

15 January 2014

Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary

Thank you for the opportunity to comment on the Tax Laws Amendment (Research and Development) Bill 2013.

Medicines Australia represents the research-based pharmaceutical industry in Australia, which brings new medicines, vaccines and health services to the Australian market. Last year, our industry generated around \$4 billion in exports and, for the fourth consecutive year, invested over \$1 billion in medical research in Australia.

Medicines Australia strongly supports the R&D Tax Incentive program. It replaced a system which was unpredictable, overly complicated and required companies to demonstrate year-on-year growth in their R&D expenditure in order to secure a (relatively insignificant) tax benefit.

The R&D Tax Incentive, which was implemented after nearly three years of extensive community consultations, was specifically designed to make access to tax benefits more efficient and predictable. In addition, under the new system, there is no requirement for companies to demonstrate year-on-year growth in their R&D expenditure in order to claim a tax benefit, nor is there any requirement for intellectual property from eligible R&D projects to be held in Australia.

Above all, the R&D Tax Incentive provides a globally competitive tax incentive for conducting R&D activities in Australia.

None of Medicines Australia's members would be affected by the current proposal to limit access to the R&D Tax Incentive to entities with aggregate assessable income of less than \$20 billion in an income year. Even so, changing the R&D Tax Incentive less than three years after it was implemented could harm Australia's reputation as a stable and predictable business environment and undermine our ability to attract R&D investment in the future. It would also create a precedent for more changes in the future that could further limit the eligibility criteria for the Tax Incentive and undermine the very purpose of the system, which is to increase Australia's ability to attract investment (including foreign investment) in research and development.

Medicines Australia understands the rationale for the proposed changes in the context of the Federal Budget. However, we recommend the Australian Government allow the program to operate in its current form for the foreseeable future. The R&D Tax Incentive is already helping companies in our sector better demonstrate to global headquarters the advantages of sending R&D investment to Australia. If, however, the program's operation does have unexpected (and undesirable) consequences in the longer-term, these can be remedied when the entire program is reviewed in 2016 (as per a legislative requirement for the Commonwealth to initiate a comprehensive review of the program within five years after its implementation).

If you have any questions about statements in this submission, please do not hesitate to contact me at 02 6122 8500.

Yours sincerely

Dr Brendan Shaw
Chief Executive