

Labor Senators' Dissenting Report

1.1 Labor Senators oppose the abolition of the schedule 2—seafarer tax offset and the reduction in the schedule 3—rates of the R&D tax incentive.

Seafarer Tax Offset

1.2 Labor Senators oppose the abolition of this measure, rejecting the Abbott Government's attempt to remove the measures Labor introduced to revitalise Australian shipping.

1.3 The object of this offset is to stimulate opportunities for Australian seafarers to be employed or engaged on overseas voyages, and acquire maritime skills, benefiting employers of Australian seafarers.

1.4 Labor Senators emphasize that there were no submissions to the inquiry supporting the abolition of the seafarer tax offset. This includes diverse stakeholders such as the Australian Shipowners Association, Shipping Australia, and the Maritime Union of Australia.

1.5 The Government is attempting to abolish the seafarer tax offset less than two years after it was introduced, without giving it an opportunity to expand Australia's maritime skills base.

1.6 This tax initiative was one of several that arose from the lengthy industry consultations that led to Labor's Shipping package.

1.7 It is in Australia's national and security interest to revitalise the Australian shipping industry. We are an island nation; one-tenth of the world's trade goes to or from Australia, the fourth largest shipping task in the world.

1.8 Labor Senators note the evidence provided opposing the repeal of this offset by the Australian Shipowners Association to this inquiry:

The Seafarers Tax Offset was a key element of the 2012 reforms which helped to reduce the operating costs of Australian vessels, increased the competitiveness of Australian shipping and provided significant opportunity for employment of Australians in international trades...the impact [of abolition] is severe with regard to future opportunity.¹

R&D tax incentive

1.9 In advanced industrial economies, innovation is the principle driver of increases in productivity. Firms that innovate are more competitive and can sustain more high-skilled, high-paid jobs.

1.10 Tax incentives are one of the most effective tools available to government for stimulating and attracting investment in innovation. This investment, in turn, is critical to developing dynamic and highly productive industries, able to compete at the top of the global value chain.

1 The Hon Chris Bowen MP, *House of Representatives Hansard*, 24 September 2014, p. 25.

1.11 In the 1980s Labor introduced the R&D tax concession, making Australia one of the first countries in the world to foster innovation through the taxation system.

1.12 The Labor government updated the scheme in 2011, and the positive effect of the new measure was immediate. Data from the Department of Industry shows that 'There has been significant growth in the number of new firms undertaking R&D under this programme, with a 49 per cent increase in 2011–12 and a further increase of at least 9 per cent in 2012–13.'

1.13 The R&D Tax Incentive was a landmark reform, building on Labor's record of investment in innovation and R&D. Today, though still relatively new, it is an important feature of Australia's innovation policy framework and encourages companies to invest in R&D.

1.14 The current proposal to reduce the rate of the R&D Tax Incentive by 1.5 per cent is supposed to be consistent with the Government's pledge to cut the company tax rate from 1 July 2015 by maintaining the relative value of the offsets.

1.15 The R&D Tax Incentive was intended to be independent of the company tax rate, ensuring the level of benefit provided remains constant and provides certainty for R&D investors, regardless of any fluctuations in the company tax rate.

1.16 This was clarified in *Powering Ideas: the Labor Government's Innovation Agenda for the 21st Century*, which states the R&D Tax Incentive 'increases certainty by uncoupling the level of R&D support from the corporate tax rate' (2008, p. 47). This point was acknowledged by the Department of Industry in response to a written question from Budget Estimates hearings held from 2 to 3 June 2014:

Under the R&D Tax Incentive the rates are independent of the company tax rate, therefore the level of benefit provided remains constant, and therefore certain, regardless of changes to the company tax rate.

1.17 Labor Senators note that 19 of the 23 public submissions made to the inquiry into Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014, were responding directly to provisions in the bill that seek to reduce the rates of the tax offset. Each of these submissions is critical of the government's proposed changes.

1.18 The most pressing concern for stakeholders is the increasing uncertainty this measure will create for the business community, by actively discouraging investment in R&D. This is precisely the situation the Labor Government was trying to avoid when it introduced the R&D Tax Incentive, making it independent of the company tax rate.

1.19 As noted by KPMG:

When the R&D tax incentive was first introduced, it was the Government's intention that providing a tax offset rather than a deduction would mean that changes in the corporate tax rate would not impact the R&D incentive. That is, companies had the certainty that they would continue to get a 40 per cent or 45 per cent offset regardless of the corporate tax rate.²

2 *Submission 16*, p. [1].

1.20 Likewise, BDO stated that:

...the key driver to change the delivery of the incentive from additional deductions to a tax offset was for the very purpose of decoupling the incentive from the corporate tax rate thereby improving investment certainty.³

1.21 Ensuring certainty and business confidence is especially important in R&D intensive sectors, such as the life sciences. As noted in the submission from AusBiotech:

Constant threats and tweaks to the R&D tax incentive are unsettling for business and undermine business and investor confidence at a time when Australia can least afford it.⁴

1.22 Similarly, BioMelbourne Network notes that 'Certainty around the maintenance of this initiative is critical to Australian businesses and the Australian economy' and that:

The proposed reduction in the R&D tax offset will have a real negative impact on the ability of BioMelbourne Network members to develop and deliver health products and services to the Australian public.⁵

1.23 The uncertainty and policy inconsistency created by the proposed change cannot be overstated, and concerns about the impact of this change on R&D investment in Australia are repeated in almost all submissions to the committee.

1.24 As noted by Ernst & Young, 'This type of inconsistency can discourage R&D investment by both small and large companies within Australia;' and as noted by KPMG, 'The rate reduction limits companies' ability to plan their long term R&D investments' and 'Through its conduct, the Government is actively dissuading companies from doing R&D in Australia.'

1.25 Labor Senators also note that the decrease in the R&D tax rate will especially harm small research-intensive firms that are generating little profit. For these companies, the reduction in the R&D rate will not be offset by an associated reduction in the company tax rate, as they are not likely to be paying tax.

1.26 As noted by BioMelbourne Network:

The amendment will also have a disproportionate impact on companies operating with a tax loss and currently receive the R&D tax incentive as a refund. This impacts the smallest and most vulnerable companies, such as start-ups, 'spin-outs' and SMEs, who make up a majority of companies in Australia's pharmaceutical and medical technology sectors.

3 *Submission 15*, p. [2].

4 *Submission 7*, p. 1.

5 *Submission 9*, p. [2].

1.27 This point is echoed by PricewaterhouseCoopers, which stated that 'some companies will be impacted on a permanent basis rather than for just one income year.'⁶

1.28 Labor Senators also note that the proposed tax changes precede the release of a wide-ranging tax white paper, further adding to the uncertainty surrounding the future of the R&D Tax Incentive.

Senator Sam Dastyari
Deputy Chair

Senator Chris Ketter
Senator for Queensland

Senator the Hon Kim Carr
Senator for Victoria