



# Biotech Daily

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*Daily news on ASX-listed biotechnology companies*

## BUDGET 2009 SURPRISES SECTOR: FAR MORE THAN EXPECTED

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### [FEDERAL BUDGET 2009 SPECIAL EDITION](#)

With expectations set fairly low, the Federal Labor Government's second Budget appears to have delivered far more than the sector's call for \$600 million.

Budget promises in Treasurer Wayne Swan's address last night include:

\$1.4 billion a year through the 45 percent research and development tax credits;

funding for "world class hospital research and innovation";

\$703.1 million for universities for research across all disciplines;

\$196.1 million for four years and \$82 million a year indefinitely for the Commonwealth Commercialization institute;

\$504 million for biotechnology infrastructure in the Super Science Initiative; and

\$27.2 million for 100 research grants.

### [How The 45 Percent Tax Credit Works](#)

Innovation Minister Senator Kim Carr's office says the 45 percent refundable tax credit is equivalent to a 150 percent tax concession with more than 5,500 smaller firms expected to benefit.

The tax credit is available at a 40 percent rate for companies with a turnover above \$20 million and foreign-owned companies.

"They will receive a cash refund of 45 percent of their research and development spending when they file their tax return. It doubles the tax incentive for smaller firms, restoring support to the level that prevailed before 1996

"Small companies can access the credit whether they are in tax profit or tax loss."

The measure assists innovative firms in biotechnology, information technology, environmental and medical-technical companies.

"The Government is responding to the immediate affect of the global recession on innovative firms by raising the amount of research and development spending small firms can claim under the current research and development Tax Offset from \$1 million to \$2 million for 2009-'10," the Minister's office said.

Senator Carr's office said the Commercialising Emerging Technologies (Comet) fund was "not trimmed or changed in any way".

## [BIOGUIDE BRIEF NOTE: BUDGET 2009](#)

Having learned a fortnight ago, that for the first time a group of biotechnology industry bodies would have personnel in this year's Budget lock-down, I felt some optimism and, after last night, this proved well-founded.

Three components of the Budget could have a major impact on our industry.

The first and biggest is the introduction of a system of R&D tax credits of 40% or 45% which should greatly simplify the tax framework. Importantly, according to Kim Carr, "companies can access the credit whether they are in profit or not".

For a lot of small companies, this means they will see a benefit before they reach that almost mythical state called profit. In my opinion, this new tax system should be very, very good for our industry and the companies within it.

The second is the establishment of the Commonwealth Commercialisation Institute, which will aim to help commercialize "the best ideas developed by our universities and publically funded research organizations". The institute will have \$196.1 million of funding over the first four years as well as \$82 million a year after that.

This new institute is an attempt to consolidate and give critical mass to the work of individual commercialization arms of Australia's universities and other institutions. With many of the details of the institute still to be decided, it is difficult to determine what the benefits and risks will be. Done well, this new institute could be very good for the biotechnology industry. Done, poorly it could cost a lot more than the money put into it.

The final section of the Budget is the Future Industries section of the Super Science initiative, which will see \$504 million invested research infrastructure for biotechnology, nanotechnology and information and communications technology. Of particular interest to drug development companies will be the Government's \$35 million commitment to enhance the countries treatment development capabilities.

I have criticized the Government for being too infrastructure focused in the past on the basis that big toys are only useful if you have the minds and skills to develop products from them. Given the Government has addressed the latter two areas in this Budget, this level of infrastructure investment seems appropriate.

Health and education are two other areas that will benefit from this Budget, both of which should have positive flow-on effects for the biotechnology industry.

Overall, the Budget indicates that the Rudd government has not given up on innovation like many had feared after the last Budget and the mix of initiatives are significant and appear well thought-out.

I would still have liked to see some initiatives aimed at later stage commercialization in biotechnology, the end of the process we don't yet have a lot of experience in. But, the current Budget will still do nicely, thank you.

**Marc Sinatra, analyst**

### [Innovation Minister Senator Kim Carr](#)

Through a media officer Senator Carr told Biotech Daily: "The budget package delivers strong benefits for the biotechnology sector. It is one of our industries of the future."

"Our new R&D Tax Credit, valued at over \$1.4 billion per annum, will provide much needed support for biotechnology research and development activity," Senator Carr said. He said the 45 percent refundable tax credit was available for Australian-owned firms turning over up to \$20.0 million a year from 2010-'11.

"It will help many biotechnology companies and is the equivalent to a 150 per cent tax concession," Senator Carr said.

"It doubles the base tax incentive for smaller firms, restoring support to the level that prevailed before 1996 - with the added advantage that companies can access the credit whether they are in tax profit or tax loss," he said.

