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13th October 2014

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

Mailed via email: *economics.sen@aph.gov.au*

Dear Committee,

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

It has come to our attention that the above Bill will, if passed, reduce the tax offset rates available under the research and development (R&D) tax incentive by 1.5 percentage points. This will have a direct and adverse impact on our R&D activities.

R&D incentives have helped fund our R&D activities. It is these activities that have underpinned our company's growth and development. We are deeply concerned that the above Bill is ill conceived and will adversely impact our ability to utilise the benefits of the incentives in furthering our R&D and achieving commercialisation through this investment that delivers real benefits to Australian businesses.

Over the last 6 years, we have invested in developing energy (power and heat) production via gasification and combustion of non-food biomass and gas. In the 2012/13 year alone, we spent $429,827 on R&D which we claimed under the R&D Tax Incentive. Most of this was spent on contract labour; employing Australians to develop innovative solutions to reduce energy costs for business in Australia.

Under the R&D Tax Incentive, we receive a 45 percent refundable tax offset. This equates to a 15 percent permanent tax benefit. For instance, last year's R&D claim of $429,827 resulted in a net benefit of $64,474. Under the proposed reduction, this would reduce our benefit by 10 percent. Such a large reduction has the potential to directly reduce our R&D funding.

Moreover, we have sought government recoupments in the past. Currently recoupment clawback operates to reduce our net benefit to 5 percent on R&D expenditure for which any government recoupments were received. Under the proposed reduction, this will further reduce our net benefit to 3.5 percent (a reduction of 30 percent). The Government has said it wants to target its R&D assistance to small and medium sized entities, but under this proposal, it is the small and medium sized entities who will be significantly impacted and can least afford this reduction to the R&D tax offset.

Similarly, if feedstock formed a large part of our R&D expenditure, we could end up out of pocket. Feedstock increases assessable income and is decoupled from clawback or the proposed rate reduction. This means if we spent 90 percent of our R&D on feedstock, we would end up paying additional income tax on 30 percent of our R&D spend. Unlike for other renewables where the conversion technology is the key component, for Biomass the whole system needs to be considered. This entails gaining a thorough understanding of the biomass resource (feedstock), namely, how to cost-effectively

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process and deliver this resource in a form that suits the conversion technology selected for the plant . The equipment selection and logistics of the biomass supply chain are as a result critical to the viability of a biomass energy project, such as those being developed by us. In many situations, more than fifty percent (50%) of the cost of processing biomass comes from the cost of producing, collecting, transporting, processing and conditioning the biomass feedstock. For a Government that says it wants to support R&D in Australia, particularly R&D by small and medium sized entities, this proposal is ill conceived and risks penalising companies that undertake R&D involving feedstock, which for out business is crucial, or which receive government recoupments.

The object of the R&D Tax Incentive is, in part, to support R&D likely to produce net-benefits for the Australian community. We believe that our R&D activities meet this object in three ways; we invest in educating the public about different energy generation options and how they compare particularly in relation to biomass and gas and co-generation processes, proven to be highly energy efficient, yet not extensively deployed in Australia, and not only are we employing and benefitting the Australian community with our R&D efforts and investments right now, but if successful, our R&D will result in innovative products and services that can improve the sustainability of Australian businesses whist improving their global competitiveness, benefiting the wider Australian economy.

We question the rationale for the proposed reduction as not only is it decoupled from the proposed company tax rate reduction, it immediately precedes a tax white paper, serving to generate unwarranted confusion, uncertainty and unpredictability in the government's approach to taxation.

We strongly believe that a cornerstone objective of Australia's R&D incentive should be to encourage R&D activities within Australia in order to, amongst other things, make eligible enterprises internationally competitive. Reducing the benefit, even if temporarily, is likely to have an adverse impact on encouraging investment in R&D in Australia. We are proudly Australian with close to 1,500 shareholders the large majority of whom reside in Australia, but we note that in today's global community, companies can choose to undertake all or part of their R&D in jurisdictions that are cheaper or provide greater incentives.

We hope the Committee considers seriously the impact of the proposed reduction both on companies such as ourselves, but also on the wider community that our R&D activities support and promote. We urge the Committee to recommend the rate reduction be paired with the company tax rate reduction and that further thought be given to this draft legislation before being put before the Senate.

Should you have any queries, please do not hesitate to contact me.

Yours faithfully

Merrill Gray,
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