Tuesday, May 04, 1999

The Secretary
Review of Business Taxation
Department of the Treasury
Parkes Place
CANBERRA ACT 2600

Dear Dr Preston

The Association of Australian Medical Research Institutes represents 24 independent Medical Research Institutes (MRIs). Our submission addresses the issues of Fringe Benefits Tax (FBT), Research and Development tax concessions and tax impediments to philanthropy.

**Background**

AAMRI was formed in 1993 to facilitate communication and collaboration amongst research institutes throughout Australia and improving awareness of governments, industry and the public of the unique achievements and needs of medical research institutes. The criteria for membership of AAMRI are similar to those required for certification by the National Health and Medical Research Council (NH&MRC) and all NH&MRC certified institutes are AAMRI members. AAMRI members employ over 2000 scientists. AAMRI's principal objectives are to:

- Insure that governments, business and the public are aware of the contributions that medical research institutes make to improving human health.

- Coordinate communication between research institutes; improve scientific and administrative collaboration amongst those institutes, and to facilitate expression of the collective views of institutes to governments and the public.

- Represent the interests of medical research institutes to governments and industry.
Facilitate the creation of a fiscal and regulatory environment which will ensure the efficient conduct of research, and the practical application of that research, by AAMRI members.

A copy of the member directory is included for your information (Attachment C).

AAMRI notes the Discussion Document ‘The Virtuous Cycle- working together for health and medical research’ issued by the Health and Medical Research Strategic Review (the Wills Review) a copy of AAMRIs submission is included for your information (Attachment A). The document raised a number of issues relevant to taxation, which were in turn referred to your review for consideration (see attachment B).

**Fringe Benefits Tax (FBT)**

Any change to the tax treatment of fringe benefits should be considered in light of the FBT concession for charitable entities and the aims of such concession. As noted in ‘A Platform for Consultation’ (pp793-794) these benefits are greatly utilised and allow MRIs to compete in the global employment market and attract and retain professionals that would otherwise receive more attractive remuneration in private enterprise or at better funded institutes located overseas. The FBT concession is a relatively cheap option for government achieving advantages that far out-weigh any loss to revenue maximising return for Government research investment.

AAMRI confirms its strong support for maintaining the FBT concession for not-for-profit entities.

**Research and Development (R&D)**

Currently organisations receive tax concession for funds spent on research and development. Any reduction of this concession would have great implications for independent MRIs. The Wills discussion document highlights the role of industry investment in the ‘virtuous cycle’ and Australia’s status as having “one of the lowest pharmaceutical company expenditure on research and development among developed nations” (pp110-121).

AAMRI does not support the abolition of this concession.

**Philanthropy**

AAMRI notes the recent changes announced by the Prime Minister John Howard in his speech to the Centre for Corporate Public Affairs in Melbourne 26 March 1999. Support for the removal of taxation impediments to philanthropy is also found in the Wills Discussion Document (pp179-180). The main issues are briefly identified below.

**Capital Gains Tax (CGT)**

The current CGT arrangements are a disincentive to philanthropy in medical research. Currently assets donated to charities from a deceased estate can be liable for CGT. While gifts of property or shares to arts organisations receive special treatment, gifts to other charities are subject to CGT if the asset is older than twelve months.
AAMRI recommends that this limitation be removed or at least expanded to include MRIs.

**Tax concessions for donations**

Because the tax-deductibility of donations cannot currently be carried forward against future earnings, donations are often tailored to meet annual taxation profiles. This unnaturally limits the size of donations received and inhibits donations for longer-term projects that form the basis of medical research.

AAMRI recommends that the tax deduction for donations be carried over 5-7 years.

**Private Charitable Funds**

At present to be eligible for ‘charitable organisation’ status and thus receive tax concessions for donations the organisation must be publicly owned. This is a disincentive for corporations or individuals who may wish to establish special purpose foundations but not be publicly controlled or receive donations from others.

AAMRI supports the removal of the requirement that charitable organisations be public entities.

**Gifts that benefit the donor**

Currently where a donor receives any advantage of a material character they are not eligible for the full tax concession- this may be a free-dinner or naming rights.

AAMRI recommends that this exclusion be capped, allowing for nominal or incidental benefits.

**Deductible value of the gift.**

The tax laws currently only allow for tax deduction of the purchase price of the asset. This acts as a disincentive to donors who are not able to claim the appreciated value at the time of transfer and thus do not receive the maximum tax benefit.

AAMRI recommends that the tax deduction of appreciated assets be calculated on market value at the time of transfer to encourage this form of philanthropy.

AAMRI commends the above to you for consideration and inclusion in your final report and recommendations. Do not hesitate to contact me (or our Canberra consultant Stephen Carney (02) 6239 6595) if we can be of further assistance.

Sincerely
John Shine (President)