"Because such a significant change cannot be introduced immediately, as an interim measure, the Commonwealth will raise the amount of research and development spending small firms can claim under the R&D Tax Offset from \$1 million to \$2 million in 2009-'10.

"Our new National Enabling Technologies Strategy supported with \$38.2m over four years, will assist Australian industry in the responsible take-up of enabling technologies, including both biotechnology and nanotechnology," Senator Carr said.

"And our new Commonwealth Commercialisation Institute, attracting \$196.1 million over four years, will provide assistance with the commercialization of R&D, taking ideas to market and to help innovative young enterprises access private capital," he said.

"The Review of the National Innovation System argued for a more coordinated approach, with support to match 'the various identifiable stages of an innovative firm's life'," he said.

"The Institute will bridge a critical gap by supporting innovative firms to access the expertise and capital they need to cross the chasm between research and commercialization."

"The Institute will help to shake loose additional private sector capital to leverage Commonwealth support," Senator Carr said.

He said the Super Science Future Industries package, part of this Government's \$1.1 billion Super Science Initiative, provided \$504 million to fund infrastructure and facilities for biotechnology to advance disease prevention and food security including: facilities for the study of genes, proteins and cell products; national networks to support drug discovery, novel cell therapies, the development of nano-medicines and integrated population health solutions; a European Molecular Biology Laboratory Partner Laboratory at \$18 million to provide access to cutting-edge expertise underpinning developments in biotechnology; and an integrated online biodiversity knowledge base.

"Biotechnology companies will also be able to continue to access the Business Investment tax break.

"The \$703.1 million to increase the research capacity of the nation's universities will have significant impact across research in all areas," Senator Carr said.

### [Powering Ideas](#)

Separately, Senator Carr said the Government outlined its innovation agenda for the next decade in a White Paper entitled 'Powering Ideas: An Innovation Agenda for the 21st Century' which can be downloaded from <http://www.innovation.gov.au/innovationreview>.

### [Ausbiotech](#)

Ausbiotech chief executive officer Dr Anna Lavelle told Biotech Daily the Budget was “fantastic for the middle term but not in the immediate term”.

“In this grim environment with a tough budget it looks like innovation, science and research has been a big winner,” Dr Lavelle said.

She said Ausbiotech was hoping for immediate assistance for small companies which was not provided by the Budget but the 45 percent Tax Credit measure was very valuable.

“It’s the biggest change in the tax system since the introduction of the tax concession system itself,” Dr Lavelle.

She said that assuming a 30 percent tax rate for every \$100 spent on research and development companies would receive \$15 cash back.

She said that it would help companies if the payments were made quarterly like the Business Activity Statement for the Goods and Services Tax, rather than having to wait until the end of the year for the rebate.

Dr Lavelle said the Government had allocated \$8.5 billion to all of science, education and innovation and 25 percent increase over last year.

### [The Bio-Melbourne Network](#)

The Bio-Melbourne Network chief executive officer Michelle Gallaher told Biotech Daily that the budget contained direct funding for the sector, an array of measures that would have long term knock-on benefits along with an incalculable contribution through funding health and medical research along with higher education expenditure.

“I think the budget last night is a clear recognition of the value now and in the future of the biotechnology and research sector,” Ms Gallaher said. “I’m very happy with it.”

Ms Gallaher said there were “significant knock-on effects to biotechnology over the coming three to six years” including indirect finding through major investment in the sector’s research partners.

She said the Budget invested in intellectual capital including at PhD and early post-doctorate level and Technical And Further Education (TAFE).

Ms Gallaher said TAFE funding had a direct effect through relevant, timely and responsive courses training laboratory technicians animal laboratory technicians and research assistants along with courses in biotechnology processing and manufacturing.

Ms Gallaher said there would be knock-on effects through a 10 percent increase in funding to the Australian Postgraduate Awards along with the 100 Super Science Fellowships for early post doctorate researchers of \$72,000 for three years, of which many would be granted to related fields of medical agricultural and industrial.

“The Valley of Death is still there, but Comet has survived as has the Export Marketing Development Grant which is especially useful to device companies,” Ms Gallaher said.

She said the marketing grant rebated all development costs including attending conferences and international meetings.

Along with the \$83 million Innovation Investment Follow-on Fund announced in March (BD: Mar 18, 2009) there was \$35 million for preclinical testing facilities.

Ms Gallaher said the most exciting part of the Budget for Biotech was the Commonwealth Commercialization Institute which would help commercialize ideas developed from universities and public research institutes as well as support innovation from potentially rapid growth to take ideas to market.