



26th July 2018

The Manager
Small Business Entities and Industry Concessions Unit
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir / Madam,

Treasury Laws Amendment (Research and Development Incentive) Bill 2018

Thank you for the opportunity to provide input on the above draft legislation.

CSL is an Australian-based, global biopharmaceutical company and one of the nation's largest private-sector investors in research and development.

In line with our previous input to the review of the R&D tax incentive, CSL acknowledges and supports the Government's desire to maximise community benefit from the significant expenditure incurred by the R&D tax incentive.

CSL offers the following input in relation to the draft legislation:

Calculation of R&D intensity – total expenditure

$$R\&D\ intensity = \frac{eligible\ R\&D\ expenditure\ (R\&D\ notional\ deductions)}{total\ expenditure\ (expenditure)}$$

CSL agrees that spillovers and additionalities are more likely to come from companies which have a clear R&D focus and that, in theory, a reasonable way of assessing this is the measure of "intensity" of R&D expenditure as a percentage of overall business expenses.

However, the draft legislation includes 'Cost Of Goods Sold' in the definition of total expenditure and this will produce inequitable outcomes. Using the above equation and a sliding scale whereby higher R&D intensity as a percentage of overall expenditure is rewarded at higher rates will specifically and perversely disadvantage businesses which may have significant R&D but also have significant in-country expenditure (for example advanced manufacturers – like CSL) versus companies which only conduct R&D in Australia and manufacture offshore or, work in industries which do not have high raw material and production costs (for example digital and online).



This is not the Government's intention but it will be an unintended outcome of this formula because it will value the same dollar value of R&D expenditure differently but not strategically. CSL notes that the concept of an intensity measure in this legislation varies considerably from the original review recommendation which was to use intensity as an integrity measure establishing a minimum level *not* as a sliding scale for determining reward.

Clinical trials exemption under a \$4 million refund cap

CSL welcomes the intention to exclude clinical trials from the new \$4 million refund cap for small/medium businesses. This exclusion recognizes the unique cost profiles of medical research businesses and should help to retain the growing Australian medical research ecosystem.

Increase eligible R&D expenditure to \$150 million

CSL welcomes the intention to increase the annual limit on qualifying R&D expenditure to \$150 million. The \$100m expenditure limit was introduced as a cost saving measure in 2014 and has been an arbitrary figure line which there is no incentive for increasing R&D in Australia.

At the level of \$150 million, from 2017-18 CSL will be eligible to claim additional expenditure but we maintain that a cap at any level is arbitrary and works to actively disincentivise additional investment of any amount over the cap.

Publication of R&D expenditure/tax incentive claims

CSL welcomes the intention to improve transparency of Australian R&D expenditure by publishing the names and amounts of companies claiming the R&D tax incentive. The amount disclosed should be the additional tax benefit number (i.e. the tax effected amount above the corporate tax rate). CSL believes this will help companies and potential collaborators to better understand Australia's R&D landscape and will be a useful relative data point given that overall corporate tax receipts are now published annually by the ATO and in company tax transparency reports.

In conclusion, Australia competes with several peer economies for R&D investment and the tax incentive is a significant influence for commercial operations like CSL to conduct R&D here and to maximise the amount of that investment.



CSL considers that we do have an important role to play as an industry leader and important investor in R&D and medical research in Australia and we would be happy to provide further information as required. Please contact Ms Anna Schulze, CSL Public Policy Director, O3 9389 3428 / 0438 084 045 / anna.schulze@csl.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Lamont', is written over a light grey horizontal line. The signature is fluid and cursive, with the first letter 'D' being particularly large and stylized.

David Lamont
Chief Financial Officer