



Senate Standing Committees on Economics.

PO Box 6100

Parliament House

Canberra ACT 2600

4th March 2020

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**).

Fusetec 3D Pty Ltd (Fusetec) is an emerging company developing technology and products for the surgical training market. The business focus includes securing investment to accelerate simulated human tissue and bodily fluids product development for surgical training. Intellectual property is being developed mainly in the form of new 3D printing materials, software and processes to develop surgical simulation models which have exacting 'feel' as actual human tissue, i.e. surgical sensation characteristics and haptic feedback comparable to actual soft tissue.

Investment in R&D is an important, albeit costly and often risky, part of our corporate strategy. The RDTI has supported our R&D effort for 2 years and has allowed us to pursue R&D activities that:

- Retain and grow R&D investment and employment in Australia for our company
- Retain and grow our knowledge based capital and intellectual property in Australia
- Generate income taxes across the entire supply chain related to the projects we undertake
- Contribute additional benefits in Australia such as domestic and international engagement with companies and clinicians which contributes to knowledge, market and network spillovers
- Enhance productivity via improved processes and additional capital investment.
- Create employment positions for several PHD educated professionals
- Create a new global market. (Manufactured human body parts, replacing cadavers)

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

We are very concerned by the Government's proposed changes to the RDTI, particularly the proposal to reduce the refundable R&D tax offset to 13.5 percentage points above the relevant income tax rate and the \$4m cap on the cash refund. Our immediate concern is the reduction to the base rate as that will have a small, but not insignificant impact on our ability to undertake R&D. Even worse, if enacted as is, it will impact our current year – where we have already budgeted on the current rate.

The current Bill contains almost identical R&D measures as those contained in the *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* introduced in September 2018. The 2018 Bill was universally criticized and rejected by all areas of industry, and the tertiary and research sectors; both through submissions to Treasury and later to an inquiry by the Senate Economics Legislation Committee. The Committee recommended the 2018 Bill be deferred until further examination and analysis of 'unintended consequences' was undertaken. However, the Committee's key recommendations have not been considered in the current Bill.

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How this impacts our business:

- **Immediate impact on our R&D:** The retrospective drop in the R&D benefit will have an immediate and detrimental impact on our R&D budget; we will consider scaling back our operations, reducing our R&D headcount and/or reducing our costs in other areas. These changes will hurt our bottom line, immediately and at a time when we can least afford it. 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.
 - **Longer term impact on our R&D:** At a rate of 13.5%, the RDTI helps offset the cost of undertaking R&D in Australia. However, we note that other countries offer higher rates¹ which, over the longer term, we will need to consider.
 - **Uncertainty deters investment:** Constant reviews of the RDTI and multiple proposals to reduce the benefit have eroded our confidence in the program. This uncertainty makes it impossible to plan ahead based on the RDTI and therefore fails in its primary objective to incentivize R&D. As a startup company, we seek certainty to encourage ongoing venture capital investment.
 - **Administration:** The Bill includes various measures to improve administration, but none address concerns raised by the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise and took too long to review claims. Reviews should be undertaken without prejudice, transparently and in a timely fashion.
 - **Commercial Activities:** Scaling back R&D due to lack of financial support, could ultimately result in Fusetec not reaching our full potential as a company. A company which is almost exclusively Export focused.

The importance of the RDTI was underscored earlier this week when our expression of interest in the Biomed Tech Horizons grant program was not successful. This competitive grant program received an 'overwhelming response' indicating a highly competitive process for which funding was very limited. Nevertheless, a substantial commitment of resources was required to express interest.

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 – the current proposal to reduce the benefit will have a direct and detrimental impact on existing R&D activities and future spend by us on R&D in Australia.

We therefore 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

Mark Roe
CEO
Fusetec

¹ The UK currently offers a 24.7% net benefit for smaller companies (less if cashed out) and New Zealand offers 15%.