

Submission on Public Support for Science and Innovation **Productivity Commission Draft Report**

Author : Michael Johnson & Associates Pty Ltd

Submission

Michael Johnson & Associates Pty Ltd (MJ&A) wishes to comment on Draft Findings 9.1 and 9.2.

With respect to Draft Finding 9.1,

We do not support a shift in the orientation of the R&D tax concession towards its 175 per cent incremental component.

We support a relaxation of the beneficial ownership requirement.

We believe that the expenditure and turnover thresholds should be reviewed for the entirety of the tax offset, not just for the incremental scheme alone.

We oppose changing the base on which the incremental subsidy is paid to a firm's ratio of R&D to sales at a given fixed date.

We support providing access to the incremental scheme to start up firms.

With respect to Draft Finding 9.2,

We support the current amount of focus on commercialisation objectives in the Commercial Ready grant programs.

Finally, with specific regard to the R&D tax concession, we believe that the current incremental scheme fails to meet its objectives and that its removal should be considered in exchange for an increase in the basic rate to 150%.

MJ&A

MJ&A is an innovation consultancy with a national practice in assisting Australian companies in accessing Federal Government support programs for innovation.

We have been operating since 1983 and we act for some of Australia's largest organisations, as well as some of its most innovative.

With respect to the R&D tax concession, we have been the author of the CCH Federal Tax Reporter on the concession provisions since 1985.

Commentary

For the purpose of this submission, we will provide brief summary observations. We are available at any time to speak to this commentary in greater detail.

Overall, we believe that Australia provides less assistance for private sector R&D than most OECD countries. Lifting the basic rate of the R&D concession to 150% would address this situation immediately. At the 2000 Innovation Summit, the delegates concluded that the minimum guaranteed permanent difference that the program should provide is 15 cents in the dollar ie. 150% deductibility under the current corporate tax rate of 30 per cent.

The great appeal of the basic rate is its comparative certainty enabling it to be budgeted for at the outset of R&D activity. The fact that companies are not routinely recognizing the concession as a key project criteria can be attributed to the current permanent difference of 7.5 cents being seen as marginal.

By way of contrast, it is our experience that companies are accessing the 175% incremental component as an "after the fact" tax calculation. The complexity of the legislation means that R&D plans cannot be safely made on the basis of accessing the 175% rate as there are too many uncertain variables. The arcane grouping rules, for example, mean that companies may receive large incremental claims as a result of movements in company ownership, independent of any change in R&D activity.

To move to a turnover-based calculation, as suggested in the Draft Report, would add another layer of uncertainty and reinforce the "after the fact" nature of the calculation. It should be noted that the current incremental program was initially introduced as a turnover-dependent calculation in the 2001 Innovation Action Plan and that this was soon abandoned as it became quickly apparent that a company whose rate of increase in sales was outstripping its R&D increase would receive nothing under the program.

We also understand that, with the possible exception of the USA, no country operates an incremental-only R&D tax concession program.

Finally, the Department of Industry Tourism and Resources conducted a 3 year review of the New Elements of the R&D tax concession including the incremental program in November 2005. We understand that those findings are imminent and they should definitely be taken into account by the Productivity Commission if at all possible.

Conclusion

Overall, we find ourselves very concerned with the tenor of the Draft Report's recommendations. We advocate for a more thorough level of enquiry in this area to ensure that the best policy settings are established for Australia's R&D future.

Kris Gale
Managing Director

Michael Johnson & Associates Pty Ltd