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Business Tax Working Group Secretariat
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Submission in response to the Business Tax Working Group Discussion Paper, 13 August 2012

Research Australia is pleased to provide the following brief submission to the discussion paper.

Research Australia is the peak body representing the health and medical research sector in Australia. Research Australia's activities are funded by its members, donors and supporters from leading research organisations, academic institutions, philanthropy, community special interest groups, peak industry bodies, biotechnology and pharmaceutical companies, small businesses and corporate Australia.

The following submission is made in relation to the Research & Development (R&D) Tax Incentive.

In making this submission, Research Australia agrees with the sentiment expressed in the discussion paper

'that while there may be some scope to examine base broadening options, this needs to be done cautiously. It is vital that the net effects - especially on particular sectors and on investment decisions - of removing existing concessions are examined carefully.'

Research Australia also notes that the Working Group has indicated a preference for submissions to be supported by evidence either in the form of data or case studies.

As the Working Group is aware, the current R&D tax incentive has only been in place since 1 July 2011. Research Australia is conscious of the significant effort, consultation and consideration that has only relatively recently been invested in the design and implementation of the R&D Tax Incentive. Like their counterparts in other industries, innovative SME's in the health and medical research sector welcomed the introduction of the R&D Tax Incentive, and saw it as a mechanism to attract risk capital.

In the second reading speech for the *Tax laws Amendment (Research and Development) Bill 2010*, on 30 September 2010, the then Assistant Treasurer and Minister for Financial Services, the Hon. Mr. Shorten outlined the following objectives for the R&D Tax Incentive.

‘The new incentive is the biggest reform to the business R&D landscape in the last decade. It is all about boosting investment in R&D, strengthening Australian companies and supporting jobs. It provides for increased assistance for genuine R&D and redistributes support in favour of small- and medium-sized enterprises—the engine room of our economy.

Our intention is to lift Australia’s R&D performance by encouraging many more businesses to benefit from the scheme, ensuring Australia’s place as a clever country. R&D activities contribute to innovation by creating new knowledge and technologies—increasing productivity, jobs and economic growth, and allowing Australia to respond to present and future challenges....

The Tax Laws Amendment (Research and Development) Bill 2010 will deliver much-needed reform to public support for business innovation. It will deliver a substantial incentive for companies to conduct R&D in Australia. It recognises that the innovation dividend for the economy will come from refocusing public support on genuine R&D, not routine business activities.’

Research Australia submits that it is not possible at this point in time to assess whether the R&D Tax Incentive has achieved the objectives outlined for it above by the Assistant Treasurer. Nor is it possible to determine whether it has succeeded in attracting additional risk capital to the SME sector.

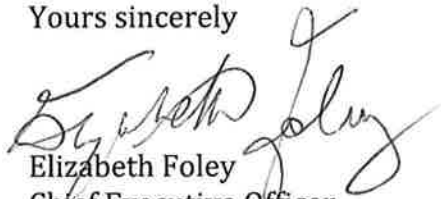
Equally, it is not possible to provide an assessment of the R&D Tax Incentive against the questions raised by the working group, and in particular ‘whether the revenue forgone through these measures and rules would be better directed at lowering the corporate tax rate’. For the same reason, it is not currently possible to form an informed view as to ‘the net effects — especially on particular sectors and on investment decisions’ of removing the R&D Tax Incentive.

Research Australia opposes any change to the R&D tax incentive without sufficient evidence of the net effect such a change would have.

Research Australia submits that it is not currently possible to assess whether the foregone revenue of the R&D Tax Incentive would be better directed to lowering the corporate tax rate, and that any such assessment should be deferred for at least two years. This deferral would allow time for both the cost to revenue and the impact of the measures on R&D activity and on the economy more generally to become evident.

If you have any questions, or would like to discuss this submission further, please contact me using the details provided below.

Yours sincerely



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