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R&D Tax Credit gets the green light

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AUSTRALIAN biotech companies can become more innovative and globally competitive with the help of the R&D tax incentive announced yesterday.


Sue MacLeman


Medicines Australia, acting chief executive, Andrew Bruce


Dr Anna Lavelle

It will deliver a 45% refundable tax credit to companies with an aggregated turnover of less than $20 million and a 40% non-refundable offset to all others from July 1.

Innovation minister Senator Kim Carr told *BTN* a key objective of the R&D tax credit is to encourage more R&D to be conducted in Australia.

The more generous benefits, as well as rule changes allowing access to foreign-owned companies and to companies that hold their intellectual property offshore, are designed to achieve this aim.

Senator Carr told *BTN* start-up innovation companies, including biotechs, are major beneficiaries under the R&D tax credit.

"The 45% refundable tax credit doubles the base rate available to small and medium companies under the existing R&D tax concession, and makes the benefits available in cash where a company is in a tax loss situation," he said.

The tax concession has been welcomed by industry group AusBiotech, which has been vigorously lobbying for its implementation.

It was finally passed in the senate with the support from the Greens.

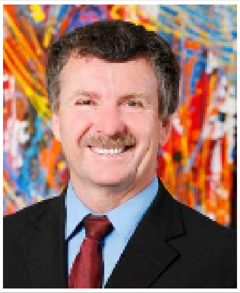
"This is the most significant positive news that the industry has had for a number of years and for small biotech companies it's going to mean significant difference to the R&D program," AusBiotech chief executive officer Dr Anna Lavelle said.

Lavelle told *BTN* the new tax credit will inject significant new funds into the industry and that will stimulate new investment as well from private investors

"They will be able to begin their clinical trials earlier, they will be able to spend more money on R&D overtime and hopefully they will be able to get their end goal of entering [the] market faster than before," she said.

Medicines Australia acting chief executive Andrew Bruce told *BTN* the R&D tax credit will reduce the cost of eligible R&D by up to 10% and make Australia more internationally competitive as a destination for medical research investment.

Innovation Minister Kim Carr



LESANZ president, Mark Horsburgh

"Competition for R&D investment dollars from Asia and Europe is fierce, and we have been falling behind. With the right policy settings, we can reverse this decline," he said.
President of LESANZ, Mark Horsburgh told *BTN* there was no doubt that more investment in genuine R&D activity would create a more competitive environment for biomedical and pharmaceutical innovation.

However, removing the ability to claim for "experimental developments" may have unintended negative consequences.

If this means excluding trial or prototype activities, it could be argued that the legislature has made the scope for the tax credit too narrow and has the potential to knock much of the promising R&D coming out of these companies out of the running.

"The R&D community, particularly the biotechnology and pharmaceutical space, has been looking for a glimmer of hope for a long time. This is particularly good news for smaller pharma and biotech companies who are more agile, need less infrastructure and will therefore likely benefit more than larger companies," he said.

"It has often been said though that without the government subsidies formerly available to the pharma industry, Australia would not have the presence of the big multinational pharma companies that it does – so fingers crossed!"

Senator Carr also said the legislation will benefit large innovative companies.

"Large companies who undertake genuine R&D will also benefit under the R&D tax credit. The 40% non-refundable tax credit raises the base R&D tax incentive for larger firms by a third," he said.

Following discussions with the Greens, the government will introduce quarterly payments for small and medium businesses from January 2014.

These firms will get their credit sooner, significantly improving their cash flow and incentive to invest in R&D.

Lavelle told *BTN* AusBiotech alone had been arguing for quarterly payments from the beginning.

"Initially we were told that it was not possible and it would never be offered to the sector, but it's the last moment we are able to negotiate it and I am extremely pleased about that."

The deferral of the start date to July 1, 2011, has had an overall impact of $40 million, with a negative impact of $310 million in 2011-12 and a positive impact in 2012-13 of $270 million.

Senator Carr told *BTN* the 2010 date was set on the assumption that the bill would be passed before July 1, 2010.

The new date is a natural consequence of the blocking of the legislation in the Senate by the Liberals and Senator Fielding – both before and after the 2010 election.

He said the change in the composition of the Senate after July 1, 2011, would produce a majority in favour of the legislation.

Progen Pharmaceuticals chief executive officer Sue MacLeman told *BTN* this was an important and overdue initiative which would help the biotech and life science industries by driving more product development in Australia and would allow Australian R&D investment dollars to go further.

MacLeman spoke to *BTN* about what this news meant for biotechs such as Progen and contract manufacturers such as PharmaSynth.

"For Progen there will be an opportunity to fund more research in a tighter timeframe," she said.

"For PharmaSynth it is a potential windfall as we are an Australian Contract Manufacturing Organisation and this should give us a competitive advantage over non-Australian suppliers."

Horsburgh spoke to *BTN* about what the R&D tax credit meant for biotechs from a commercialisation perspective.

"The news of support for the R&D tax credit is some of the most positive news for biotechs in years. Funding for biotechnology companies has been hit from all sides over the past couple of years, and the stalling of this legislation certainly hasn't helped their R&D activities.

"Once the R&D tax credit is passed, the legislation will be a great step forward for biotechs and will provide more financial incentive for their R&D activities. Cash flow is always a major issue for small business, especially research intensive industry. Quarterly cash payments can only help.

However, he said the emphasis on "genuine R&D" was concerning, as it was difficult to understand how the government would judge it.

"If past experience is a measure of future intent, we can only tremble at the thought of government telling an SME that their R&D is not 'genuine'.

"Nonetheless, a measure that diverts funds to small business, which is the backbone of the Australian economy, is welcome, particularly so when small biotechs and pharma companies have such a great track record in Australia with breakthrough research," he added.

The government will continue to work in partnership with the business community to get the most from this landmark reform.

An advisory group will be established through the Innovation Australia Board to monitor the implementation and operation of the credit.

The government, through AusIndustry, will run an extensive program to ensure firms are kept up to date.