Biotech Daily

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Daily news on ASX-listed biotechnology companies

2016 Budget Special Edition

*** NO OBVIOUS CHANGES TO BIOTECH, INNOVATION**

*** 45% R&D TAX INCENTIVE – APPARENTLY UNCHANGED**

*** NHMRC, ARC GRANTS – UNDISCLOSED**

*** SMALL TO MEDIUM BUSINESS TAX CUTS**

*** POTENTIAL CUTS TO ENTREPRENEURS, CRC PROGRAMS**

*** EARLY INVESTOR TAX BREAK, VENTURE CAPITAL PASS SENATE**

*** AVCAL DETAILS EARLY STAGE INVESTOR, VENTURE CAPITAL CHANGES**

*** RESEARCH AUSTRALIA: BUDGET CUTS TO ARC, CRCS, MRFF**

*** COMMENT: BIOTECH DAILY, ALP OPPOSITION, MELBOURNE UNIVERSITY**

Federal Treasurer Scott Morrison says the 2016-'17 budget is "a 10-year enterprise tax plan to support jobs and growth" but with apparently no measures for innovation.

Mr Morrison said that small and medium businesses were "driving jobs growth in Australia and must continue to do so" and introduced a long term tax reduction program with the small business tax rate lowered to 27.5 percent and the turnover threshold for small businesses able to access it to be increased from $2 million to $10 million from July 1, 2016, along with an extension to the instant write-off for equipment purchases of up to $20,000 to businesses with a turnover of less than $10 million, expiring on June 30, 2017.

"Each year we will continue to step-up the turnover threshold for access to the lower company tax rate of 27.5 percent for more businesses, from $10 million to $25 million in 2017-'18, to $50 million in 2018-'19 and $100 million in 2019-'20," Mr Morrison said.

"Phase two of our 10-year enterprise tax plan will extend the lower tax rate of 27.5 percent to all businesses, by continuing to step up the threshold each year until 2023-'24, before reducing the 27.5 percent rate for all businesses to 25 percent at the end of 10 years in 2026-'27," Mr Morrison said.

There was no mention of biotechnology nor the Federal Government's R&D Tax Incentive in Mr Morrison's Budget speech, or in the Budget papers published on the raft of Government websites.

Biotech Daily called Treasury and the Departments of Finance, Innovation and Health but none were able to confirm the status of the 45 percent Tax Incentive.

In the absence of any information, it appears to have been left alone, this year.

In one of the Budget papers referring to the Department of Industry, Innovation and Science, the Government said it would "achieve savings of $20.2 million over two years from 2015-'16 … to extend funding for the Australian Astronomical Observatory and partially fund a communications and compliance campaign for the new Country of Origin Labelling framework [and] the efficiencies will come from the communications campaign for the National Innovation and Science Agenda package, the Entrepreneurs' Program and the Cooperative Research Centres program".

"Harnessing the power of innovation and entrepreneurship, to create our own ideas boom, lies at the heart of our plan to support jobs and growth in a stronger new economy," Mr Morrison said.

"As part of our national innovation and science agenda we are backing co-investment in new spin-offs and starts-ups created by Australia's research institutions, through the CSIRO," Mr Morrison said. "We are also expanding the CSIRO's accelerator program to support public research bodies get up to speed and achieve commercial success."

"Reforms to employee share schemes and crowd-sourced equity funding will make it easier for start-ups to raise capital and our changes to company tax loss arrangements will make it easier for existing businesses to reinvent themselves," Mr Morrison said.

According to Finance Department documents, the proposed $20 billion Medical Research Future Fund had "estimated actual" funds of $3,154,337,000 in 2015-'16, estimated to rise to $4,662,955,000 in 2016-'17 and $18,971,938,000 by 2019-'20.

The Minister for Health Sussan Ley said in a media release that the MRFF was "a critical commitment to medical research and innovation".

"The MRFF's newly-appointed board will this year develop national medical research priorities to guide where future funds will be allocated," Ms Ley said.

The Minister for Industry, Innovation and Science Christopher Pyne said the Budget would "commit vital funding to support science in action which will in turn support Australia's successfully transitioning economy".

After commitments to the National Carp Control Plan and funding for the Australian Nuclear Science and Technology Organisation to ensure nuclear waste disposal, Mr Pyne said the Government was making "strong progress towards implementing the $1.1 billion National Innovation and Science Agenda … [to] support a culture of ideas and innovation to encourage commercialisation, reward enterprise and facilitate investment.

FEDERAL GOVERNMENT

The Federal Government says the Tax Incentive For Early Stage Investors and New Arrangements For Venture Capital Limited Partnerships have passed the Senate.

