

AusBiotech response to ISA's Australia 2030 plan

This week's release from Innovation and Science Australia (ISA), Australia's independent science, research and innovation advisory board, provides recommendations to the Federal Government as a "plan for Australia to thrive in the global innovation race". The 125 page plan [*Australia 2030: Prosperity through Innovation*](#) articulates a view of the nation's needs to ensure Australia's world-class research can translate into social and economic prosperity.

The Plan nominates five imperatives and 30 recommendations that ISA sees as central to shaping the strategy and taking the opportunities.

Initial feedback from the life sciences sector finds the plan underwhelming, lacking cohesion and the apparent compartmentalisation of the Industry and R&D imperatives falls short on coordinated or whole-of-government thinking. Innovation is once again skewed away from the needs of life sciences to short-horizon innovation. A dynamic, bi-directional interplay is what's needed rather than the implication that innovative solutions originate only from universities and research institutes.

In AusBiotech's view the Plan makes some unwelcome and some more attractive suggestions.

Notably the Plan makes unwelcome recommendations about the Research and Development (R&D) Tax Incentive, suggesting a \$4 million cap and a lifetime cap of \$40 million on the refundable components of the program and a one percent "intensity" hurdle for companies claiming the offset.

Preserving the R&D Tax Incentive was a top priority as AusBiotech coordinated comment for Innovation and Science Australia's (ISA) consultation to develop a 2030 Strategic Plan for Australian innovation, science and its research system early last year.

[**AusBiotech said in its verbal submission to the consultation that the R&D Tax Incentive is critical to 2030 innovation strategy.**](#)

In welcome items, the Plan recommends Genomics and Precision Medicine as an ideal first national mission, which could be funded from the MRFF, at a cost of \$500 million over the initial five years.

AusBiotech agrees that the role of R&D is a key driver of innovation and laments that Australia lags behind its global peers in gross expenditure on R&D as a percentage of GDP. However, the Plan does not propose any increase in Government funding, but instead suggests the redirection of existing successful programs to provide more incentives to increase business R&D. In particular, the plan prefers more direct support for industry rather than tax-based measures such as the R&D Tax Incentive, which is fraught with issues.

While AusBiotech accepts that there is merit in both direct grants and tax incentives, the plan to damage one highly-successful program to provide an alternative, more complex, less

certain grant programs make little sense. This would also create a greater administrative burden.

R&D Tax Incentive

AusBiotech has maintained that measures to limit the R&D Tax Incentive will inequitably harm medical-based research and development, which makes up only around 8 percent of research expenditure claimed under the R&D Tax Incentive, whereas IT and engineering account for around 80%.

The R&D Tax Incentive has been successful in helping attract more investment in research and development (R&D) and fostering a strong Australian medical technology, pharmaceutical and life sciences R&D sector, which encourages long-term investment in Australia that creates highly-skilled jobs, attracts clinical research and grows the economy. The Government has recognised the potential economic benefit of the medtech and pharmaceutical (MTP) sector as one of six sectors of Australia's competitive strength, even though the growth in pharma contribution to GDP is significant and has the potential to grow more.

\$4 million cap per year and a lifetime cap of \$40 million

The Plan proposes implementing the 2016 review of the R&D Tax Incentive with two amendments under Recommendation 6, the intensity threshold and caps (a \$4 million cap per year and a lifetime cap of \$40 million) on the refundable components of the program.

The introduction of an annual cap on the refundable R&D tax offset of \$4 million and a lifetime cap of \$40 million will disrupt the pipeline of development (in SMEs) available to larger companies and diminish clinical trial activity. This will especially disadvantage drug and vaccine development in Australia. Numerous medical research companies may already be at the \$40 million lifetime cap.

Relative to many other sectors, the commercialisation of MTP has longer timeframes, due to significant scientific and regulatory hurdles to reach market (patients), and there is higher expenditure on R&D, often in excess of \$1 billion for one therapeutic over a decade or more.

While a typical non-MTP firm spending might be expected to be relatively large and have significant assets and revenues, this is much less likely when it comes to the commercialisation of MTP by an SME where the company's only asset is likely to be the intellectual property it is seeking to develop; its sole activity is R&D; and it frequently has no revenue. For these reasons, MTP R&D must be treated differently to other sectors.

