

The Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2006

16 January 2014

Dear Sir

Tax Laws Amendment (Research & Development) Bill 2013

I am writing in response to the inquiry into the Tax Laws Amendment (Research and Development) Bill 2013 that was referred to the Senate Economics Committee for inquiry on the 5th of December, 2013.

The Australasian Industrial Research Group (AIRG) is the professional body for managers responsible for technological innovation and R&D in public and private companies operating in both Australia and New Zealand. The AIRG also has a number of affiliate members from various public research agencies, universities and service groups with interests in science and innovation.

The AIRG's primary role is to improve the quality of industrial research management in Australia and New Zealand by organizing industry meetings which stimulate greater understanding of the effective management of research and development as a force to drive economic, industrial and social activities. Thus government policy, especially regarding its support for R&D, is a matter of central importance to the AIRG's members and other stakeholders.

A consequence of the diverse membership of the AIRG is that it is difficult to represent the needs and views of all members from large enterprise to small to medium enterprise or to public sector research organizations as a single viewpoint. However there are several elements where there is commonality which is relevant and worthy of consideration for this submission.

These elements include:

- The integration of technology companies upstream and downstream along the technology value chain from fundamental research, to design, to manufacturing, to supply chain, and to sales.
- Rapidly increasing global competition in the science, technology and innovation sector, including in terms of competition via government support and funding mechanisms in different jurisdictions, which are effectively attracting investment and R&D professionals away from Australia.
- The future sourcing of a trained and skilled workforce; and
- Continuity and simplicity in the regulatory systems, e.g., in the tax system, so as to allow for effective planning and execution of longer term projects.

Based on direct experience across the AIRG, which is based on working with a diverse range of organization types involved in delivering economic outcomes through technology and innovation, the AIRG has formed the following views:

- Ideally, government programs should not differentiate regarding the size of organization but should encourage all industrial R&D as the linkages between large industrial R&D systems, that of SMEs, public sector R&D groups and the Universities all may have roles to play in the innovation and commercialization of an R&D opportunity. It is widely acknowledged that

Australia currently performs relatively poorly across this area when compared to other OECD countries.

- The AIRG believes that it is imperative for Governmental agencies to endorse and encourage the types of programs and behaviors that can lead to the potential for greater translation of research and development into beneficial outcomes in terms of notable economic growth and employment for Australia. It is also noteworthy in this regard that large companies may have a greater propensity to collaborate with public sector research providers on a global basis. In technology intensive sectors, the location of significant R&D activities within a global firm has been shown to act as an anchor that supports the retention of manufacturing and marketing adjacent to the R&D source, rather than permitting its easy “offshoring” to a lower cost country. Furthermore, the presence of large, global firms doing R&D and manufacturing in Australia is well recognized to be of value to all elements of the industrial sector. It would be an unfortunate consequence if a revised R&D tax concession program was to lead to presently active companies, which are currently pursuing elements of their global R&D activities in Australia, concluding that Australia does not actively support and welcome the continued local roles of such firms
- One result of the last round of changes to the Australian R&D tax legislation was a significant tightening in the definition of eligible costs that could be claimed as part of the R&D concession. Discussions between AIRG members have suggested that this has led to a significant impact, particularly on Australian-resident, larger and more established companies, and that it would be prudent to allow more time for the strategic effects of this relatively recent tightening of definitions to become clearer before making any further changes that may prove to be disadvantageous for larger companies

It is believed that a change to the R&D tax incentive for companies with annual revenue greater than \$20 billion would create potentially negative flow on effects across the more research-intensive sectors as a whole. The AIRG therefore recommends that further studies should be undertaken in an endeavor to better understand the following:

- The impact on R&D spend by large enterprises and outcomes that are becoming evident, partly as a result of the R&D tax changes;
- The impact on public/private sector collaboration across Australia and with Australian-based companies making choices regarding doing collaborative R&D elsewhere, rather than in Australia;
- The impact on the numbers of, and outcomes from, internationally mobile researchers
- The impact on the ratio of incremental to disruptive technology developments that may significantly alter the competitiveness and economic sustainability of companies.
- The impact of an increased focus on cost-reducing productivity-led R&D, and/or market support, rather than on growth-creating technology; and
- Any impact on industry’s interest in forms of cluster approaches to technology development and collaboration as Australia’s large company R&D continues to decline.

An alternative option to reducing the R&D tax incentives for large enterprise is to increase the focus on how the incentive is applied; e.g., by introducing a focus on the use of the R&D tax incentive towards transformative technologies, or on projects where local small-to-medium enterprise can compete or collaborate as part of the supply chain.

While this submission, at least in the comments appearing above, has strongly advocated for the impacts on larger companies, the AIRG wishes to make it abundantly clear to the standing committee



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that it also supports the roles of many Australasian SMEs. Our organization is keenly aware of the critical role of the tax concession for the many cash-strapped SMEs operating in the Australian economy. Additionally, the AIRG acknowledges that the program has a well-understood role in terms of its ability to promote greater emphasis on the use and implementation of technology in SMEs through the support of R&D that otherwise, may not be financially feasible in the small company environment. In short, the AIRG wishes to advise the standing committee that it strongly advocates full continuation of tax incentive support for SME R&D.

Furthermore, the AIRG believes that this tax concession treatment could be reasonably extended to an increased involvement in the support of experimental products as they are tested in customer trials, and in other related activities which involve significant R&D (at least as seen from an industrial research manager's point of view), but which may have been viewed by government administrators as being beyond the point at which R&D involvement ends. The AIRG is of the view that the perhaps more academic view of what constitutes relevant industrial R&D may not be the most appropriate way to view what is and isn't R&D when it is applied to the definition of a support mechanism that will incentivize greater impact across Australia's industrial economy.

Lastly, it should be noted that the AIRG contends that further increased emphasis on an R&D tax incentive recipient's accountability for the delivery of measurable, tangible value from the incentive it receives (as demonstrated by increases in collaborations, job creation and economic growth) may be of more help to turn this apparent cost to the economy (in terms of taxes foregone) into a significant positive economic benefit for the Australian industrial economy.

Representatives from the AIRG are open to discussing this matter in more detail after the close of the submissions or prior to any future proposals.

Yours sincerely,

Leonie Walsh
President



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