

From: [Peter Andrews](#)
To: [R&Damendments](#)
Subject: Research & Development Tax Incentive Amendments
Date: Thursday, 26 July 2018 11:24:12 AM

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Attention: RnDamendments@treasury.gov.au

**RESEARCH & DEVELOPMENT TAX INCENTIVE AMENDMENTS:
SUBMISSION FROM PROFESSOR PETER ANDREWS AO**

Dear Sir/Madam,

I welcome the opportunity to provide feedback in response to the exposure draft legislation and consultation paper 'Research & Development Tax Incentive Amendments' which outlines key areas where the Government requests specific feedback on the implementation of reforms to the Research and Development Tax Incentive (R&DTI). These reforms are in response to the recommendations of the 2016 Review of the R&D Tax Incentive and aim to better target the program and improve its integrity and fiscal affordability.

I am on the boards of several companies in the Life Sciences sector. I was also the first Chief Scientist appointed by the Queensland Government, in which position I served until 2010, and a former member of the IR&D Board, that was tasked with the oversight of the R&D Tax Concession. I have been at the forefront of initiatives to develop the Australian biotechnology industry and am well aware of the development challenges facing the Australian biotechnology sector. The sector is IP-based, heavily R&D intensive and a highly globally-mobile industry. The highly regulated environment and the lengthy and expensive clinical trial process is challenging for all biopharmaceutical companies, often with timelines in excess of 10 years before initial revenue is achieved.

Australia is world class in biomedical research and the R&D Tax Incentive has been a game-changer in this industry for Australian innovation. The program has been well targeted to assist this sector and the refundable component is critical to the growth of life sciences innovation in Australia. However the uncertainty and instability that is being caused by the recent 2016 review of the R&D Tax Incentive and the subsequent 'Australia 2030: Prosperity through Innovation Report' ('The Review') by the Board of Innovation and Science Australia (ISA) is causing concern for all claimants of the R&D Tax Incentive. The proposed changes, which are intended to apply retrospectively from 1 July 2018 will significantly impact on long-term R&D planning, creating even greater uncertainty and discouraging industry from investing in R&D in Australia. The government should be very cautious about making regular changes to the R&D Tax Incentive. Companies that plan their R&D activity well in advance seek certainty and stability in an incentive program.

The proposed changes are being introduced as a means of preventing the cost of the R&D Tax Incentive program from exceeding the costs originally anticipated. However, the government is yet to substantiate the basis for the claim that the program is ballooning beyond its control, and recent statistics indicate that the cost of the program has actually fallen in recent years (by 12% in FY15/16 according to Australian Bureau of Statistics'

figures). Furthermore, since the object of the program is to boost investment in R&D, it should be an expectation that the cost of the program will increase over time and be offset by an increase in GDP resulting from that investment.

Finally, it must be noted that a refundable offset was introduced under the R&D Tax Offset to decouple the incentive component from the corporate tax rate. A 15% incentive component was originally introduced, and I am disappointed with the intention to drop this to 13.5%, particularly as the corporate tax rate reduces. I would recommend that a 15% incentive component for the refundable offset should be reinstated.

Should you wish to discuss any of my comments further, please feel free to contact me on [0409340559](tel:0409340559) or Peter@magicpudding.com

Kind regards,

Professor Peter Andrews AO