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25th October, 2016

The Manager
Business R&D
Department of Industry, Innovation and Science
GPO Box 9839
CANBERRA ACT 2601

Dear Sir / Madam,

Consultation on the Report of the R&D Tax Incentive Report

Thank you for the opportunity to provide input on the recommendations of the Review of the R&D tax incentive, as released on October 4th.

CSL previously provided both written and verbal input to Dr Finkel and the Review Secretariat during the conduct of the review. The below comments and observations are consistent with that prior input.

As an Australian-based, global biopharmaceutical company R&D is a critical component of our business and we believe we are one of the nation's largest private-sector investors in research and development.

CSL maintains our global centre of R&D excellence in the Parkville, Victoria biotech precinct and for the purposes of the R&D Tax Incentive CSL Ltd's annual qualifying R&D expenditure is nearly AUD $100m (from a global R&D spend of $USD614m in 2015/16).

CSL's particular interest is in health and medical research and in Australia this is world-class. The sustainability of our business depends on us maintaining a pipeline of prospective products in various stages of development which may, or may not, become life-saving medicines for sale into global markets. Considerably in excess of half of CSL's R&D expenditure is on high risk potential new products.

While Australia's early research sector (primarily government-funded universities, research institutes and the CSIRO) is recognised globally for its high quality, there is a value chain and it is translational research – moving that science from the laboratory bench into usable therapies – that is the key to unlocking and maximising social and economic returns.

Translational research is generally conducted by the private sector including very small 'start-up' companies and it is these, as well as large companies like CSL, which are very often supported by the R&D tax incentive.

Response to Recommendations

As general comment, CSL acknowledges and supports the Government's desire to maximise spillovers and additionality from the significant expenditure incurred by the R&D tax incentive.

We have no issue with the *intent* of most of the recommendations but most are lacking specificity and it is unclear how they would work in practice. We do have specific concerns around two of the recommendations and these are articulated below.

Recommendation 1:
Retain the current definition of eligible activities and expenses under the law, but develop new guidance, including plain English summaries, case studies and public rulings, to give greater clarity to the scope of eligible activities and expenses.

CSL supports this recommendation. As the review noted, the existing definition is in-line with international standards but its application lacks clarity and consistency. This increases administrative complexity as well as, possibly, support for activities which are outside of the intent of the definition.

Recommendation 2:
Introduce a collaboration premium of up to 20% for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations. The premium would also apply to the cost of employing new STEM PhD or equivalent graduates in their first three years of employment. If an R&D intensity threshold is introduced (see Recommendation 4), companies falling below the threshold should still be able to access both elements of the collaboration premium.

CSL does not oppose this recommendation, and we recognize the need to increase industry /academia collaboration in Australia. As company with significant collaborations this premium would benefit CSL however, we question whether a tax incentive is (or should be) the correct tool to drive new partnerships and projects. There is a risk that this recommendation could simply end up rewarding existing collaborations not stimulating new ones.

Recommendation 3:
Introduce a cap in the order of $2 million on the annual cash refund payable under the R&D Tax Incentive, with remaining offsets to be treated as a non-refundable tax offset carried forward for use against future taxable income.

CSL strongly opposes this recommendation. The introduction of a cap on refunds to small/medium businesses would likely have a direct negative impact on the Australian medical research ecosystem. Issues with income and cashflow to biotech SME's are well documented as the "twin valleys of death" and elsewhere other Federal Government

initiatives, such as the Biomedical Translation Fund, are being introduced specifically to provide greater access to cash and capital for these businesses. CSL does not purport to represent SME's in this submission but we strongly urge Government to commission detailed data analysis on the potential unintended impact of this measure specifically on the medical research sector.

Recommendation 4:
Introduce an intensity threshold in the order of 1 to 2 percent for recipients of the non-refundable component of the R&D Tax Incentive, such that only R&D expenditure in excess of the threshold attracts a benefit.

CSL agrees that spillovers and additionalities are more likely to come from companies which have a clear R&D focus and that a reasonable way of assessing this is the intensity of R&D expenditure as a percentage of overall business expenses. To fully understand the implications of implementing a threshold test we would need greater clarity on the definition of the criteria for intensity and its calculation however, in theory, we would not oppose a test based on Australian Business Expense excluding Cost of Sales, and an intensity ratio of 1%. We would however, argue that if a business meets this 1% threshold, which is a proxy for measuring the likelihood of spillovers and additionality, then *all* of the R&D activities should attract the benefit – not just those over the 1%.

Finally, we are very concerned that this recommendation, as currently written, will have significant implications from a complexity and compliance perspective, as activities relating to expenditure below the intensity threshold will need to be registered with no benefit received. This seems to be in direct contradiction to one of the stated intentions of the initiative – that is to reduce the compliance burden.

Recommendation 5:
If an R&D intensity threshold is introduced, increase the expenditure threshold to $200 million so that large R&D-intensive companies retain an incentive to increase R&D in Australia.

CSL supports this recommendation. CSL's annual qualifying R&D expenditure is currently less than AUD $100m but we agree that a $100m expenditure / $10m benefit cap is arbitrary and decisions around the design of the scheme should be made on a more sophisticated basis.

Recommendation 6:
That the Government investigate options for improving the administration of the R&D Tax Incentive (e.g. adopting a single application process; developing a single programme database; reviewing the two-agency delivery model; and streamlining compliance review and findings processes) and additional resourcing that may be required to implement such enhancements. To improve transparency, the Government should also publish the names of companies claiming the R&D Tax Incentive and the amounts of R&D expenditure claimed.

CSL does not oppose reform suggestions related to the government's administration of the program. CSL strongly support the recommendation for improving transparency by publishing the names of companies claiming the R&D tax incentive. This would help companies and potential collaborators to better understand Australia's R&D landscape and would be a useful data point given that overall corporate tax receipts are now published annually by the ATO.

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.

The R&D tax incentive is a factor when we make decisions but for a large company like CSL, at an individual project level, other factors such as the quality of the science, and the current location of existing capabilities and research personnel must be considered first.

While there is significant further detail which needs to clarified before CSL can have a definitive understanding of impact of these recommendation our initial modelling indicates CSL would be in a small net negative position with a reduced tax incentive and increased compliance burden as a result of the recommendations. Further, our business ecosystem would be damaged by the introduction of the $2m cap.

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 welcome the opportunity to help to refine the finer detail of these recommendations to maximize the social and economic benefits flowing to Australians from science and innovation.

For any further information please contact Ms Anna Schulze, CSL Public Policy Director, O3 9389 3428 / 0438 084 045 / anna.schulze@csl.com.au.

Yours sincerely,

David Lamont
Chief Financial Officer