Biotech Daily

Submission to the Review of the National Innovation System:

Taxation, investment and the biotechnology life sciences sector

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The key issue facing the biotechnology and medical technology (life sciences) sector is long-term funding for long-term research and development.

Unlike the mining sector, to which biotechnology is often compared because of the risk, the lead times are best described as "glacial". CSL chief executive officer Dr Brian McNamee commented that taking Gardasil from an idea to a $1billion revenue drug "only took 17 short years".

While the Commercial Ready and other grants serve a purpose, they are not the prime methods of funding the commercialization of Australia's disproportionately high quantity of innovative bio and medical technologies.

Both the ASX-listed and private companies need significant levels of funding to take a university or institute-developed compound or device through intellectual property protection to clinical trials and the goal of Australian Therapeutic Goods Administration, European Medicines Agency and US Food and Drug Administration registration.

There needs to be a mechanism whereby investors are given an incentive to fund these innovative companies and fortunately there are three excellent examples resolving the need to reinvent the investment wheel.

1. Superannuation

The Government-approved industrial superannuation funds must be allowed to copy the Californian model and invest up to 1.0% of their funds in specified* biotechnology companies.

2. 150% Tax Deductible Investments

Institutional and retail investors should be given an incentive to make long term investments in specified* biotechnology companies.

One model for this is a more rigorously formalized version of the Whitlam era 150 percent tax deductibility for investment in the film industry. The money came in and a film industry was created. The problem was that along with good (non-profitable) documentaries, some very poor films were made and most of the profits from the blockbuster films were apparently made by distributors and a select few in the industry. A mechanism needs to be created to return distribution and end-of-pipeline profits.

Relating this to biotechnology, a 150% tax deductibility could be allowed for specified* ASX-listed and unlisted companies with a levy on all pharmaceutical sales and distribution profits hypothecated to a long term biotechnology fund.

3. Capital Gains Tax Discount

At present individuals and superannuation funds are entitled to a 50% capital gains tax discount if they hold shares in a company for more than 12 months.

This should be extended to companies investing in specified* biotechnology companies and rise to a 75% discount for holding the shares for more than two years and 100% for holding the shares for more than three years.

*** Specified companies**

The types of companies that require assistance are only those with early stage innovative research and development.

The assistance must be means tested. Companies making significant profits should not be the recipients of Government largesse.

To qualify as a specified company:

i) the entity must be involved in an Australian developed technology, not one bought in from another country. A mechanism needs to be included that prevents Company A buying a technology from another country (possibly exempting New Zealand) and then in turn being bought by Company B which then claims the technology was notionally Australian. The source technology must be Australian.

ii) the entity must be conducting research and development in Australia and not farming out the work to an offshore contract research organization. The work can be sub-contracted to an Australian (or New Zealand) contract research organization.

iii) the entity must be an Australian-based company, not merely ASX-listed operating from an office off-shore.

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