



## AUSTRALIAN INDUSTRY & DEFENCE NETWORK

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Science & Innovation Study – Productivity Commission

[science@pc.gov.au](mailto:science@pc.gov.au)

**Attention:** - Ms Roberta Bausch

**Subject:** - **Proposal to Reduce or Remove the Investment in R&D current basic 125% tax concession**

We advise that the recommendation in the Productivity Commission Draft Research Report: Public Support for Science and Innovation (November 2006) to reduce access to or remove the basic 125% tax concession rate for company R&D expenditure would be a retrograde step for SMEs across Australia.

AIDN as a network (of just under 700 innovative primarily SME enterprises) representing members in every State and Territory plays a major role in encouraging R&D for the Australian and export markets and is leading in a national role to facilitate SME interaction with publicly funded research bodies such as CSIRO, ANSTO, DSTO, CRCs and Universities.

The basic 125% tax concession is a particularly motivating incentive for SMEs to engage in R&D because small companies with no R&D track record can access the subsidy on commencement of experimentation and trials. The concession removal would be a huge retrograde step as we have recently identified through our current efforts, that few SMEs have been aware of this assistance.

We have also ascertained that many SMEs hesitate to apply for AusIndustry assistive grants because of the 20+ days required to complete an application when the grants are competitive and there is a national perception that when the Reviewing Committee does not have an understanding of the applicant's selection is more difficult, and more so as usually the SME cannot afford the cost of a consultant to assist write the application, unlike bigger more professional enterprises.

In respect to 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.

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

Yours sincerely,

Mike Turner - National President