1 percent intensity threshold

The introduction of a 1 percent intensity threshold for the R&D Tax Incentive is a modified version of the 1-2 percent intensity threshold proposed in the 2016 ISA review of the R&D Tax Incentive (known as the 'Finkel, Ferris, Fraser Review' or the 3F Report). Once the threshold 'trigger' is reached, expenditure below the threshold amount attracts the R&D benefit – previously expenditure below the threshold didn't attract a benefit.

The current Plan doesn't include a recommendation to increase the non-refundable cap from \$100 million to \$200 million, which was one of the 6 recommendations in the 3F Report, so it is unclear if this is still supported.

The ability to claim expenditure below the threshold (once the hurdle is reached) is a welcome and necessary mechanism to make the R&D Tax Incentive workable for those able to access it. However the introduction of a 1 percent intensity threshold will have a devastating impact on many. While these latest recommendations use 'total expenditure' as the measure, it is unclear how this would be applied, for example will the measure be calculated including or excluding capital expenditure? Manufacturers may be seriously disadvantaged. It is also unclear whether companies that fail the intensity threshold will be able to access the collaboration premium (see below).

On balance we are opposed to an 'intensity threshold'. A company needs to plan its R&D expenditure in advance. Eligibility for the R&D Tax Incentive will be dependent on achieving the necessary R&D intensity. While it may be possible to forecast the anticipated R&D expenditure, the value of the other business activities against which it will be measured (the denominator) will be far more variable and dependent on business and economic conditions. Eligibility for the R&D Tax offset will only be determined at the end of the period, after the R&D and the other business activities have been concluded, and this uncertainty will act as a disincentive to R&D expenditure in Australia.

Furthermore, determining the appropriate business activities, against which the threshold will be measured, will be complex; the administration of the threshold will be difficult and expensive; and assessments are likely to be open to interpretation and dispute.

Collaboration premium

Recommendation 19, the introduction of a collaboration premium (up to 20%) for expenditure on public research institutions, was also recommended in the 3F Report. It appears this would only be available to companies accessing the non-refundable R&D tax offset (i.e. those with an aggregated turnover of \$20 million or more).

AusBiotech proposed and maintains that the collaboration premium be extended to the refundable tax offset. It is SMEs that have the lowest levels of engagement with publicly-funded research organisations, and the incentive is likely to be most effective in boosting collaboration by SMEs. The Government's own 2013 report, *Boosting the Commercial Returns from Research* noted that Australia has a large number of SMEs relative to many other countries and that '*Without any imperative for change, these firms are less likely to have the capacity to engage directly with university research and integrate it within their operations.*'¹ The NISA Agenda includes several initiatives aimed directly at connecting more small and medium businesses with researchers.

Meanwhile SMEs need investors (in the first place) and those prepared to provide follow-on investment. Capital availability for this group is noted as woeful in this report, and is not addressed other than to note it and track it.

¹ Australian Government, *Boosting the Commercial Returns from Research*, 2013, page 13

Export growth

In measures that AusBiotech supports, we note Strategic opportunity 2.2: “The growth of exporting firms, particularly young high-growth firms, can be encouraged by increasing Export Market Development Grants funding, and by expanding and making better use of trade agreements” and its Recommendation 7 to “Increase efforts to help young Australian businesses and small and medium enterprises to access export markets” by:

- increasing funding for Export Market Development Grants and investigating how to target a larger proportion of the funds to high-growth businesses (e.g. consider fostering and identifying them via Industry Growth Centres):
- extending funding for international capability promotion through targeted trade missions and trade promotion activities.

We support the encouragement of Australia’s participation in international trade activities. The industry would welcome this measure if it translates into national support for SMEs to promote their world-class capability at the unparalleled forum offered at the BIO International Congress in the US annually.

CRCs and Industry Growth Centres

AusBiotech agrees with Recommendation 6, the expansion of funding for Cooperative Research Centres (CRCs), CRC projects and Industry Growth Centres will be good for industries ISA considers to have ‘competitive strength and strategic priority’.

In closing

Australia has a strong competitive advantage in its research capability and a real opportunity to position the translation of its research as a significant driver of a thriving population and economy. With the exception of the noted items, the Plan recommends some legitimate opportunity to build on the National Innovation and Sciences Agenda (NISA) and leverage this advantage, depending on the Government's response, but also falls short of the life science industry's needs.