



**Government of
South Australia**

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**Chief Scientist for
South Australia**

Level 4, 11 Waymouth
Street
Adelaide

GPO Box 320
Adelaide SA 5001

T 08 8207 8706

chief.scientist@sa.gov.au

Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Submission on the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014

Dear Committee

As Chief Scientist of South Australia, I write with concern over the adverse impact the above Bill would have on R&D activities in innovative small to medium enterprises (SMEs) in Australia.

The proposed 1.5 percentage point reduction in the tax offset rates available under the research and development (R&D) tax incentive will significantly impact the capacity for innovative SMEs to undertake the R&D that is essential to Australia's future global competitiveness.

Australia's export base is heavily skewed towards the resources sector, which make up about 60% of exports. With the recent downturn in this sector, there is an urgent imperative to rebalance the economy towards innovative, high-value add enterprises. Innovative companies are intrinsically R&D intensive, and often require many years of product development before achieving profitability. Many classify as SMEs under the above Bill. The R&D tax incentive provides a very important means for such companies to cope with the typical negative returns in early years.

Another important point is the unusual profile of R&D in Australia compared with our overseas competitors. Over 70% of researchers in Australia are based in the public sector. This is the opposite to Europe, USA and many Asian countries, where 70-80% of researchers are located in industry. If Australia is to transform its economy towards high-value add innovative companies, we desperately need to enhance the extent of R&D that is undertaken in the corporate sector.

Now is not the time to reduce the tax offset rates.

South Australia is particularly vulnerable to any such reduction. As an SME-dominated state facing enormous challenges with the loss of the automobile industry, and potentially also defence manufacturing, we cannot afford to put further pressure on our innovative SMEs.

I strongly recommend reconsideration of this draft legislation before being put before the Senate.

I would be pleased to provide further input if required.

Yours sincerely

Dr Leanna Read FTSE FAICD
Chief Scientist

13 October 2014