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General Manager
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

26 October 2009

Dear Sir,

Research and Development Tax Incentive Consultation Paper

We make the following submission in respect of the Government's review of the National Innovation System. In particular we refer to the Consultation Paper as released by The Treasurey department of the Australian Government dated September 2009.

Generally, we support the reform objectives of making the new R&D tax incentive more effective in delivering support for business R&D, in targeting that support to where it is most likely to produce net benefits for the Australian community and, just as importantly, making the rules less complex to understand and more predictable in their application.

CSL Limited has previously provided comprehensive submissions and met with officials to discuss various aspects of the government's proposals in respect of the National Innovation System and specifically in respect of the changes to the taxation incentives. In this regard, Mr Brian McNamee, the CEO and Managing Director of CSL, previously concluded (submission to Cutler review dated September 30, 2008) that:

> "While the recommendations in 'Venturous Australia', if implemented as Government policy, would be costly for CSL, that is not my chief concern. Rather, I believe that the recommendations taken in their entirety will not benefit the Australian economy. There are some of the recommendations that I welcome: for example, those that seek to increase the funding of the university system; and those that aim to increase seed funding for very early research as it seeks to transition from academia. However, the recommendations directed at innovation in industry and business are mostly a waste, unlikely to improve the Australian economy, and I would hope that you would reconsider them."

As a consequence of the proposed changes the financial position of CSL's Australian R&D operations will be detrimentally affected. CSL acknowledges that the government's objectives may not be consistent with the strategic objectives of CSL; however our main concern is that the changes will not help the boarder Australian economy.

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Change of R&D definition

In addition to our previously expressed concerns we strongly disagree with the more recent proposed changes to the current R&D definition. The proposal lacks a very strong and compelling rationale and there is a greater risk, in tampering with the definition, that it will only generate unwarranted confusion, uncertainty and unpredictability.

R&D tax incentives in the past have been effective for us and assisted the funding of our R&D activities which has underpinned our company's growth and development in Australia. However, we are concerned that the radical changes proposed will adversely impact our ability to utilise the benefits of the incentives in furthering our Australian R&D and its commercialisation.

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. Modifying and narrowing the definition is likely to have an adverse impact on encouraging investment in R&D in Australia and in today's global community companies can choose to undertake R&D under more advantageous regimes elsewhere.

Therefore, we do not believe that any sufficiently compelling case has been made out for either the replacement of "*or*" with "*and*" in the "core" R&D definition nor for any of proposed changes to the "*support activities*" definition, most of which are extremely arbitrary and potentially discriminatory as between industry segments.

We believe that the Government's desire for revenue neutrality should be achieved through the amendments to the incentive rate mechanism, and therefore the changes to the definition are not necessary or warranted. We further believe these changes will only add to further uncertainty and greater inefficiencies in managing claims under the scheme, a result which is directly inconsistent with the government's stated objectives.

Conclusion

The R&D Tax Concession has worked effectively for 24 years. Whilst we understand the need to address some occasional unintended consequences of large expenditure claims, the changes proposed have the potential to undermine the entire regime. Certainty is very important, particularly within a self-assessment system. Any fundamental overhaul of the definition will create uncertainty and defeat the purpose of the incentive program.

This submission is limited in details as CSL intends to make further submission regarding particular elements of the exposure draft legislation at the appropriate time.

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

Yours sincerely

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