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28 SEP 2012

Business Tax Working Group Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

25th September 2013

Dear Sir

R&D tax incentive - proposed changes

On behalf of the company we present this submission to highlight the importance of consistency in government support for industry innovation through the taxation system.

The Business Tax Working Group (BTWG) has included several proposed changes to the new R&D tax incentive in its report dated August 2012. In essence, the BTWG targets fiscal savings through reducing or eliminating R&D tax incentive benefits for larger companies.

We wish to remind the BTWG that the R&D tax incentive was introduced with effect from the 2012 year of income after four years of consultation between government and industry. We are concerned that such significant changes are being proposed to the R&D tax incentive so soon after its implementation and which would create a disincentive for multinational companies to locate innovation activities in Australia.

As your discussion paper acknowledges, governments support R&D activities because of the positive benefits they can generate for the wider economy. The new R&D incentive promotes many positive features:

- Having a tax incentive encourages companies to carry out genuine product development and process improvement projects beyond 'business as usual' activities. Such behaviour promotes value adding by larger Australian businesses, leads to spin off benefits through the supply chain and a more knowledgeable and skilled workforce.
- The new R&D tax incentive has a tighter definition so that only core R&D activities or those with a dominant purpose of supporting core activities can be claimed. As the new R&D tax incentive has only been in place for a short time, the effect of this more focused definition has yet to be demonstrated.

- Industry sector improvements to performance through technology often require significant investment by companies with deep pockets.
 - Australia's world leading superannuation and investment management system powered by Wrap platforms and sophisticated financial planning systems which for a country of our size have achieved sophistication and scalability creating export market potential.
 - Development of remote sensing and process automation enabling the rapid development of mining and agricultural businesses in remote locations.
 - Australian and foreign investment in Australian pharmaceutical developments including new vaccines.

We consider that the message of cuts to R&D incentives for large businesses may create a significant negative long term reputational impact and stifle the development of a culture of innovation and development. It should be remembered that there was a significant drop in R&D spend in Australia when the rate of incentive was halved in 1996. There is an even higher level of global mobility now and greater incentives in other jurisdictions, compared to the late 1990's, which could lead to a transition of innovation away from Australia which we may struggle to reverse in the future.

Should you have any questions, we would be happy to discuss this further.

Yours sincerely,



Ian Coombs
Finance Lead - ANZ