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Budget 2020
Special Edition

Treasurer Joshua Frydenberg Dumps RDTI $4m cap

Comment & Analysis:

Swanson Reed, Ausbiotech, Australian Academy Of Science, Medicines Australia

In his Budget speech the Federal Treasurer Joshua Frydenberg has dumped the $4 million Research & Development Tax Incentive cap and supported a raft of measures.

The cap to the RDTI, first promoted by Innovation Australia chair Bill Ferris, chief scientist Dr Alan Finkel and then Treasury Secretary John Fraser, at $2 million per company and later raised to $4 million "will not proceed" Mr Frydenberg said.

The alternative arrangements are complex, retaining the proposed "intensity" model of percentage of expenditure on research and development.

"For small companies, those with aggregated annual turnover of less than $20 million, the refundable R&D tax offset is being set at 18.5 percentage points above the claimant's company tax rate," the Budget Papers said.

"For larger companies, those with aggregated annual turnover of $20 million or more, the Government will reduce the number of intensity tiers from three to two," the papers said.

The Government said it would defer the start date so that all changes to the program apply to income years starting on or after July 1, 2021.

The Budget Papers said that all other aspects of the 2019-'20 mid-year economic and fiscal outlook (MYEFO) would remain unchanged, including the increase to the R&D expenditure threshold from $100 million to $150 million a year.

CSIRO

The Government said it would provide an additional $459.2 million over four years from 2020-'21 to the Commonwealth Scientific and Industrial Research Organisation to address the impacts of Covid-19 on its commercial activities and ensure it is able to continue essential scientific research, including $5.0 million in 2020-'21 to support the upgrade of CSIRO's agriculture and grazing research facilities.

MODERN MANUFACTURING STRATEGY

As previously announced, the Government will provide $1.5 billion over five years from 2020-'21 to support the Modern Manufacturing Strategy supporting "six areas of comparative advantage and strategic interest" including medical products, with $1.3 billion to support manufacturing projects focused on building long-term business collaboration at scale, translating research into commercial outcomes and bringing new products to market.

Mr Frydenberg said the Government would support businesses with aggregated annual turnover of less than $5 billion by enabling them to deduct the full cost of eligible capital assets acquired from tonight and first used or installed by June 30, 2022.

"Full expensing in the year of first use will apply to new depreciable assets and the cost of improvements to existing eligible assets," the Budget papers said.

For small and medium sized businesses with turnover of less than $50 million, full expensing also applies to second-hand assets.

Small businesses with turnover of less than $10 million can deduct the balance of their simplified depreciation pool at the end of the income year while full expensing applies.

The provisions which prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended.

More details and comment will be published in tomorrow's edition.

R&DTI: SWANSON REED TAX ADVISORS

Specialist R&D tax advisors Swanson Reed tax principal Damian Smyth says changes to the Federal Research & Development Tax Incentive apply from July 1, 2021 for the year to June 30, 2022.

Mr Smyth said that for companies with a turnover of less than $20 million the research and development tax offset rate, currently 43.5 percent, would be 18.5 percent above a company's tax rate, with the company tax rate for 2021-'22 scheduled to be 25 percent, meaning the rate would be 43.5 percent.

He said that for companies with a turnover of more than $20 million a year the rate would be based on two tiers of "intensity" or the percentage spent on research and development.

Mr Smyth said that companies spending 2.0 percent or less on research and development would be able to claim 8.5 percent above their company tax rate, the same benefit currently available to most large companies.

He said that companies spending more than 2.0 percent on research and development would be able to claim 16.5 percent above their company tax rate "a significant increase in R&D Tax benefit for relevant companies".

Mr Smyth said the annual cap on eligible research and development expenditure would increase from $100 million to $150 million.

"The headline proposals are encouraging, and a welcome change to what was previously before the Senate," Mr Smyth said.

"The government has also flagged changes to the administration, integrity and transparency of the R&D Tax Incentive, and the relevant detail underlying these elements will need to be examined in due course."

Mr Smyth said the Government was widely criticized for the proposed R&D Tax budget reforms and "should be commended for seeing reason and shifting position".

"Parties that have lobbied the Government on the flaws of the previously proposed reforms should also be commended," Mr Smyth said.

"Once these proposals are introduced, we call on both sides of politics to commit to a stable R&D Tax Incentive and cease the persistent policy shifts and proposed changes."

