



DEEP EXPLORATION TECHNOLOGIES
COOPERATIVE RESEARCH CENTRE
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Senate Economics
Committee

13 OCT 2014

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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee,

RE: Submission on the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014

It has come to our attention that the above Bill will, if passed, reduce the tax offset rates available under the research and development (R&D) tax incentive by 1.5 percentage points. This will have a direct and adverse impact on our R&D activities.

R&D incentives have helped fund our R&D activities. We are deeply concerned that the above Bill is ill conceived and will adversely impact our Industry Participants' ability to utilise the benefits of the incentives in furthering our R&D and its commercialisation.

The Deep Exploration Technologies Cooperative Research Centre (DET CRC) was established in 2010 under the Australian Government's CRC program. The CRC program provides funding to build critical mass in research ventures between end users and researchers to deliver significant economic, environmental and social benefits across Australia. There are approximately 40 CRCs across Australia and all have been established to address major challenges that require medium to long-term collaborative efforts.

The DET CRC arose from AMIRA International's Drilling Technology Roadmap. The DET CRC will deliver research programs in more successful, cheaper and safer ways to drill, analyse and target deep mineral deposits. With \$AUS145M of cash and in-kind funding from the Commonwealth Government of Australia and its Participants, the DET CRC is the world's best-supported independent research initiative in mineral exploration. The DET CRC will manage an eight year program funded by \$30M cash from the Commonwealth Government, \$2M cash (and \$5M in-kind) from the SA Government, \$25M cash (and \$42M in-kind) from Industry Participants, and \$41M in-kind from its research providers.

Over the eight year program, we anticipate that our Industry Participants' contributions may be eligible for the R&D Tax Incentive. Most of this will be spent on labour; employing Australians to develop innovative solutions to problems.

Under the R&D Tax Incentive, our Industry Participants receive either a 40 percent non-refundable or a 45 percent refundable tax offset, depending on their turnover. This equates to a 10 or 15 percent permanent tax benefit. Under the proposed reduction, this would reduce the benefit by 10-15 percent. Such a large reduction will directly reduce their R&D funding.

The object of the R&D Tax Incentive is, in part, to support R&D likely to produce net-benefits for the Australian community. We believe that our R&D activities meet this object in two ways; not only are we employing and

benefitting the Australian community with our R&D efforts right now, but if successful, our R&D will result in innovative products and services that can compete globally and benefit the wider Australian economy.

We question the rationale for the proposed reduction as not only is it decoupled from the proposed company tax rate reduction, it immediately precedes a tax white paper, serving to generate unwarranted confusion, uncertainty and unpredictability in the government's approach to taxation.

We strongly believe that a cornerstone objective of Australia's R&D incentive should be to encourage R&D activities within Australia in order to, amongst other things, make eligible enterprises internationally competitive. Reducing the benefit, even if temporarily, is likely to have an adverse impact on encouraging investment in R&D in Australia. We note that in today's global community, companies can choose to undertake all or part of their R&D in jurisdictions that are cheaper or provide greater incentives.

We hope the Committee considers seriously the impact of the proposed reduction both on companies such as our Industry Participants, but also on the wider community that our R&D activities support and promote. We urge the Committee to recommend the rate reduction be paired with the company tax rate reduction and that further thought be given to this draft legislation before being put before the Senate.

Should you have any queries, please do not hesitate to contact me.

Yours faithfully

Ian Hardwick
Chief Financial Officer