Submission to the Business Tax Working Group

Response to Discussion Paper dated 13 August 2012

Business Tax Working Group Secretariat, The Treasury,
Langton Cresent, Parkes, ACT, 2600

2012

Roche Products Pty Limited

Background

Headquartered in Basel, Switzerland, Roche is a leader in research-focused healthcare with combined strengths in pharmaceuticals and diagnostics.

Roche is the world's largest biotech company with truly differentiated medicines in oncology, virology, inflammatory and autoimmune diseases, metabolism and central nervous system.

Roche is also the world leader in in-vitro diagnostics, tissue-based cancer diagnostics and a pioneer in diabetes management.

Roche's personalised healthcare strategy aims at providing medicines and diagnostic tools that enable tangible improvements in the health, quality of life and survival of patients.

In 2011, Roche invested over AUD$8 billion in research and development worldwide, including approximately AUD$42 million in pharmaceuticals in Australia.

Genentech, United States, is a wholly owned member of the Roche Group. Roche has a majority stake in Chugai Pharmaceutical, Japan.

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Submission

Roche Products Pty Limited is the Australian affiliate of F. Hoffmann La-Roche Limited (Roche).

The company welcomes the opportunity to make this submission to the Business Tax Working Group (BTWG) in relation to its Discussion Paper dated 13 August 2012.

Roche supports the BTWG's ambition that the company tax rate be reduced over the short to medium term. We do however have concerns about one of the particular 'broadening of the business tax base' options put forward, namely, changes to the R&D Tax Incentive.

Background on clinical trials

For a number of years, Roche has been a global leader in research and development (R&D), often investing more than any other company in any industry.[1] In 2011, our global investment was well over AUD $8 billion, and around 332,000 patients were enrolled in over 2,100 clinical trials, worldwide.[2]

In 2011 our Australian R&D spend was AUD$42 million. The majority of this expenditure is on clinical trials. In the last five years, our local clinical development staff numbers have increased by around 36% - it is the largest department in Roche Australia employing 115 people.

After a decade of steady growth, we are starting to see a decline in clinical trial activity in Australia. Between 2007 and 2010, the total number of new clinical trials in Australia has declined by an average of 13 percent per year across the sector.[3] In line with the findings from the 2011 Clinical Trials Action Group (CTAG) Report, Roche believes that Australia is becoming less competitive in its ability to attract clinical trials.[4]

Some of the factors negatively influencing the environment include the strong Australian dollar, a significant increase in costs of running local trials, and delays in trial start-ups due to additional governance requirements. The increase in costs is confirmed by a recent report, *Competitive Alternatives: KPMG's Guide to International Business Location Costs 2012*, which found Australia to be the second most expensive country in which to run a clinical trial.[5] Only Japan is more expensive, with Germany, Italy and the United States coming in as third, fourth and fifth, respectively.

If steps are not taken to address the continuing decline in clinical trials, Roche is concerned it may lead to both economic and non-economic effects, such as:

- Decreases in employment (and workforce retention issues)

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[1] *The Global Innovation 1000 (2011): Why Culture is Key*. Booz & Company, New York. 2011

[2] *Roche Business Report 2011*. Basel. 2012

3 *Keeping Clinical Trials in Australia: Why Action is Needed Now*. Medicines Australia. Canberra. 2011

[4] *Clinically Competitive: Boosting the Business of Clinical Trials in Australia*. Commonwealth of Australia. Canberra. 2011

[5] *Competitive Alternatives: KPMG's Guide to International Business Location Costs*. KPMG LLP (Canada). 2012.

- Less opportunity for research and knowledge sharing
- Decreased access to novel treatments for Australian patients.

The R&D Tax Incentive

Prior to the changes passed by the Federal Government in late August 2011 to implement the new R&D Tax Incentive system, Roche had not previously been eligible to claim any substantial R&D tax offset via the previous R&D Tax Concession scheme.

However, with last year's changes we have taken steps to have our local clinical trials accredited via AusIndustry to be eligible for the R&D Tax Incentive, and see it as a major opportunity to attract additional clinical trials to Australia. As an entity with an aggregated group (global) turnover of more than AUD$20 million per annum, Roche is currently eligible for a non-refundable 40% tax offset (equivalent to 133 per cent deduction).

