



**Government of  
South Australia**

Ref: DFEEST/14/98021

**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](mailto: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