

Policy position for further tax reform: Australian Innovation & Manufacturing (AIM) Incentive

AusBiotech is leading the industry's call for further tax reform in Australia to provide incentives for innovative companies and high-tech manufacturing to support Australia's future and keep us internationally competitive by attracting and retaining business, and the resulting jobs and exports. AusBiotech advocates making tax incentives an asset for innovation and business, with four pillars:

- Retain the Research & Development (R&D) Tax Incentive, which is a top priority for the life sciences industry;
- **Introduce the AIM Incentive, a 'patent box'-style incentive to keep home-grown intellectual property (IP) once it reaches commercialisation, as well as associated manufacturing, in Australia;**
- Introduce fiscal incentives for investors in pre-revenue and start-up companies; and
- Restore the Employee Share Scheme to its pre-2009 form.

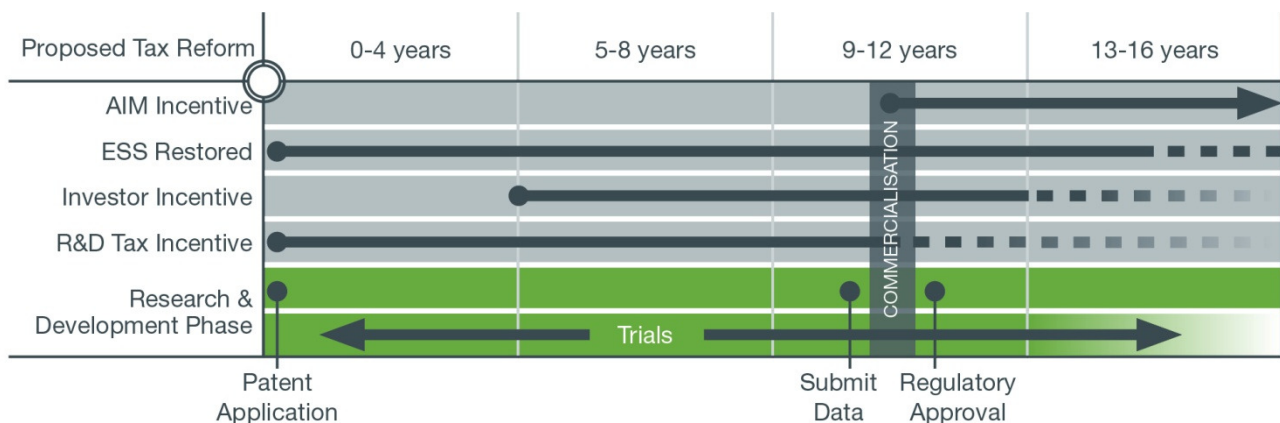
What is the AIM Incentive?

The AIM Incentive is a 'patent box'-style tax regime that rewards innovative Australian businesses (or Australian entities for tax purposes) that make profits from qualifying IP. Its purpose is to encourage the commercialisation phase of innovation by providing an incentive to locate high-value jobs associated with the development, manufacture and exploitation patents in the country with the incentive. The AIM incentive can also be used to attract overseas IP and associated benefits (such as jobs, skills, manufacturing) to Australia. While R&D incentives are designed to encourage activities that will result in innovation, the AIM Incentive is aimed at commercial activities, by providing tax relief on profit from qualifying IP.

Ten nations (nine in Europe and China) have enacted patent box-style regimes, the most recent in the UK (April 2013). In 2012, a bipartisan bill with a 10% tax rate for qualifying IP income was introduced in the US House of Representatives and is on track to implement in 2014. Some countries' patent box incentives go beyond patents and have various tax rates, caps and qualifications. Australia needs to be competitive.

Why does Australia need the AIM Incentive?

- IP is highly mobile and can be easily separated from the jurisdiction where it was developed and migrated to low-tax jurisdictions or where there are on-going incentives.
- Australia already supports the R&D phase of innovation via the R&D Tax Incentive, but support phases out at the commercialisation phase of innovation. As support phases out, Australian IP is vulnerable to being sold or manufactured overseas and the resulting community and economic benefits going with it.
- Manufacturing needs to transition from traditional industries to those of the future. Advanced, innovative manufacturing based on knowledge industries provides real opportunity for the future prosperity of Australia, due to its strength in niche manufacturing where we can value-add and provide inputs to highly-technical processes.



Possible design for Australia

AusBiotech, together with industry partners, suggest there are benefits in following the already established model of the UK's Patent Box, which offers a 10% tax rate on profits from the qualifying patent. However, there are numerous design aspects that could be adopted to develop the Australian model, that would fit appropriately within Australia's legislative and economic parameters, and AusBiotech would like to engage with the Federal Government in a sophisticated discussion.

The UK's Patent Box

The most recent and relevant version of a patent box incentive has been introduced in the UK, providing a 10% tax rate on qualifying revenues from patents (in contrast, the normal corporate tax rate is 23%). UK analysis indicates that the incentive leads to significant shifts in patent holdings towards countries with favourable tax regimes. For example, GlaxoSmithKline, one of the world's largest pharmaceutical companies, is centralising pharmaceutical IP to the UK as a result of the "Patent Box" system, and has announced \$800 million in new investment in the UK, including the first manufacturing plant to be built by GSK in the UK in almost 40 years.

The UK "Patent box is focussed on patents rather than other forms of intellectual property (IP) as they have a strong link to R&D and high-tech manufacturing and are used by innovative companies in a wide range of sectors." In order to qualify for the UK's Patent Box an entity must "own or exclusively licence-in the relevant patents; and must have been involved in qualifying development of them."

Qualifying development will typically involve activities such as creating, or significantly contributing to the creation of, the patented invention, or performing a significant amount of activity to develop the patented invention, any product or process incorporating the patented invention. Qualifying income from patent includes:

- Selling patented products;
- Licensing out patent rights;
- Selling patented rights; and
- Income arising from infringement of your patent rights - e.g. damages awarded.

More information in the UK Patent Box can be found at:

<http://www.ipo.gov.uk/types/patent/p-patentbox/p-patentbox-income.htm>

<http://www.hmrc.gov.uk/ct/forms-rates/claims/patent-box.htm#6>

Call for support

AusBiotech welcomed the Coalition's commitment during the recent election campaign to actively consider the idea of a 'patent box' tax incentive, as noted in the *'The Coalition's Policy to Boost the Competitiveness of Australian Manufacturing.'* Since the election of the Coalition Government, public comments and discussion with Members of Parliament have been supportive of the AIM Incentive in principle.

AusBiotech has been working in collaboration with Deloitte, Cook Medical and the Export Council of Australia, and will progress discussions with policy makers and companies that may be supported by the AIM Incentive. The R&D Tax Incentive is a great foundation for innovation to nation-build for Australia, but the tax reform story is not complete for innovation. Australia needs a manufacturing incentive for innovative companies to make industries of the future more attractive and globally competitive.

AusBiotech invites your comments and support at: admin@ausbiotech.org