

Public Support for Science and Innovation  
Productivity Commission  
PO Box 80  
**BELCONNEN ACT 2616**

18/12/2006

To Whom it May Concern:

**Re: proposed reduction or removal of current basic 125% tax concession for investment in R&D**

We are aware that one of the recommendations 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 expenditure on R&D.

This basic concession is the primary incentive for small businesses in the Northern Territory to engage in R&D, because companies with no R&D track record can access the subsidy right at the start of experimentation and trials. Whereas large firms may have the resources to fully finance their R&D programs and access the 175% concession for additional research, this investment is a substantial, and often impossible, burden for small to medium enterprises (SMEs).

This is of particular concern to the Northern Territory which has very few large firms, because its business and industry sector is comprised mostly of SMEs, like **Brainware Pty Ltd**.

There are 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.

## Brainware Pty Ltd

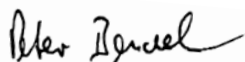
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**Brainware Pty Ltd** would support either of these options only if any changes to criteria would maintain current access by the Territory's SMEs (for example, by defining "small firms" in a way that continues to capture all or most of the Territory's SMEs) or increase the tax concession rate for SMEs (for example, by replacing the 125% concession with a 150-175% concession *while maintaining the criteria by which the 125% concessions are currently granted.*) With these safeguards, **Brainware Pty Ltd** would support either option.

Yours sincerely,



**Peter Bendel, Manager Brainware Pty Ltd**