Biotech Daily notes that the 45 percent R&D Tax Incentive was introduced by the previous Labor Government and all the changes have been made or proposed by the Abbott-Turnbull-Morrison Governments.

AUSBIOTECH

Ausbiotech says it “congratulates the Government as tonight’s Federal Treasurer delivered significant news on the Research and Development Tax Incentive”.

Ausbiotech said the announcement showed “the Government understands how Australia’s post-Covid-19 recovery will be supported by business expenditure for research and development and has provided a welcome change of position on the RDTI that will support and incentivize growth in [research and development] and manufacturing as we recover from the pandemic”.

Ausbiotech chief executive officer Lorraine Chiroiu said the change was “excellent news for our industry, and will preserve the highly-skilled [science, technology, engineering and mathematics] based jobs in Australia”.

“Tonight’s RDTI announcement, together with the support for medical manufacturing, is a recognition of the economic and social value research and development in life sciences delivers to Australia, particularly in response to the current pandemic,” Ms Chiroiu said.

“While the calculations for companies will be dependent on the applicable corporate tax rate, the announcement tonight signifies is an importance and positive shift in the appreciation of the benefits brought by [research and development],” Ms Chiroiu said.

Ausbiotech said that the refundable component of the RDTI had been increased five percentage points from the earlier 2019 Bill before the Senate, the $4 million cap would not proceed and the complex intensity measure was reduced from three tiers to two, with support increased, while the increase in the expenditure maximum from $100 million to $150 million remained unchanged.

The industry organization said that compared to the reforms before the Senate, the Government was “investing a further $2 billion in the RDTI over the forward estimates, that’s $240 million over the forward estimates compared to current policy settings”.

“As the most critical policy for the industry, the announcements tonight will support our leading sector by giving companies and investors the certainty they need to commercialize and deliver new, innovative treatments to Australian patients,” Ms Chiroiu said.

THE AUSTRALIAN ACADEMY OF SCIENCE

The Australian Academy of Science said the Budget was “a significant response to the crisis facing Australia’s scientists as a result of the pandemic”.

The academy said that the additional $1 billion of funding in 2021 to support research at Australia’s universities hit badly by the pandemic was “welcomed”.

“An increase in 505 jobs in a cross section of government science agencies will also assist in research recovery,” the Academy said.

The Academy said it “applauds the strategic decision to back proven [science, technology, engineering and mathematics] school education programs by injecting $27.3 million over five years as an investment in the future workforce”, including $9.6 million over five years to support programs delivered by the Australian Academy of Science.

The Academy said it also welcomed $10 million to extend the Women in STEM (science, technology, engineering and mathematics) and Entrepreneurship Program (WISE) and the extension of the term of the Women in STEM ambassador, both of which assisted in the continuation of the implementation of the Academy’s Women in STEM Decadal Plan.

The Academy said that it welcomed the “recognition of the impact of the pandemic on Australia’s national science agencies, in particular the Commonwealth Scientific and Industrial Research Organisation, the Bureau of Meteorology and the Australian Nuclear Science and Technology Organisation, with $965.6 million in additional funding over four years.

MEDICINES AUSTRALIA

Medicines Australia chief executive officer Elizabeth de Somer said the “linkages between our health and productivity have never been clearer with the Government’s announcement of the new medicines funding guarantee, worth at least $2.8 billion over four years, starting immediately and at the same time, removing the requirement for cost offsets for new medicine listings on the [Pharmaceutical Benefits Scheme)”.

“This is going to allow for medicines to be listed faster, without the need to find additional savings from other critical health areas," Ms de Somer said.

Medicines Australia said that a framework for a new strategic agreement had been developed, intended to deliver greater long-term certainty for both industry and Government following the expiry of the existing agreement in June 2022.

“Alongside the substantial investment committed to health in the Budget, predictable savings to the Government, commencing in 2023, are required to continue the effective management of the challenging Budget backdrop,” Ms de Somer said.

Ms de Somer said that the Federal Government was “fast-tracking electronic prescribing [spending $5 million] and home delivery of medicines”.

“Medicines Australia also welcomes the investment of $12 million to modernize the Therapeutic Goods Administration business systems to streamline processes for the medicines industry and reduce red tape for new medicines,” Ms de Somer said.