Roche's modelling – taxation, R&D Tax Concession and R&D Tax Incentive

To provide the BTWG with some context as to how the Discussion Papers proposals could impact Roche, we have developed the following modelled tables based on Roche's 2011 taxable income of $27 million and R&D investment of $42 million. Roche operates on a calendar financial year. (NOTE: Table 1 is provided only for illustrative purposes only).

Company Tax Rate	Income Tax payable ($ millions)
	2011 year
30 per cent	8.40
29 per cent	8.12
28 per cent	7.84
27 per cent	7.56
26 per cent	7.28
25 per cent	7.00

Company tax payable (Table 1)

Based on the 2011 figure of $42 million Australian R&D, the table below shows the non-refundable tax offset available to Roche under both the R&D Tax Concession (pre 1 July 2011) and the R&D Tax Incentive (post 1 July 2011) regimes. (NOTE: It is assumed for the purpose of Table 2 that the entire $42 million R&D spend is eligible for the R&D Tax Incentive.)

	Allowable Expenses 000's	Amount of Incentive AUD 000's
Pre 01.07.2011	2,200	165
Post 01.07.2011	42,000	4,200

R&D Tax Concession vs R&D Tax Incentive (Table 2)

Proposed options for changes to the R&D Tax Incentive
Roche has reviewed all four Options (C.1-C.4) that the BTWG has proposed for changing the way the R&D Tax Incentive is targeted.

Options C.1 and C.2 would remove Roche's ability to receive any non-refundable tax offset for Australian R&D activities. It is our understanding, which has been confirmed by the BTWG Secretariat[6], that the turnover thresholds contained in Option C.2 would relate to the global Roche Group. Roche globally had a turnover in excessive of CHF$42 billion in 2011.[2]

The Option C.3, of imposing a $100 million cap on the annual claim of the 40% non-refundable tax offset for R&D activity, would not impact Roche at its current or foreseeable Australian R&D investment.

A change to the rate of the non-refundable tax offset to 37.5%, Option C.4, would translate to a $1 million reduction in the non-refundable tax off available to Roche based on Table 2 above.

Roche Australian R&D investment decisions - company tax rate reduction vs R&D Tax Incentive
The currently configured R&D Tax Incentive, if was applicable for 2011, could deliver Roche a $4.2 million non-refundable tax offset (see Table 2).

Set against the modelled tax payable in 2011 of $8.4 million at the current 30 per cent rate (Table 1), this would reduce Roche's tax liability by $4.2 million. In comparison, a reduction in the company tax rate to 25 per cent would reduce Roche's tax liability by $1.4 million.

Roche is using, and will use, the advantage derived from the R&D Tax Incentive to demonstrate to our headquarters in Basel, Switzerland, the value of continuing, and increasing, R&D investment in Australia. This is particularly important given the decline in clinical trial activity and the substantial cost increases in recent years in conducting this R&D in Australia.

Any R&D spend that the Roche (global) Group makes in Australia is local investment that would not have occurred otherwise. It results in not only additional economic activity but also non-economic benefits to Australia including: assisting with skilled workforce retention; providing opportunities for research and knowledge sharing; and allowing access to novel treatments for Australian patients.

Retaining the R&D Tax Incentive in its current form, will allows companies like Roche, which make a significant investment in R&D in Australia, to use this relatively new tax incentive to continue to invest, and more importantly, attract new investment.

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[6] Email from Ian South, BTWG Secretariat to Deborah Monk, Medicines Australia and Lorraine Chiroiu, AusBiotech dated 13 September 2012.

Conclusion
Roche is opposed to Options C.1 and C.2 for changing the R&D Tax Incentive as outlined in the Discussion Paper dated 13 August 2012.

If it would be necessary to make changes to the R&D Tax Incentive to deliver a company tax rate reduction, Roche would prefer Options C.3. This Option would deliver no change to Roche's R&D Tax Incentive position and therefore not negatively impact on local R&D investment decisions including the ability to attract clinical trials to Australia.

While not as desirable, Option C.4 would also have a less impact on potential local R&D investment decisions by Roche.

The company again thanks the BTWG for providing the opportunity to make a submission and looks forward to reviewing the final report of the working group.