NostraData

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Senate Standing Committees on Economics
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Dear Senate Economics Legislation Committee,

Re: Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 [Provisions]

Thank you for this Inquiry and the opportunity to make submissions in respect of proposed changes to the R&D Tax Incentive (RDTI) as contained in the Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 (the Bill).

NostraData is a company based in Kew, Victoria, that helps pharmacists and others in the health industry make better decisions for their patients and businesses. We have a turnover of almost $10m, 25 employees and 10 years of profitable trading experience. Our services are provided to more than 4,000 community pharmacies across Australia, 140 local and global pharmaceutical companies and patient medication adherence companies.

Investment in innovation is an important, albeit costly and often risky, part of our corporate strategy. The RDTI has supported our R&D effort for 4 years and has allowed us to pursue R&D projects that:

- Retain and grow R&D employment in Australia for our company
- Retain and grow our knowledge based capital and intellectual property in Australia
- Generate additional taxes for our company in Australia and additional income taxes across the entire supply chain related to the projects we undertake
- Contribute additional benefits in Australia such as engagement with companies across our supply chain which contributes to knowledge, market and network spillovers
- Enhance productivity via improved processes and additional capital investment

Some of these R&D activities may not have otherwise been pursued due to inherent technical risks. For instance, we have invested in technology that identifies patients with poor medication adherence, mapping tools to create clean and reliable medication data from disparate sources, information portals for pharmacies to access information about their pharmacy and analytical processes that support pharmaceutical company activities. We remain at the forefront of medication analysis and data cleansing in Australia and additionally, we have supported education and research through collaborations with Monash University, University of Melbourne and RMIT, with projects pending with the Murdoch Children's Research Institute, University of Sydney and The Alfred Hospital. Further, we have found the certainty provided by the program to be greater than that provided by grant or loan programs, which are usually highly competitive and time consuming to apply for. The investment in these technologies alone has been in excess of $2.6 million over the past four years alone.

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As a result of these important factors, we believe the net financial benefit accruing to Australia from our R&D activities far outweighs the short-term cost of the RDTI.

We are extremely concerned by the Government's proposed changes to the R&D Tax Incentive Programme, as announced in the Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 introduced to parliament on 5 December 2019. This Bill seeks to reduce the cost of the program to the detriment of companies actively trying to innovate in Australia. Indeed, **we estimate up to a 47% reduction in the R&D tax benefit** we receive that will in turn impact our ability to undertake R&D projects. **This reduction is a direct consequence of the proposed 'intensity measure' calculation.**

The current Bill is almost identical to the Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 introduced in September 2018, which was universally criticised and rejected by all areas of industry, and the tertiary and research sectors. That Bill was also recommended for deferral by the Senate Economics Legislation Committee until further examination and analysis of 'unintended consequences' was undertaken. We note that the Committee's key recommendations have not been considered in the current Bill.

Some key insights as to how the proposed changes will adversely impact our business:

- **Intensity measure. Inherent disadvantage due to our cost base:** The intensity measure fails to take into account recommendations by the Senate Committee to incorporate a methodology capable of offsetting the adverse impact to different industries that may be disadvantaged as compared to low cost input sectors. For businesses like ours, it is unlikely we could exceed the 4% R&D intensity premium by nature of our cost base and thus will only receive a 4.5% benefit (compared to the current 8.5%).

- **Intensity measure will reduce our ability to employ technical staff and maintain or grow our R&D spend:** The proposed intensity measure will have the opposite impact of that intended by the R&D incentive – at 4.5% benefit, we will have limited ability to invest in R&D and employ talented staff in Australia. We will need to reconsider the location and quantum of R&D employment and spend in Australia.

- **Uncertainty around R&D intensity:** There are many variables that impact our business and cannot be predicted in advance of the financial year. This makes it impossible to accurately predict our R&D intensity as we won't know our 'total expenses' until after the end of the income year. Thus, from a planning perspective it will be extremely difficult for us to be incentivised to spend more on R&D when it is not possible to predict the ultimate tax benefit that will be received until after our financial year end. This is particularly challenging for longer-term projects.

- **Australian companies unfairly disadvantaged:** As an Australian-based entity we take pride in paying the correct amount of tax calculated from our domestic and international income. However, under the proposed changes, foreign-based multinationals will be unfairly advantaged as compared to their Australian contemporaries in accessing the R&D Tax Incentive. This inequality results from the current mechanism to calculate the rate of R&D intensity, which will require us to include total group business expenses, which in turn serves to reduce our rate of intensity as compared to foreign-owned multinationals conducting R&D in Australia, who will only need to include their Australian-based expenditure within the calculation. The calculation method results in an inequitable outcome and will place us at an immediate and distinct disadvantage compared to our foreign-owned competitors, who will receive a greater benefit in relation to their Australian-

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based R&D activities. This is of importance in our industry where a number of our major competitors are foreign-owned, multinational entities (e.g. IRI, IQVIA)

- **Retrospectivity and impact on current R&D projects:** We have several projects underway that involve R&D activities and for which we have budgeted in the R&D Tax Incentive. If enacted, the Bill will take effect for income years commencing on or after 1 July 2019. This will have an immediate impact on our current projects, potentially resulting in us reducing the scope of our R&D and/or relocating it to another country. Furthermore, given that the central policy objective of the R&D Tax Incentive is to promote additional investment in R&D, it is difficult to reconcile how a retrospective application would serve the program's additionality target or spillover. Any proposed changes to the R&D Tax Incentive should be widely consulted on and have a commencement date at least a year or more into the future to allow companies to plan for it.

- **Integrity measures:** We also note that the Bill includes various integrity measures. While we support measures to improve integrity of the program, we note the recent report of the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise. We urge both regulators to use additional funding to improve their review processes and restore industry's faith in their administration of the program.

In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation. The Government should **increase** its support for R&D via the R&D Tax Incentive, not reduce.

We therefore strongly oppose the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 and recommend Government engage with industry on any future proposals to change the RDTI.

We would welcome the opportunity to discuss our company and the value the R&D Tax Incentive provides to us.

Kind regards,

[redacted]

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