reasonable but requires further consideration. The intensity threshold mechanism of 1 to 2 percent for recipients of the non-refundable component of the R&D Tax incentive could have a negative impact on research intensive companies that exceed the two percent threshold, as these companies will lose the R&D tax offset on their first two percent of their R&D expenditure. If such a threshold is introduced those companies that exceed the threshold should be able to receive the non-refundable component for all of their R&D expenditure, and not just the expenditure that exceeds the threshold.

Panel recommendation 5

If an R&D intensity threshold is introduced, increase the expenditure threshold to $200 million so that large R&D-intensive companies retain an incentive to increase R&D in Australia.

Further modelling needs to be undertaken and made available to assess the likely combined impact of recommendations 4 and 5. While increasing the threshold to $200 million appears to be a reasonable aspiration, there are concerns that when recommendations 4 and 5 are combined this could lead to enhanced support for very large companies undertaking R&D, and decreased support for SMEs. However, at this stage the likely outcome is not known and further work needs to be undertaken.

Panel recommendation 6

That the Government investigate options for improving the administration of the R&D Tax Incentive (e.g. adopting a single application process; developing a single programme database; reviewing the two-agency delivery model; and streamlining compliance review and findings processes) and additional resourcing that may be required to implement such enhancements. To improve transparency, the Government should also publish the names of companies claiming the R&D Tax Incentive and the amounts of R&D expenditure claimed.

AAMRI supports the publication of the names of companies claiming the R&D Tax Incentive and the amounts of R&D expenditure claimed. The details of public and private sector recipients of other government programmes that support for science, research and innovation are made available, and doing so for the R&D tax incentive would improve transparency and oversight.

AAMRI MEMBERS

- ANZAC Research Institute
- Children's Cancer Institute
- HMRI Hunter Medical Research Institute
- Murdoch Childrens Research Institute Healthier Kids. Healthier Future.
- SAHMRI South Australian Health & Medical Research Institute
- AITHM Australian Institute of Tropical Health & Medicine
- Children's Medical Research Institute Jeans for Genes
- IBAS Institute for Breathing & Sleep
- NARI National Ageing Research Institute Ltd Bringing research to life
- SVI St Vincent's Institute Medical Research
- Monash University ARMI Australian Regenerative Medicine Institute
- The Florey Institute of Neuroscience & Mental Health
- Australian National University The John Curtin School of Medical Research
- NeuRA Discover. Conquer. Cure.
- Telethon Kids Institute Discover. Prevent. Cure.
- Baker IDI Heart & Diabetes Institute
- Garvan Institute
- Kolling Institute of Medical Research
- Olivia Newton-John Cancer Research Institute
- TRI partnering for better health
- Bionics Institute
- The George Institute for Global Health
- Lions Eye Institute
- Orygen The National Centre of Excellence in Youth Mental Health
- Victor Chang Cardiac Research Institute
- Brien Holden Vision Institute
- Burnet Institute Medical Research. Practical Action.
- Hanson Institute
- Mater Research
- Peter Mac Peter MacCallum Cancer Centre Victoria Australia
- Walter+Eliza Hall Institute of Medical Research Discoveries for Humanity
- Centenary Institute life saving research Cancer. Inflammation. Cardiovascular
- Harry Perkins Institute of Medical Research
- Melanoma Institute Australia
- QIMR Berghofer Medical Research Institute
- Wesley Medical Research. The Wesley Hospital | St. Andrew's War Memorial Hospital | The Sunshine Coast Private Hospital | St. Stephen's Hospital
- Centre for Cancer Biology
- HRI Heart Research Institute
- University of Tasmania Menzies
- Queensland Eye Institute
- The Westmead Institute for Medical Research
- Centre for Eye Research Australia
- Hudson Institute of Medical Research
- Menzies School of Health Research
- Robinson Research Institute Healthy children for life.
- Woolcock Leaders in Breathing & Sleep Research