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Dr Alan Preston
The Secretary
Review of Business Taxation
Department of the Treasury
Parkes Place
CANBERRA ACT 2600

Dear Dr Preston,

Submission: Review of Business Taxation

I write on behalf of the Cooperative Research Centres Association which represents 64 of the Cooperative Research Centres throughout Australia. The total investment in the Cooperative Research Centres Program from Government and Participants over the period 1991-2003 is around \$3.8 billion. About 3,000 researchers are employed currently in University, Government and the Private Sector as a consequence of the Program.

The approach of the Federal Government in supporting innovation policy, and therefore fostering a strong R&D sector in the economy is, in part, to provide a tax concession to encourage national benefits and to make Australian companies more competitive internationally through developing greater innovative skills in Australian industry. The cut in the R&D tax concession from 150 to 125 per cent in the 1996 Budget came as a surprise and did not give industry a chance to mount a case for retention. Our Industry strongly objected to the change at the time and our position has not altered.

The Ralph Review of Business Taxation is proposing a reduction in the corporate tax rate from 36 to 30 per cent; this would reduce the value of the R&D tax concession from 9 cents to 7.5 cents in the dollar. The level of subsidy is susceptible to changes in the corporate tax rate and the Government needs to address this both in terms of stated policy to retain the subsidy at current levels and to remove uncertainty from R&D support to industry.

The Government would be aware that following the cut in tax concession from 150 to 125 per cent, the resources devoted to R&D by business dropped in 1996/97 for the first time in the last seven years. Whereas from 1991 to 1996, average annual expenditure had risen at a rate of 16 per cent, figures compiled by the Australian Bureau of Statistics show that resources devoted to R&D dropped in 1996/97 by 5 per cent to \$4.12 billion.

The Government rationale for intervention in R&D is solid and was reaffirmed in the Government's Industry Statement, "Investing for Growth". The R&D concession is one of the key Government incentives to enhance and increase the level of R&D being conducted within Australia. It signals the Government's support for R&D both to the local and the international business community. It is broad-based, market driven and covers much of the industry spending in Australia. The cost to revenue was \$845 million in 1995/96 and dropped to \$363 million in 1996/97; it is estimated to be \$382 million and \$417 million for the following two years. We would suggest this lost revenue is more than compensated for in the billions of dollars attracted to R&D, and in fact, is disproportionate to the amount of R&D resources committed in Australia.

We urge the Government to return the tax concession rate to 150 per cent immediately, in order to reverse the drop in recorded R&D spending and to establish a mechanism to peg this benefit to changes in the corporate tax rate. In real money terms, this would increase the actual benefit from the 7.5 cents to 15 cents in the dollar at the 30 per cent corporate tax rate or 18 cents at the current rate of 36 per cent.

We strongly believe that the 150 per cent tax concession rate with a lower corporate tax rate will deliver the right environment for Australian business to develop and commercialise the research outcomes in Australia for the national benefit. The R&D tax concession rate could easily attract annual spending of around \$5-\$7 billion for a cost to revenue of around \$850-\$900 million; it would also help to retain and attract quality researchers currently lost to more attractive overseas R&D economies.

The returns to Australia from R&D are much higher through the multiplier effect on the economy, particularly through improved knowledge and technology as well as positioning in the international research community and the ability to attract venture capital. These national benefits and savings to Australia far outweigh the cost to revenue from the increased level of investment in R&D arising from an R&D tax concession rate set at 150 per cent.

We would be pleased to discuss this with you further or provide more information to the Review Committee.

Your sincerely

Dr Anne Campbell
Manager