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More incentives needed to encourage investment

STRATEGIES

The CSIRO has renewed calls for a change to government structures that hinder the progress of the technology industry.

ICT Centre director Alex Zelinsky says greater incentives are required to encourage private enterprise to invest in Australian start-ups.

The CSIRO's ICT Centre has backed away from a main focus on technology start-ups to support a wide scope of projects being tackled by the organisation.

Zelinsky says the federal government should consider further changes to areas such as corporate taxes to drive further investment in technology research.

"What is going to limit Australia is that we have a weak innovation chain," he says.

Zelinsky says more incentives are required to lift Australia's standing as a source of technology innovation. "We just see that the nation needs it."

Zelinsky suggests the federal government could introduce **tax concessions** that would reduce the risk of backing start-ups. "It is [now] a higher risk than going and buying a town house."

CSIRO has focused its own R&D efforts on wireless, networking, information engineering and autonomous systems development.

It has deliberately not spun off a range of start-ups, arguing that responsibility is mainly the job of private companies. "We are not in the business of trying to create 30 or 40 companies," he says. "We are a feeder [for the industry]."

Yet the CSIRO hasn't ignored commercial opportunities. The organisation has spun off two companies in the past two years: search engine company Funnelback and semiconductor researcher Epitactix. Funnelback has continued to expand its enterprise search business without venture capital funding, and has plans to enter the US market.

Australian clients include the ABC, ASX and Westpac Banking Corp.

Zelinsky says a niche approach to opportunities such as enterprise search is the only way to compete in a crowded market. "We can lament that we don't have a Google, but the point is not to create another Google."

Headline: More incentives needed to encourage investment

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Labor wants R&D revamp

Labor is considering new policies that would boost **tax concessions** on research and development and allow foreign companies to claim them on all R&D conducted in Australia, in a bid to lure big pharmaceutical firms to set up laboratories here.

Opposition Industry, Innovation, Science and Research spokesman Kim Carr is preparing an R&D policy blueprint to be considered by shadow cabinet in coming months.

He said his reasons for offering extra incentives for R&D were to encourage new, high-quality research activity in Australia and foster collaboration between researchers.

"I am interested in exploring how we can get biomedical and bioagricultural companies involved in collaboration here in Australia," Senator Carr said.

"My concern is to lift the level of expenditure on R&D in Australia by the pharmaceutical industry, including the biotech sector."

"To do that we may need to look at the beneficial ownership requirements of the Tax Act"

The beneficial ownership rules limit **tax concessions** on R&D to those companies that hold within Australia the intellectual property associated with R&D.

Pharmaceutical firms have complained in submissions to the Productivity Commission that these rules prevent the subsidiaries of multinationals accessing tax breaks for R&D conducted in Australia.

Most multinationals require intellectual property to be held by their head office, not the local subsidiary.

Pharmaceutical giant GlaxoSmithKline wrote in a submission that the beneficial ownership rules meant that much of the R&D conducted by drug companies in Australia missed out on tax support.

AusBiotech said in its submission that relaxing the beneficial ownership rules would "enable greater flexibility and investment by multinational organisations in particular and, more generally, by organisations engaged in more collaborative R&D".

The Howard government's Pharmaceuticals Partnerships Program (P3) aims to encourage drug companies to conduct R&D in Australia by offering up to \$150 million in grants from 2004 to 2009.

To access P3 grants, pharmaceutical companies do not have to prove that the intellectual property for the R&D is held by a firm in Australia.

But Senator Carr said he was exploring whether assistance for the pharmaceutical industry could instead be brought into mainstream R&D policies.

Global pharmaceutical R&D expenditure is about \$US45 billion (\$58 billion) a year but the latest figures show that pharmaceutical R&D spending in Australia is less than \$600 million, in an industry that employs about 36,000 people.

When Senator Carr was appointed spokesman in December, he was initially considering lifting the R&D tax concession from the current 125 per cent to 150 per cent.

But now he is believed to be leaning towards combining existing **tax concessions** in one scheme, which would increase the rewards available to companies that lift their R&D spending.

As well as the 125 per cent rate, the Howard government offers a premium rate of 175 per cent concession on the labour component of incremental spending by companies with a three-year record of R&D.

The Australian Industry Group has called for a "step-up R&D tax concession" which would start at 125 per cent and then climb in increments to 200 per cent as companies increased their spending.

Senator Carr said he would conduct more consultations before finalising his proposal.

KEY POINTS

- Labor wants to lift research by international firms in Australia.
- Current taxation concession rules are seen as a barrier by global pharmaceutical companies.

Caption :PHOTO: Global pharmaceutical R&D spending is about \$58 billion. Photo: LOUISE KENNERLEY

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