SUBMISSION BY KNOWLEDGE COMMERCIALISATION AUSTRALASIA INC. (KCA) IN RESPONSE TO THE :

Business Tax Working Group Discussion Paper

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Introduction:

KCA is the peak membership body representing organisations engaged in knowledge and technology transfer from the public research sector. Members include ANSTO, CSIRO, and the majority of Australian universities, see www.kca.asn.au

Discussion:

KCA appreciates the desire for reform and simplification expressed in the Business Tax Working Group's discussion paper.

However, there are other important policy settings for Australia's future that will be put at risk by removal of the current incentives directed at R&D. The report itself recognises the useful function and justification for such incentives:

> "There may also be cases where departures from uniform tax treatment are justified ...[i]n such cases, favourable tax treatment ensures that investment continues in activities such as R&D and innovation, despite the benefits being enjoyed by entities outside the investing organisation."

If policy settings, grants and incentives in relation to innovation are subject to constant change, creation and withdrawal then the market will ignore the signals being sent and shift its investment elsewhere. Many other countries around the world and in our region recognise the importance of encouraging innovative activity and invest heavily in it through use of a variety of mechanisms, including state intervention through tax incentives, grants, economic development activity and incentives of various sorts, including innovation – including at incentive rates that now exceed those available in Australia.

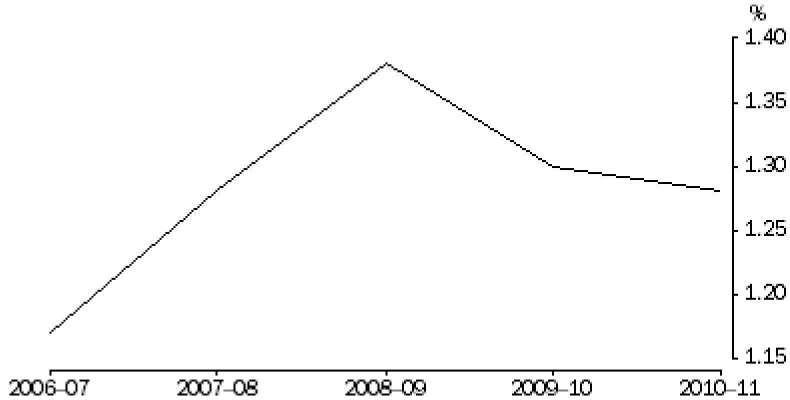
Consider Singapore:

> "for 2009 to 2015, the tax deduction has been raised from 100% to 150% of the actual qualifying R&D expenditure incurred on R&D done in Singapore. And for 2011 to 2015, the

> tax deduction is further raised to an unprecedented 400% of qualifying R&D expenses on the first $400,000 of expenditure"[1]

Singapore is one of many – according to the PWC publication "R&D Tax Trends: Creating a Climate for Innovation" – more than 20 OECD countries have such schemes and that there is a trend towards broader and more generously applied schemes.[2]

Note also the latest ABS statistics on Business Expenditure on R&D. These show "Between 2009-10 and 2010-11, business expenditure on R&D as a proportion of GDP decreased from 1.30% to 1.28%"[3]



(a) See Explanatory Notes 29 and 30 for details.

Against this background, can Australia afford to further reduce relevant and only recently introduced incentives for conducting R&D and innovation? The recently released report of the non government members of the Prime Minister's Manufacturing Taskforce noted the importance of encouraging an effective innovation eco-system in Australia to secure our future and the need to ensure that:

> "our manufacturers continue to invest in Australia, bringing global technology and knowledge to their customers. We will do this by providing them with a reason to invest – a good business environment, world class innovation, competitive taxation and regulatory regimes" [4]

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[1] http://www.nexia.com/RDtaxincentivesinSingapore See also the KPMG report at http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxnewsflash/Documents/singapore-april24-2012.pdf

[2] http://www.publications.pwc.com/DisplayFile.aspx?Attachmentid=4802&Mailinstanceid=21491 July 2011

[3] See eg 11 Sep 2012 media release at http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/8104.0Media%20Release12010-11

[4] http://www.innovation.gov.au/Industry/Manufacturing/Taskforce/Documents/SmarterManufacturing.pdf August 2012 at p4. See also p64 "[o]ne of the critical challenges facing manufacturing firms – in the short-term and the long-term – is the need to maintain investment and re-investment. Reducing tax burdens to encourage investment and reduce the costs of doing business is a key way that governments can assist business to meet these challenges."

Australia needs to focus on productivity growth, and among the very first drivers often quoted is R&D:

> "economists generally view the likely drivers of multifactor productivity as being research and development expenditure, investment in human capital, and investments in capital equipment that can fundamentally change the way firms operate"[5]

Conclusion:

KCA believes that it is vital at a minimum to retain the current tax incentives and levels for businesses funding of research and development. This is not an argument against lowering of the general corporate tax rates, but it is an argument in favour of retention of additional incentives for what must incontestably be a larger part of Australia's future success: innovation.

[5] D'Arcy P & Gustafsson L (2012), Australia's Productivity Performance and Real Incomes, Reserve Bank of Australia Bulletin, June Quarter 2012