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Fostering Australian innovation: the R&D Tax Credit

Intelligence and innovation are Australia's greatest renewable resource. Both sides of politics need to work to pass the R&D Tax Credit to help promote innovation in the biotechnology industry.

By Anna Lavelle, CEO, AusBiotech

AT THE TIME OF WRITING THIS, the Labor Party has just formed a minority government, and the fate of our nation will be influenced by a few independent and Green MPs over the next term. These independents now have an opportunity to make a contribution to the future economy of Australia. With little focus from either political side on innovation policy leading up to the election, it is time we must collectively look toward the future of our economic prosperity.

Our country is basking in the success of an economy based on resources, and while some economists optimistically predict the mining boom to last for 25 years, the common belief is closer to 10 years. It is inevitable that our resources will run out, and the Australian economy will be hit catastrophically. We need to support the growth of other industries, particularly biotechnology and manufacturing in biopharma and medical devices, so it is able to support our economy after resource and mineral deposits are depleted.

The greatest renewable resource in Australia is intellect. Encouraging innovation, particularly in the biotechnology space, will ensure that the majority of key election issues – climate change, health, an aging population, food security and fuel security – will be positively impacted. All parties need to support it.

While the Labor government recognises the role innovation has to play in Australia's development, the most important aspect for the biotechnology industry, the R&D Tax Credit legislation, is still stalled in the Senate. The tax credit, as recommended by the

Cutler Report, was set to foster and support Australian innovation after the axing of the Commercial Ready program in 2008. The Australian biotechnology sector has been firm and vocal for the carriage of the legislation so that much-needed support can be delivered to innovative companies undertaking research and development of benefit to our country.

The introduction of the tax credit program was initially deferred to allow consultation and, in the interim, many Australian start-ups have been forced to reign in activity as they search for essential capital. After this period of consultation and further delays in the Senate due to the federal election, the promise of greater financial certainty for Australian biotechnology companies has again been called into question.

The Liberal Party's view of the R&D Tax Credit legislation is well documented as unsupportive, describing it as "seriously flawed". The Liberal Party opposed the bills in the House of Representatives and is likely to vote against it in the Senate when they next appear for a second reading debate. We would urge the Liberal Party to seek to consult more broadly with the biotech community prior to voting against the legislation.

The Labor Government's official policy toward innovation leading up to the election was to persevere with the passage of the legislation and continue to pursue a retrospective July 1, 2010, start date. Labor believes that the tax credit will encourage more of Australia's two million businesses, especially smaller firms, to undertake research and development.

The new R&D Tax Credit will provide: a 45 per cent refundable tax credit for



companies turning over less than \$20 million; and a 40 per cent non-refundable tax credit to all other companies. This will be especially beneficial to innovative start-up companies that often devote many years to research and development before they show a profit. The credit will target genuine R&D activities that are likely to benefit the wider Australian economy. The scheme will be worth \$1.4 billion a year to industry and assist in attracting more domestic and foreign R&D investment.

Despite these promises, the danger now is that sentiments may have changed throughout the post-election negotiations and during such a long recess. The consequences of this extended delay to discuss the introduction of the R&D tax legislation could be severe if the government officially delays the implementation of the scheme until July 2011 and spends the next 12 months revising it, as requested by some sectors of industry.

I acknowledge that industry would like to see some amendments to the drafting and do not object to amendments that improve clarity and certainty. This desire should not derail what is seen as an important policy change for Australia. Australia can no longer sit on its laurels and ignorantly wait until the bust of the mining bubble. Innovation needs to be supported, and supported now, so our economy has a better future. [ALS](#)