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To Whom It May Concern

DuluxGroup (Australia) Pty. Ltd. welcome the opportunity to provide feedback on the exposure draft of the Tax Laws Amendment (Research and Development) Bill 2010 released 18 December 2009 ("the exposure draft").

DuluxGroup is a recently renamed entity previously known as Orica Consumer Products. We have been a continuous user of the R&D Tax Concession since its inception and our claim has been consolidated with the rest of Orica Limited. We are a separate division with a substantial involvement in coatings R&D within Australia conducted at our Technology Centre at Clayton Victoria. Our R&D portfolio includes longer range new concept research carried out together with other Australian research providers.

Our company commends the Government's stated intent in delivering a "more generous, more predictable, and less complex tax incentive"; however we do not believe the legislation achieves this intent in its present form.

Whilst we understand the Government's intention to tighten eligibility, we believe the combination of tightening measures contained in the exposure draft will drastically reduce our ability to claim and hence we will not have the opportunity to take advantage of the generosity, of the R&D Tax Incentive program. We believe that many other manufacturing companies will be similarly affected and the program will have a reduced benefit because fewer companies will claim.

Major concerns

Within the exposure draft, there are now a number of ways in which eligibility has been significantly tightened and as we see it, our claims will be very significantly curtailed.

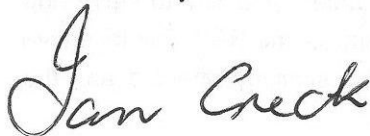
1. The requirement for 'considerable novelty' in place of 'innovation' – this both raises the bar for eligibility of potential claimants, while increasing uncertainty by replacing a well understood and defined term. The shift in term seems to favour the "blue sky" R&D common in academic settings over business innovation – the incremental improvements which are vital to business competitiveness;
2. The introduction of the "and" test for the eligibility test of considerable novelty and high levels of technical risk. We believe that this change to the definition will lead to the exclusion of many genuine R&D activities that should be supported and are currently eligible. Some of our previous claims have been to activities which result in reduced effort by the consumer and reduced environmental impact. These activities have required new approaches where the outcomes cannot be predicted but don't necessarily involve considerable novelty;
3. We acknowledge favorably that the intent of dividing activities into core and supporting more tightly is part of the government's objective. However we are concerned that there are many aspects of this change that are far from clear. The division will increase the administrative burden required to maintain documentation to support the claim. When is a supporting activity predominantly for the R&D? A conservative approach as to whether supporting activity is eligible or not will further reduce our ability to claim.

We have projected that the impact of the above changes in criteria would reduce our claim by well over fifty percent.

If the Exposure Draft is implemented in its current form, the direct outcome would be a significant lowering of the support for innovation in Australian businesses. Whilst the changes would not reduce our involvement in R&D, the tightened rules don't encourage us to engage in more of the basic research without sharing the risk associated with being able to convert these new ideas to practice. Reduced effectiveness and uptake of the R&D Tax Incentive will also negatively affect Australia's Business Expenditure on R&D ("BERD").

If you would like to discuss this submission, please feel free to contact me on (03) 9263 5771.

Yours sincerely



Ian Crick
Innovation & Technology Manager
DuluxGroup