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Limiting Access to the Research and Development (R&D) Tax Incentive

The Minerals Council of Australia (MCA) welcomes the opportunity to comment on the draft legislation *Tax Laws Amendment (2013 Measures No.2) Bill 2013: Targeting R&D tax incentive to small and medium businesses*.

The MCA is the peak industry organisation representing Australia's exploration, mining and minerals processing industry, nationally and internationally. MCA member companies produce more than 85 per cent of the nation's annual minerals output and account for more than 50 per cent of Australia's exports. MCA member companies pay over \$20 billion in tax to the Federal and State governments.

The MCA does not support the Government's proposal to limit access to the Research and Development (R&D) tax incentive. The MCA believes the policy as outlined in the draft legislation:

- introduces further uncertainty and complexity in Australia's tax system;
- reduces Australia's competitiveness to attract R&D business investment, particularly for multinational companies; and
- underestimates the economic impact of R&D expenditure by large companies and multinationals in Australia.

Denying R&D tax incentives to companies with assessable income over \$20 billion undermines the policy objective of R&D incentives to encourage investment in R&D. No compelling case has been outlined by the Government that denying the R&D Incentive to large companies is warranted or that there is a greater innovation impact by providing incentives only to small and medium companies. Further, no assessment has been made on the impact of reducing incentives for R&D investment by large companies and the broader economy. The proposal appears to be driven purely by short term revenue considerations.

R&D tax incentives have been a long standing feature of Australia's tax system to encourage business investment in innovation. A large number of other countries provide tax incentives to encourage and attract innovation investment given the positive spill over benefits for economies. Competitor countries recognise the importance of R&D with the United Kingdom, for example, recently extending R&D tax incentives to large companies, including refundable benefits to both large and small companies. Restricting eligibility for R&D tax incentives will reduce Australia's competitiveness when compared to alternative destinations to the long term detriment of Australia's economy.

The MCA is particularly disappointed that the retrograde changes proposed by the Government in the draft legislation would unwind the Government's own reforms to the R&D tax incentive legislation in the very first year the reforms commence to apply. This amounts to yet another policy change adding to uncertainty in the tax system further undermining Australia's reputation as an investment destination.

The Australian Government has recognised the benefit of R&D expenditure to the Australian economy and jobs through reforms to R&D tax incentives by simplifying the tax incentive arrangements and introducing the refundable R&D Tax Credit. The need for these reforms and the benefits of R&D are well known and outlined in *Powering Ideas: An Innovation Agenda for the 21st Century* (the report) commissioned by the Australian Government and completed in May 2009. The report acknowledged the importance of larger companies investing in R&D and the importance of maintain Australia's tax competitiveness:

"We also know that larger firms are critical to Australia's innovation effort; 70 per cent of our business R&D is done by firms with 200 or more employees, and we can't afford to see this capacity compromised. Finally, we know that more and more international firms are outsourcing their innovation activities to whichever location they believe is best equipped to support them. This has created fierce competition between knowledge-producing countries to attract foreign R&D investment."

In response to the report, the Deputy Prime Minister and Treasurer, and the then Minister for Innovation, Industry, Science and Research said in their joint press release "The new R&D Tax Credit will provide certainty for business and its operation will align with international best practice. Under this simpler system businesses will be able to invest in R&D with confidence."

The changes proposed to the R&D tax incentive do the opposite. The draft legislation removes incentives for business investment in innovation, creates uncertainty as to Australia's support for R&D, introduces complexity to the R&D tax incentives and undermines Australia's competitiveness as a place to undertake R&D.

The MCA appreciates the opportunity to provide these comments to the Treasury. Should you require any further explanation of the issues raised in this submission, please contact me (James.Sorahan@minerals.org.au or 02 6233 0651).

Yours Sincerely



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