MARTOGG
Group of Companies

4 March 2020

Dear Senate Economics Legislation Committee,

Re: Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 [Provisions]

Thank you for this Inquiry and the opportunity to make submissions in respect of proposed changes to the R&D Tax Incentive (**RDTI**) as contained in the Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 (**the Bill**).

Martogg Group of Companies is Australia's largest privately owned polymer distribution, resin compounding and plastics recycling company. We have been manufacturing and marketing polymer compounds, engineering and commodity resins and recycled plastics for the Australian plastics industry and export markets since 1975. Martogg Group has three manufacturing and recycling and distribution sites located in Dandenong VIC, Minto NSW and Carole Park QLD and sales offices in Melbourne, Sydney, Brisbane and Adelaide. We employ over 170 people nationally.

Martogg Group's commitment to polymer recycling is unsurpassed in the Australian market. Martogg Group's recycled polymer division Martogg LCM® formulates and recycles end-product plastic waste into value added, quality polymers to be used in the manufacture of new plastic products.

Since 2006 we have continued to invest in R&D to enhance our recycling capacity and capability so that we now have Martogg LCM® recycling operations located in Melbourne, Sydney and Brisbane.
These plants complement Martogg Group's unique position as Australia's only polymer compounder/distributor/recycler that can offer both prime and recycled polymer products to virtually all segments of the Australian plastics industry.

We have a well-established Research and Development program through which we invest continuously to improve our existing products and develop new ones to meet our customers' ever expanding requirements. Our commitment to improved product quality and polymer technical expertise and compounding know-how is supported by three QA and R&D laboratories which are fully equipped with an impressive array of sample preparation and analytical equipment.

As Martogg is a leading manufacturer, recycler and distributor of polymeric resins in the Australian domestic market and within the Asia-Pacific region, the company is always striving for continual improvements and growth within the industry. For example, recently an R&D program to investigate the viability of processing post-industrial PET feedstocks (i.e. waste) into commercially viable materials has commenced. The development of this project is a strategic move to ensure that the company is re-investing back not only to the company, but also to the local plastic industry in an effort to continue development and growth.

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Investment in innovation is an important, albeit costly and often risky, part of our corporate strategy. The RDTI has supported our R&D effort for many years and has allowed us to pursue R&D that:

- Retain and grow R&D employment in Australia for our company
- Retain and grow our knowledge based capital, know-how and intellectual property in Australia
- Generate additional income taxes across the entire supply chain related to the R&D projects we undertake
- Contribute additional benefits in Australia such as engagement with companies across our supply chain which contributes to knowledge, market and network spillovers
- Enhance productivity and efficiency via improved manufacturing processes and additional capital investments

Some of these R&D activities may not otherwise have been pursued due to inherent technical risks.

As a result of these important factors, we believe the net financial benefit accruing to Australia from our R&D activities far outweighs the short term cost of the RDTI.

We are extremely concerned by the Government's proposed changes to the RDTI, particularly as described in Schedule 1 of the Bill. If enacted, it will reduce our benefit by some 47% which will in turn impact our ability to undertake R&D projects. This reduction is a direct consequence of the proposed 'intensity measure' calculation.

The current Bill contains almost identical R&D measures as those contained in the *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* introduced in September 2018. The 2018 Bill was universally criticised and rejected by all areas of industry, and the tertiary and research sectors; both through submissions to Treasury and later to an inquiry by the Senate Economics Legislation Committee. The Committee recommended the 2018 Bill be deferred until further examination and analysis of 'unintended consequences' was undertaken. However, the Committee's key recommendations have not been considered in the current Bill.

How this impacts our business:

- **Intensity measure discriminates against us:** The intensity measure is based on total company expenses. Our running costs are disproportionately high (e.g. cost of goods) when compared with other industries or even foreign multinationals. Based on these higher running costs, it is unlikely we will ever exceed the baseline 4% R&D intensity level and thus we will only ever receive a 4.5% benefit. A 4.5% benefit not only fails to incentive 'additional' R&D, but it takes away from our existing R&D budget.

- **Immediate impact on our R&D:** The retrospective and significant drop in the R&D benefit will have an immediate and detrimental impact on our R&D budget. The deficit caused by this drop will need to be made up elsewhere; either through scaling back our operations, reducing our R&D headcount and/or reducing our costs in other areas. These changes will hurt our bottom line, immediately and at a time when we can least afford it. Furthermore, given that the central policy objective of the R&D Tax Incentive is to promote additional investment in R&D, it is difficult to reconcile how a retrospective application would serve the program's additionality target or spillover.

- **Longer term impact on our R&D:** At a rate of 4.5%, the RDTI will not incentivize us to undertake or even keep our R&D in Australia. We will need to reconsider the location and quantum of R&D employment and spend in Australia (especially when compared with New Zealand which offers a 15% R&D tax benefit).

- **Uncertainty deters investment:** Constant reviews of the RDTI and multiple proposals to reduce the benefit have eroded our confidence in the program; let alone the intensity measure which means we can't even predict the current year's benefit in advance. This uncertainty makes it impossible to plan ahead based on the RDTI and therefore fails in its primary objective to incentivize R&D.

- **Administration:** The Bill includes various measures to improve administration, but none address concerns raised by the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise and took too long to review claims. Reviews should be undertaken without prejudice, transparently and in a timely fashion.

In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation. The Government should **increase** its support for R&D – the current proposal to reduce the benefit will have a direct and detrimental impact on **existing** R&D activities and future spend by us on R&D in Australia.

We therefore strongly oppose the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 and recommend Government engage with industry on any future proposals to change the RDTI.

We would welcome the opportunity to discuss our company and the value the R&D Tax Incentive provides to us.

Yours sincerely,

[redacted]

Peter Bladeni
Group CFO