

Ref: 4.55.9 — 26 July 2018

Manager  
Small Business Entities & Industry Concessions Unit  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir or Madam

**RE: ADIA Comment – R&D Tax Incentive Amendments**

As the peak business organisation representing manufacturers and suppliers of innovative dental products, the Australian Dental Industry Association (ADIA) takes this opportunity to tender to the Treasury advice concerning exposure draft of the *Treasury Law Amendment (Research and Development Incentive) Bill 2018 (Cth)*. A plurality of dental product manufacturers in Australia fit the Treasury's definition of small-to-medium enterprises (SME) and focus primarily on the research and development of innovative medical devices. It is in this context that ADIA tenders the following advice.

As a principle, ADIA strongly supports the Research and Development Tax Incentive (RDTI) as it incentivises dental product manufacturers to invest in research and development in Australia, thereby supporting businesses' sustainable growth and the creation of highly-skilled and highly-paid jobs, particularly in the field of Science, Technology, Engineering and Mathematics (STEM). However, for dental product manufacturers to leverage the full benefits of this scheme, and other research and development incentivisation policies for that matter, there is a need for long-term policy consistency. Investment in research and development can be a decision with financial commitments exceeding fifteen years. In this context, changing funding mechanisms for these schemes makes it difficult for businesses to rely on them in the long-term and therefore has the adverse unintended consequence of undermining their efficacy.

It is understood that the proposal to cap the refundability of the research and development tax offset at \$4 million per annum is intended to support the long-term sustainability of the RDTI scheme. However, the exclusion of clinical trial offsets from this cap will not provide any meaningful relief to businesses in the dental industry, as the clinical trial offset provision inexplicably excludes medical devices which form the majority of the products developed by the dental industry. Therefore, to ensure that businesses that develop innovative medical devices are treated equitably in relation to those that develop new medicines, the Treasury should implement a measure to offset the exclusion of medical device development from the clinical trial incentives. This could be achieved, for example, by increasing the research and development refund cap for firms that exclusively develop medical devices.



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It is understood that one of the reform proposals would involve, for entities with an aggregated turnover of less than \$20 million, setting the research and development tax offset rate to equal the corporate tax rate plus a 13.5 per cent premium. While ADIA strongly supports the Australian Government's commitment to reduce the corporate tax rate over the coming years, the proposal to use the corporate tax rate to calculate the RDTI will have the unintended consequence of reducing the value of the RDTI in real-terms over the next few years. Therefore, the proposal to calculate the RDTI for small entities based on the corporate tax rate is not supported by the dental industry. ADIA welcomes further engagement from the Treasury to assist the latter in the development of a policy that supports the sustainability of the RDTI scheme while at the same time ensuring that SMEs are not disadvantaged.

ADIA also takes this opportunity to bring to the Treasury's attention a barrier that exists not only for SMEs in the dental industry, but also the medical technology industry more broadly, with respect to the costs associated with taking advantage of the RDTI scheme. The complexity of the scheme is such that many SMEs are required to engage the services of RDTI consultancy firms, given that they themselves lack the scale to develop the necessary resources in-house. As such, the compliance costs for SMEs in accessing the RDTI scheme are greater relative to their turnover than those incurred by large multi-billion-dollar firms with in-house legal departments. Therefore, there is an opportunity for the Treasury to develop improved guidance and dedicated support for SMEs seeking to access the RDTI scheme. The Treasury should refer to the SME-Assist initiative implemented by the Therapeutics Goods Administration which serves as a model for tailored assistance for SMEs.

As the Treasury continues its deliberations with this and other matters related to the research and development of innovative dental products and the broader medical-technology sector, please do not hesitate to contact the ADIA at your convenience.

Yours faithfully

