SUBMISSION ON THE DRAFT TREASURY LAWS AMENDMENT (RESEARCH AND DEVELOPMENT INCENTIVE) BILL 2018

26 JULY 2018

Manager

Small Business Entities & Industry Concessions Unit

The Treasury

Langton Crescent

PARKES ACT 2600

ResMed Ltd 1 Elizabeth Macarthur Drive Bella Vista NSW 2153 Australia
T +61 (2) 8884 1000 **F** +61 (2) 8884 2000 **E** contact@resmed.com.au **ABN** 30 003 765 142

INTRODUCTION

ResMed (NYSE: RMD, ASX: RMD) is a world-leading connected health company with more than 5 million cloud-connected devices for daily remote patient monitoring, changes lives with every breath. Our award-winning devices and software solutions help treat and manage sleep apnea, chronic obstructive pulmonary disease and other respiratory conditions. Its 6,000-member team strives to improve patients' quality of life, reduce the impact of chronic disease and save healthcare costs in more than 120 countries.

ResMed has a significant Innovation Centre at Bella Vista in Sydney performing research and medical product development activities. It employs over 400 engineers, designers, technicians and clinical specialists at the Innovation Centre. This is co-located with ResMed's manufacturing centre where new products are introduced and then manufactured and assembled for global distribution. This is performed in conjunction with other global R&D centres located in the United States, Canada, Singapore, Germany and Ireland.

ResMed Submission

It is essential that the Australian R&D tax incentive remains competitive with R&D incentives offered by other countries. Australia operates in a global economy, with greater workforce mobility than ever before. The decision of where to perform long–term, value adding R&D activities is largely a factor of cost (providing the level of quality of R&D output can be achieved) and R&D tax incentives play an important role in the overall cost of performing R&D. ResMed regularly monitors R&D tax incentives offered in key jurisdictions.

ResMed is concerned with the implications that the proposed R&D Tax Incentive measures will have on the broader Australian innovation ecosystem, creating greater uncertainty in relation to R&D tax incentive benefits and creating unintended consequences of fast tracking the proposed legislation. The increase in the eligible R&D cap from $100 million to $150 million is a welcome measure, but is still a disincentive to undertake incremental R&D investment in Australia over the cap.

ResMed Ltd 1 Elizabeth Macarthur Drive Bella Vista NSW 2153 Australia
T +61 (2) 8884 1000 **F** +61 (2) 8884 2000 **E** contact@resmed.com.au **ABN** 30 003 765 142 **ResMed.com**

ResMed

Responses to Calculation of R&D Intensity – total expenditure

1. **Do you foresee any implementation and ongoing compliance challenges arising from the proposed calculation of R&D intensity?**

2. **Does the proposed method of calculation of R&D intensity pose any integrity risks?**

3. **Could total expenditure be aggregated across a broader economic group? Would this create any implementation and ongoing compliance challenges?**

Specifically, in connection with the R&D Intensity calculation, our concerns are:

1. Total expenditure based on expenditure in accordance with accounting standards will be subject to interpretation and create greater uncertainty for claimants, particularly those not subject to a financial statement audit. Even those that are subject to a financial statement audit, will have uncertainty in relation to the R&D tax incentive benefit until the financial statement audit is completed.

   An exclusion should be made for expenditure relating to manufacturing, such as cost of goods sold expenditure. The intensity calculation creates a disincentive for manufacturing in Australia as the greater the level of manufacturing, the lower the intensity percentage. This is illogical for businesses such as ResMed that have a very strong ecosystem built around innovation, manufacturing and new product introductions.

2. As expenditure can significantly vary from one year to another, we would suggest that an averaging approach, say over a 3 year period would create greater certainty, rather than on a year by year basis.

3. Expenditure aggregated across a broader economic group would create implementation and ongoing compliance challenges, particularly in groups where this information is difficult to access, or even control with regards to accounting information and processes. The information must be linked to the R&D entity's financial statements or tax return information in order to be streamlined.

ResMed Ltd 1 Elizabeth Macarthur Drive Bella Vista NSW 2153 Australia
T +61 (2) 8884 1000 **F** +61 (2) 8884 2000 **E** contact@resmed.com.au **ABN** 30 003 765 142 ResMed.com

ResMed

4. We anticipate, in line with budget saving forecasts, that the R&D intensity measures will significantly reduce R&D tax incentive benefits and have a negative impact on R&D investment in Australia and the broader business ecosystem. Many businesses performing R&D are likely to either reduce Australian R&D activities, perform R&D activities offshore, or cease business altogether.

   The Australian R&D ecosystem thrives when innovative businesses can effectively partner or service other innovative businesses. The same goes for individual talent such as engineers, designers and scientists that have the ability to work in a thriving ecosystem. With the considerable drop in R&D tax incentive benefits, this will not only directly impact many businesses, but indirectly impact the whole innovation ecosystem that relies on those existing partnerships or existing talent pools that currently exist in Australia.

* * * * * * * * * * * * * * *

ResMed would strongly recommend that further consultation and analysis of the proposed budget saving measures are considered from a longer term perspective. Savings from these measures are likely to result in losses in corporate and individual tax revenue in years to come.

The proposed changes appear very inconsistent with the Government's mission to embrace innovation, technology and science to power our economy and provide jobs and high living standards for all Australians.

ResMed would like to thank the Treasury for their consideration of ResMed's submission.

B. Sandercock	
....	....
Brett Sandercock	Andrew Price
Chief Financial Officer	President Operations

ResMed Ltd 1 Elizabeth Macarthur Drive Bella Vista NSW 2153 Australia
T +61 (2) 8884 1000 **F** +61 (2) 8884 2000 **E** contact@resmed.com.au **ABN** 30 003 765 142 **ResMed.com**