A media release from the Minister for Industry, Innovation and Science Christopher Pyne said that the two initiatives were designed to make investment in Australian start-ups more attractive and would be in place for the 2016-’17 financial year.

Mr Pyne said the measures were part of the Government’s National Innovation and Science Agenda, and were “designed to broaden and diversify the economy through economic policies that build growth and productivity”.

“The Tax Incentive For Early Stage Investors and New Arrangements For Venture Capital Limited Partnerships will promote investment in innovative high-growth potential start-up companies and improve businesses’ access to venture capital,” Mr Pyne said.

Mr Pyne said that more than 4,500 start-ups were missing out on equity finance each year and the measures would help them obtain access to funding.

The media release said that the Tax Incentive for Early Stage Investors gave tax concessions to eligible early stage investors who invested in qualifying companies, including a capped 20 percent non-refundable tax offset and 10 year capital gains tax exemption for investments, while the New Arrangements for Venture Capital Limited Partnerships provided changes that would “improve access to capital and make investing in venture capital more user-friendly and internationally competitive”.

AUSTRALIAN PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION

The Australian Private Equity and Venture Capital Association (Avcal) said that apart from the small business tax cuts, the Budget included previously announced tax incentives for early stage investors and expanded arrangements for venture capital limited partnerships and early stage venture capital limited partnerships.

Avcal said that the Government had: amended tax incentives for angel investors to reduce the holding period from three years to 12 months to access the 10 year capital gains tax exemption; included in the definition of eligible start-ups a time limit on incorporation and the criteria for determining an innovation company; required that the investor and company are not affiliated; and limit non-sophisticated investors to $50,000 per income year to receive a tax offset.

Avcal said that the Government introduced arrangements for venture capital limited partnerships (VCLPs) and early stage venture capital limited partnerships (ESVCLPs) that would: add a transitional arrangement that allowed conditionally registered funds that become unconditionally registered after December 7, 2015 to access the tax offset if the criteria were met; relax the requirement for very small entities to provide an auditors' statement of assets; extend the increase in fund size from $100 million to $200 million for new ESVCLPs to also apply to existing ESVCLPs; and ensure that the venture capital tax concessions were available for financial technology, banking and insurance related activities.

RESEARCH AUSTRALIA

Research Australia says the Budget includes cuts to the Australian Research Council and the Co-operative Research Centres, and delays the Medical Research Future Fund.

Research Australia said that the Budget made no provision for a payment from the Medical Research Future Fund, despite a $10 million provision in last year's Budget and the MRFF was not expected to reach full funding until 2020-21, "a year later than first projected in the Budget in 2014".

The industry organization said that National Health and Medical Research Council (NHMRC) funding was $797 million for 2016-'17 with "estimates for the following three years … remaining virtually stable with increases of roughly 1.5 percent each year".

Research Australia said that funding for the Australian Research Council Discovery and Linkage programs "declines compared to the 2015-'16 expenditure with a $7.4 million reduction for 2016-'17, increasing to a $19.9 million reduction by 2018-'19".

"The Linkage Program was singled out in the Government's National Innovation and Science Agenda as an important component of Australia's innovation system, and it was announced that from July 1, 2016 the Program would be open to continuous applications and decision making would be fast tracked," Research Australia said.

"There is, however, no additional funding for the Linkage program, Research Australia said. "Funding for the next financial year will be $26 million less than the current year and will only increase again slightly in each subsequent year [and] the estimates for the financial years 2017-'18 and 2018-'19 are slightly lower than in last year's Budget."

The industry organization said that the Co-operative Research Centre program was "important to health and medical research, with 10 existing health-related CRCs receiving funding under this program".

"In last year's Budget, the Government announced that $26.8 million would be taken from the CRC program over four years from 2015-'16, with the Government providing $732.4 million over the forward estimates [to June 30, 2019] pending the outcome of the CRC Review," Research Australia said.

"The Review concluded that the program should continue with some changes, and the Government accepted this recommendation [but] this year's Budget provides for only $652 million over the forward estimates [to June 30, 2020]," Research Australia said.

Research Australia said that the $248 million commitment to the six industry growth centres, one of which is medical technologies and pharmaceuticals, was maintained in the Budget.

The organization said that the Biomedical Translation Fund was announced as part of the Innovation Statement, would be funded with $250 million from contributions earmarked for the MRFF, and would use existing commercial investment managers for co-investment between July 2015 and July 2017, and while it was not specified there were references to the Fund to be established in 2016, in the Budget Papers.

Biotech Daily Budget Comment

The Federal Budget is the implementation of the Government's philosophy and policies and despite all the talk about innovation, the funding appears to be elsewhere.

