



CORPORATE TAX
ASSOCIATION
of Australia incorporated

21 December, 2006

Science and Innovation Study
Productivity Commission
PO Box 80
BELCONNEN ACT 2616

Dear Sir/Madam,

Re: Draft report on Public Support for Science and Innovation

The Corporate Tax Association (CTA), which represents the taxation interests of 120 of Australia's largest companies, would like to offer some comments on the Productivity Commission's draft report released for public comment last month.

The CTA's member companies have had 20 or more years experience with the base concession since its introduction in 1985. Notwithstanding the halving of the rate from 150% to 125% in 1996, as well as the tightening up of qualifying expenditure and reductions in the corporate rate, we consider the 125% concession continues to provide a positive incentive framework for large companies engaged in significant levels of R&D activity.

We acknowledge that in an ideal world, the concession would only flow to incremental activities – i.e. those which would not take place at all but for the concession. The reality, however, is that no government anywhere in the world has been able to design a tax based concession that avoids subsidising to some extent R&D activity that would have taken place anyway. In our view, however, a general tax-based concession system that allows companies to make choices about which activities to pursue is to be preferred over government agencies making judgments about what is or is not incremental R&D activity.

We have had reports from more than a few corporate groups that the 7.5% cash incentive associated with the current base rate concession does not warrant the significant compliance work associated with registering projects and maintaining records of relevant expenditure. This may not be altogether a bad thing, and may in itself go some way to filtering out non-incremental expenditure claims.

We are aware of a number of major R&D projects undertaken by large corporate groups, where the incentive is explicitly factored into the business decision to undertake the R&D activity in the first place, or to locate the activity in Australia.

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In some cases, the business reporting systems effectively transfer the benefit of the corporate R&D tax concession to the relevant business unit so that additional funds can be allocated to R&D activities.

In relation to the 175% premium deduction scheme, we strongly agree with the views expressed in the draft report that the rolling base for the premium incentive can lead to perverse outcomes. Member companies have reported that qualifying for the premium concession has become something of a “lucky dip”, and is unlikely to be driving corporate behaviour in the way that was intended. The current premium incentive provides little or no support to companies that achieve and maintain a very high level of R&D intensity. We agree that a fixed base, such as R&D to sales income would be a more appropriate way of designing the premium concession.

In summary, the CTA considers that the 125% base concession, curtailed as it has been since 1996, continues to provide a meaningful incentive for business to engage in R&D activities. While we agree that the design of the premium R&D scheme could benefit from a review, we believe the better on-going policy setting would be to continue with the base rate scheme combined with a better designed premium deduction scheme.

Should you wish to further discuss any of the matters raised in this letter, please do not hesitate to contact the writer on 03 9600 4411.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Frank Drenth', written in a cursive style.

Frank Drenth
Executive Director