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*Geophysical results through
continuous innovation*



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

13 October 2014

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 its commercialisation.

Over the last 5 years, we have invested in developing an automatic electronic leak detection system for water storage ponds. In the last year alone, we spent \$350,000 on R&D which we will claim under the R&D Tax Incentive. Most of this was spent on labour; employing Australians to develop innovative solutions to problems.

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 \$350,000 will result in a net benefit of \$52,500. Under the proposed reduction, this would reduce our benefit by 10 percent. Such a large reduction will directly reduce our R&D funding.

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 two ways; not only are we employing and benefitting the Australian community with our R&D efforts right now, but if successful, our R&D will result in innovative products and services that can compete globally and benefit 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 currently conduct a proportion of our business activities overseas. 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, 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,

Kelly Keates Managing Director