

20 December 2006

Public Support for Science and Innovation
Productivity Commission

science@pc.gov.au

Attention: - The Relevant Officer:

Re: Proposal to reduce or remove the investment in R&D current basic 125% tax concession

I understand that a recommendation in the Productivity Commission Draft Research Report: Public Support for Science and Innovation (November 2006) is to reduce access to or remove the basic 125% tax concession rate for company R&D expenditure.

This basic concession is a particularly primary incentive for SMEs across Australia to engage in R&D, because small companies with no R&D track record can access the subsidy with the commencement of experimentation and trials. This is a critical factor because as SMEs usually have very tight cash positions, it is always difficult to fully finance an R&D program and then to access the 175% concession for additional research, as the drain on resources bites.

So many SMEs shy away from even applying for AusIndustry assistive grants because the 3 weeks spent on an application maybe wasted as the grants are competitive and nationally perceived subject to the Reviewing Committee whim or understanding of a better application, because the SME cannot afford a consultant to write the application.

With the two options outlined in the report:

1. maintaining the basic concession for small firms, whose R&D is more responsive to the subsidy, but using the 175% incremental component as the principal vehicle for stimulating business R&D, or
2. removing the basic concession entirely and shifting completely to the 175% incremental component if threshold issues about firm size were considered to provide adverse incentives for the growth of small R&D enterprises.

SVP would support either of these subject to the current access criteria being maintained.

Yours sincerely,



Michael Turner Managing Director