

8 February 2010

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

Dear Sir/Madam

NEW R&D TAX INCENTIVE LEGISLATION EXPOSURE DRAFT

Watpac Limited ("Watpac") has participated in the existing R&D tax concession scheme for 5 years. Watpac is the largest Queensland based construction and property company which is listed on the Australian Stock Exchange. Watpac's annual turnover is in excess of \$1 billion.

The incentives provided by the scheme have enabled Watpac to expand its Research and Development activities and, as a result, has been able to undertake larger project of greater technical complexity than it would have in the absence of the R & D incentive. The incentive to undertake R & D related activity has been of great benefit directly to Watpac and indirectly to the Australian economy as it has allowed a wholly owned Australian company to enhance its technical capabilities enabling it to compete on an equal footing with larger foreign controlled contracting companies. This has been achieved through the enhanced technological expertise of the company, the upskilling of its staff and the direct multiplier effect of improved productivity and profitability.

Watpac is very concerned that the impact of the proposed legislation will be to significantly reduce incentives for carrying out R&D and this would ultimately have the effect of reduced productivity and competitiveness both for Watpac and the wider Australian economy. We particularly point out that we will be significantly disadvantaged from a potential refocussing of the scheme on early-stage research which gives rise to economic improvements which are less immediate and less certain. We strongly support a continued emphasis on the development phase of R&D

as the economic benefits for both the company and the broader economy are more immediate and measurable.

While we understand that the Government intends that changes are to be "revenue neutral", the proposed legislation appears to be directed at significantly limiting the framework through which participants in the construction and contracting industry benefit from the R&D concession. Presumably detailed costing can confirm that the "revenue neutral" objective is achieved and/or that the proposed legislation does not go beyond the Government's intention of continuing to encourage innovation within Australian companies.

We strongly encourage that a review be undertaken to ensure that the proposed changes to the legislation do not have serious unintended consequences to the economy.

Yours sincerely



Doug McAlpine

Chief Financial Officer