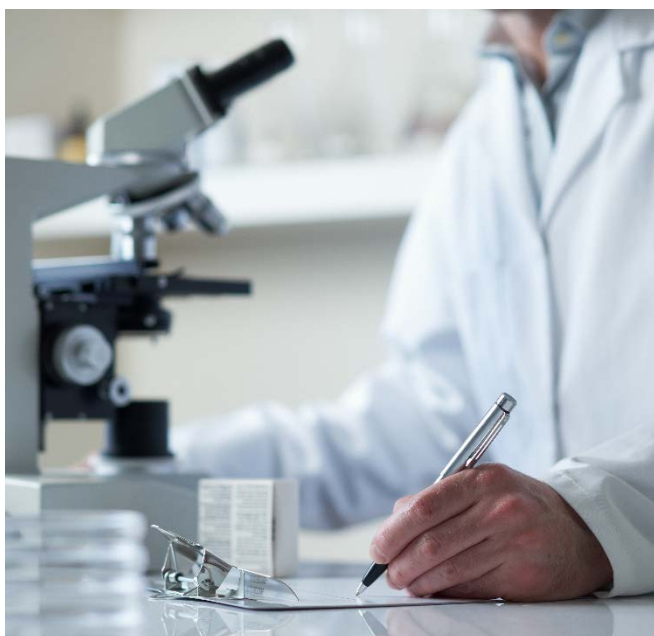


## Growing Singapore's biomedical R&D

A call for more private-sector investments in biomedical R&D efforts as private expenditure on R&D remains below target.

**This article was first published in the Business Times.**



SINGAPORE has come a long way in building a vibrant research and development (R&D) landscape for the biomedical sector. In the last 15 years, we have successfully grown the nation's biomedical industry by attracting the world's leading biomedical companies and researchers into Singapore.

This has led to an increase in public-private partnerships where multinational pharmaceutical and biotechnology companies and local institutions have partnered in ground-breaking R&D projects. Domestically, A\*Star has also overseen the steady growth of local biomedical research institutes and the nurturing of our next generation of scientists.

The Research, Innovation and Enterprise (RIE) 2020 plan announced on Jan 8, 2016, has not only listed health and biomedical science as one of four key verticals but also allocated the highest budget spend of S\$4 billion over the next five years. This

has been largely applauded by the industry and demonstrates the government's strong commitment to develop Singapore into a world-class biomedical hub.

That said, private expenditure on R&D remains below target, and perhaps more needs to be done to encourage this. As an added incentive to multinational companies (MNCs), existing tax schemes could be customised to make them more targeted for the biomedical sector.

### **Incentives to continue promoting R&D investments by MNCs**

Although MNCs in the biomedical sector are spending billions in R&D to develop new breakthrough medicines, productivity levels remain low with fewer blockbuster drugs coming through the pipeline. They increasingly seek opportunities with the academia and companies around the world for collaborative innovation - a way to go for the industry. This helps them tap the benefits offered by governments around the world, which can help to offset a part of their huge R&D bills.

As such, biomedical MNCs have been gradually increasing their R&D footprint in Singapore by tapping the "plug-and-play" R&D infrastructure created by the government. However, the provisions relating to enhanced tax deductions on R&D require the Singapore company of the MNC group to own the benefits of R&D in Singapore.

It is a common practice for Singapore R&D activities of an MNC to be funded by its overseas head entity and/or for the resulting intellectual property (IP) to be kept at global headquarters or IP hubs. Most MNCs have thus not been able to enjoy this tax benefit to offset their R&D costs in Singapore, unless specifically approved.

In order to continue building a vibrant local R&D landscape in biomedical science, Singapore-established subsidiaries of MNCs should be automatically allowed to claim enhanced tax deductions on R&D expenses incurred in Singapore. The source of funding or owning benefits in Singapore should be of a secondary concern.

In addition, they should be allowed to claim enhanced tax deduction on R&D costs and clinical trial costs often incurred outside Singapore if such activities are funded from Singapore.

For example, the Australia R&D tax incentive regime was modified in an attempt to attract foreign investments and to reflect the realities of business practices. Companies in Australia can now claim enhanced deductions for R&D activities conducted for an associated foreign corporation.

Furthermore, the Productivity and Innovation Credit (PIC) scheme's provision of a 400 per cent tax deduction on R&D has a cap of S\$400,000 or S\$600,000. This is too low compared to the amount spent by biomedical companies to develop an approved drug, which is in excess of US\$1 billion on average.

The liberalisation of these existing schemes will definitely encourage MNCs to continue expanding their R&D footprint in Singapore.

### **Incentives to help local companies sustain R&D activities**

To date, other than funding through tax incentives and grants, local small and medium enterprises (SMEs) - many operating in the medical device sector - have either broadly performed R&D with their own resources or through collaboration with local research institutions.

The other area that can be potentially tapped into is partnerships with MNCs - where SMEs can leverage the financial, capital and human resources of the larger entity to accelerate the development of their innovations.

In return, MNCs can take advantage of the fact that SMEs are often more nimble when it comes to identifying market niches with the potential for more innovation. At the same time, MNCs can help SMEs expand their market reach and access a broader network of suppliers, customers and development partners.

All parties therefore benefit from diversified risk and the sharing of R&D costs. Hence, schemes should be introduced to encourage investments by MNCs in local companies.

In addition, the government could perhaps consider enhancing the existing Angel Investors Tax Deduction Scheme (AITD) for the biomedical sector.

Currently, the AITD only provides a tax deduction for 50 per cent of the investment amount, up to a cap of S\$500,000 by individuals. This cap is too low for the biomedical sector and the higher risks associated with R&D in this sector mean that the number of individual investors are few and far between.

By substantially increasing the cap and making it available to MNCs and venture capital funding, we should see growing interest to invest in local SMEs. This will provide an adequate pool of investors to support and sustain their R&D activities.

The key is to build a community base of investors, such as those in the United States or Israel, which see the potential and value of investing in Singapore's local biomedical science industry.

Lastly, many local companies in an initial R&D startup phase are not eligible to claim the tax benefits of enhanced deductions and PIC due to lack of business activities, which is a requirement under the provisions governing these benefits.

Liberalising schemes to provide support to sustain them during this crucial period will go a long way to bolster local enterprises' appetite for R&D.





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### Adapting to remain competitive

Established bioscience clusters such as South Korea and Taiwan, and emerging clusters including India and China, are all within close proximity of Singapore. These countries are also focusing on providing benefits to increase R&D investments by companies in their biomedical science sector.

We are thus hopeful of announcements in the upcoming Singapore Budget 2016 which would enhance existing schemes for Singapore to continue attracting R&D investments in our biomedical science sector. This can play a crucial role in propelling the sector's growth over the next 15 years.

### How we can help

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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