

Ford Motor Company of Australia Limited

A.B.N. 30 004 116 223 Private Mail Bag 6, Campbellfield, Victoria, 3061.

16 April 2010

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

By Email: rdtaxcredit@treasury.gov.au

Dear Sir/Madam

Subject: R&D TAX INCENTIVE – SECOND EXPOSURE DRAFT

We write in response to an invitation for public comment on the second exposure draft of the Tax Laws Amendment (Research & Development) Bill 2010. We have also contributed to a submission by the Federal Chamber of Automotive Industries.

Ford Australia – one of Australia's largest private sector R&D investors - welcomes the Government's use of clear language and its intention to provide greater legislative clarity. It believes this will be welcome by broader industry. However, the fundamental concerns expressed by the company in an earlier submission dated 2 February 2010 remain.

By adopting what is described as a scientific method, Ford Australia believes there has essentially been no movement away from the "considerable novelty and high levels of technical risk" that were used in the earlier draft. While the words themselves have not been used, the revised definition requires experimental activities (whose outcomes cannot be known in advance) and that they be conducted for the purpose of generating new knowledge. In addition, the new knowledge that is being sought will need to reflect a degree of novelty which is significant enough to require the application of the scientific method. This means that both technical risk and novelty are still required even though the specific words themselves are not used.

While providing greater clarity from a definitional perspective, Ford Australia believes there will be additional administrative complexity involved. Companies with large R&D projects will be required to identify each and every activity within a complex project. The eligibility criteria will also need to be applied to each activity. Considerable record keeping will also be required to support this.

We are therefore disappointed the Government has not taken the opportunity of amending the definition in a more fundamental way. By not doing this, Ford Australia believes the Government has under-valued the importance of much of the research and development underpinning the automotive manufacturing industry in Australia.



In earlier submissions, Ford Australia has urged that considerable care be taken in the design of proposed changes to the long-established R&D tax concession. We believe this concession has played an important role in fostering an innovative culture across different sectors of the economy, and has assisted companies like Ford Australia to manage the considerable risks associated with research and development activities.

Ford Australia is supportive of the proposed tax credit concept. However, it continues to believe the proposed definitional changes are a step too far, and are likely to have a wide-ranging impact on the competitiveness of innovation and developmental engineering in Australia. Without an ability to create a strong "bridge" between the laboratory and the showroom, the broader economic and societal benefits of R&D are limited. We therefore believe it appropriate the Government takes a further look at this important issue.

The writer would be happy to provide further elaboration if required, and can be contacted on (03) 9359 7142.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'R. Scoular', with a long horizontal flourish extending to the right.

Russell Scoular
Government Affairs Manager