The first thing to say is that there is no proven link between corporate and business tax cuts and the Federal Treasurer's mantra of "jobs and growth".

Few small companies move countries, as the Federal Government claims, on the basis of a one or two percent taxation differential. Major corporations might use a foreign domicile to minimize tax, but companies generally stay where they are created.

In any case, most of the 130 or so listed biotechnology companies are burning money, or are under the previous threshold, or do sufficient research and development to earn a Rudd-Gillard Government 45 percent Tax Incentive.

What was startlingly absent was the lack of incentive of any sort for innovation in general and biotechnology in particular.

After all the promises last year that there was never a better time to be an innovator, Biotech Daily gave Christopher Pyne a clean slate and watched as the media releases rolled in from the Turnbull-Pyne Department of Innovation: a couple on landing pads and start-ups in California and many on the steel industry and decisions to build the wrong submarines in Mr Pyne's state of South Australia.

Worse, the Prime Minister Tony Abbott-appointed chief executive officer of the Commonwealth Scientific and Industrial Research Organisation Dr Larry Marshall took an innovative slash-and-burn approach to his institute and the Abbott-appointed chief executive officer of the National Health and Medical Research Council, Prof Anne Kelso made her indelible debut wasting $3.3 million on two long-term laboratory-based sleep studies to prove the harm (or possibly not) of near-silent turbines on hill tops.

The mechanism for investment in long term research and development and pivotal trials is absent. Funding from the Abbott-Hockey $20 billion Medical Research Future Fund is absent, although the Biomedical Translation Fund is being created from funds diverted from the MRFF. With a couple of exceptions, those running the overseeing body have little if any commercialization experience.

The proposed cuts to the Entrepreneurs Program and the Co-operative Research Centres are a snip in the wrong direction. The previous Abbott, Gillard and Rudd Governments had already cut the Commercial Ready Program, the Innovation Investment Funds and the lacklustre Commercialisation Australia.

Despite the overall 5.1 percent cut to general research over the two years to June 30, 2017, I suppose we should be grateful that the Government for Innovation hasn't touched the R&D Tax Incentive nor cut the NHMRC and ARC budgets by very much.

David Langsam
Editor

Federal Opposition

The Australian Labor Party Opposition says the Budget is “an attack on Australia’s innovation system, an attack that undermines growth, jobs and Australia’s future”.

In a media release, Labor’s Shadow Minister for Higher Education, Research, Innovation and Industry Senator Kim Carr said the Liberal Party was “hiding behind a smoke screen, claiming that this Budget is about innovation when it will only mean more cuts for students, more cuts for researchers and more cuts for industry”.

“The first two Liberal Budgets saw more than $3 billion ripped from innovation, science and research – all with Malcolm Turnbull’s full support – and this Budget does nothing to reverse those cuts,” Senator Carr said.

In an email, Senator Carr told Biotech Daily that it was “an anti-innovation Budget, from an anti-innovation government”.

“Malcolm Turnbull uses words like agile, creative and innovative, as though just to mention them is to be doing something,” Senator Carr said.

“The measures Mr Turnbull announced in the so-called National Innovation and Science Agenda are at best pale imitations of the programs that Labor developed in Government, under our 10-year national innovation strategy, Powering Ideas,” Senator Carr said.
“Now, what we have instead of that coherent, long-term strategy is a mish-mash of half-baked ideas and desperate election gambits,” Senator Carr said.

University of Melbourne

Melbourne University Faculty of Business and Economics’ Prof Danny Samson, said that Australia had “a risk averse, structure-centric approach to innovation, in which government thinks it can set some economic conditions, stand back and wait for it to happen”.

“We tweak tax rates, and other incentives, based on dry economic thinking only,” Prof Samson said.

“We have not invested in human capital to nearly the extent that has occurred in the countries that outperform us in innovation rates, such as Singapore, Israel, the US, Taiwan and South Korea,” Prof Samson said.

Prof Samson said the bold initiative promised by Prime Minister Malcolm Turnbull in the December 2015 innovation strategy was not in the Budget.

“It’s simple - people do innovation,” Prof Samson said.

“The Prime Minister’s innovation strategy needs to build our widespread human capital,” Prof Samson said.

Prof Samson said the Government needed to fund Technical and Further Education institutes and universities "to deliver the core innovation skills as part of the curriculum, as well as training for early career professionals within the workplace".

"They have the energy to drive innovation. They need only the knowledge and capability of how to do it," Prof Samson said.

"This is how we will build a real innovation boom," he said.

"We need to build human capital on a widespread basis, not just tweak the financials," Prof Samson said.