BOUNDARY BEND
LIMITED
Australia's premier olive company

Dear Senate Economics Legislation Committee,

Re: Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 [Provisions]

Thank you for this Inquiry and the opportunity to make submissions in respect of proposed changes to the R&D Tax Incentive (**RDTI**) as contained in the Treasury Laws Amendment (R&D Tax Incentive) Bill 2019 (**the Bill**).

Boundary Bend Limited ("BBL") is Australia's largest olive farmer and producer of premium extra virgin olive oil and own Australia's two top-selling homegrown olive oil brands, Cobram Estate and Red Island.

BBL are owners of Australia's largest olive tree nursery and olive oil bottling, storage and laboratory facility, and innovators in all aspects of the "new world" olive industry, including the recent manufacture of the olive harvester. With BBL's unwavering focus on quality, innovation and customer satisfaction, BBL has therefore rapidly developed a global reputation as one of the leading players in modern olive industry.

BBL employs 200 permanent employees and up to 250 seasonal employees, 80% of these employees are based in regional locations. BBL also promotes Australia's export markets, by supplying large volumes of high quality olive oil to countries including USA, Japan and New Zealand.

Investment in innovation is an important, albeit costly and often risky, part of our corporate strategy. The RDTI has supported our R&D effort for 9 years and has allowed us to pursue R&D that:

- Retain and grow R&D employment in Australia for our company
- Retain and grow our knowledge based capital and intellectual property in Australia
- Generate additional taxes for our company in Australia and additional income taxes across the entire supply chain related to the projects we undertake
- Contribute additional benefits in Australia such as engagement with companies across our supply chain which contributes to knowledge, market and network spillovers
- Enhance productivity via improved processes and additional capital investment

Some of these R&D activities may not otherwise have been pursued due to inherent technical risks. For instance, changes in the olive harvesting and processing techniques can have high reward but carry a lot of risk that the yield can be reduced, or the batch completely lost, resulting in millions of dollars lost. There are also lots of potential in using other parts of the olive fruit and tree to produce other products, allowing us to grow our business into other markets, but the extensive testing and research required to prove these products prior to making them marketable is very expensive.

As a result of these important factors, we believe the net financial benefit accruing to Australia from our R&D activities far outweighs the short term cost of the RDTI.

We are extremely concerned by the Government's proposed changes to the RDTI, particularly as described in Schedule 1 of the Bill. If enacted, it will reduce our benefit by some 47% which will in turn impact our ability to undertake R&D projects. This reduction is a direct consequence of the proposed 'intensity measure' calculation.

The current Bill contains almost identical R&D measures as those contained in the *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 introduced in* September 2018. The 2018 Bill was universally criticised and rejected by all areas of industry, and the tertiary and research sectors; both through submissions to Treasury and later to an inquiry by the Senate Economics Legislation Committee. The Committee recommended the 2018 Bill be deferred until further examination and analysis of 'unintended consequences' was undertaken. However the Committee's key recommendations have not been considered in the current Bill.

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How this impacts our business:

- **Intensity measure discriminates against us:** The intensity measure is based on total company expenses. Our running costs are disproportionately high (e.g. cost of goods) when compared with other industries or even foreign multinationals. Based on these higher running costs, it is unlikely we will ever exceed the baseline 4% R&D intensity level and thus we will only ever receive a 4.5% benefit. A 4.5% benefit not only fails to incentive 'additional' R&D, but it takes away from our existing R&D budget.

- **Immediate impact on our R&D:** The retrospective and significant drop in the R&D benefit will have an immediate and detrimental impact on our R&D budget. The deficit caused by this drop will need to be made up elsewhere; either through scaling back our operations, reducing our R&D headcount and/or reducing our costs in other areas. These changes will hurt our bottom line, immediately and at a time when we can least afford it. Furthermore, given that the central policy objective of the R&D Tax Incentive is to promote additional investment in R&D, it is difficult to reconcile how a retrospective application would serve the program's additionality target or spillover.

- **Longer term impact on our R&D:** At a rate of 4.5%, the RDTI will not incentivise us to undertake or even keep our R&D in Australia. We will need to reconsider the location and quantum of R&D employment and spend in Australia (especially when compared with New Zealand which offers a 15% R&D tax benefit).

- **Uncertainty deters investment:** Constant reviews of the RDTI and multiple proposals to reduce the benefit have eroded our confidence in the program; let alone the intensity measure which means we can't even predict the current year's benefit in advance. This uncertainty makes it impossible to plan ahead based on the RDTI and therefore fails in its primary objective to incentivize R&D.

- **Administration:** The Bill includes various measures to improve administration, but none address concerns raised by the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise and took too long to review claims. Reviews should be undertaken without prejudice, transparently and in a timely fashion.

In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation. The Government should **increase** its support for R&D – the current proposal to reduce the benefit will have a direct and detrimental impact on **existing** R&D activities and future spend by us on R&D in Australia.

We therefore strongly oppose the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 and recommend Government engage with industry on any future proposals to change the RDTI.

We would welcome the opportunity to discuss our company and the value the R&D Tax Incentive provides to us.

Yours sincerely

[redacted]

Samuel Beaton
COO/CFO