

8 April 1999

Dr Alan Preston

Secretary

Review of Business Taxation

Department of Treasury

Parkes Place

CANBERRA ACT 2600

Dear Dr Preston

RALPH REVIEW OF THE AUSTRALIAN BUSINESS TAXATION SYSTEM

I am writing on behalf of the Australian Research Council (ARC) to put forward views about taxation issues which impact on research and development in Australia. While neither discussion papers (*A Strong Foundation, A Platform for Consultation*) relating to the review raise the tax deduction for research and development as an issue, the R&D community remains sceptical about the Government's future intentions regarding the tax concession.

The R&D Tax Concession was introduced in 1985 to address concerns that Australia's low level of business expenditure on research and development (BERD) was inhibiting economic growth. The concession was set at 150% to encourage Australian industry to undertake more systematic research and development activities thereby making them more innovative and more internationally competitive. In August 1996, the Federal Budget changes reduced the tax concession to 125%. After steady inclines in BERD over the previous 5 years (rising at an average of 16 per cent over that period), the change saw resources devoted to R&D by industry decline for the first time in 1996-97, dropping 5 per cent to \$4.12 billion.

The ARC argues that the tax concession should be reinstated to its original level of 150% to counter the decline in industry supported R&D. This is still lower than other countries such as Malaysia where it is 200%.

Concerning the proposed changes to the capital gain tax regime, I support the views of Mr Peter Wills, Chair, Strategic Review of Health and Medical Research, that the current regime is a major barrier to the flow of capital into new business. His analysis suggests

that the investment return for a hypothetical portfolio of biotechnology ventures would be 25% to 40% lower in Australia than in the US or UK due solely to different tax regimes. The ARC supports a reduction to the capital gains tax to improve Australia's international competitiveness in attracting venture capital to promote investment in innovation.

I would be happy to discuss these issues further should you wish to do so.

Yours sincerely

Vicki Sara