THE POWER OF
REDARC

Senate Standing Committees on Economics

PO Box 6100

Parliament House

Canberra ACT 2600

Dear Committee,

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. It is these activities that have underpinned our company's growth and development. We are deeply concerned that the above Bill is ill conceived and will adversely impact our ability to utilise the benefits of the incentives in furthering our R&D and its commercialisation.

Based in suburban Adelaide, Redarc has over 30 years experience in the research, design, development and manufacture of a range of electronic voltage converters and associated products. Essentially, Redarc's products are attached to any moving vehicle that uses battery power including cars, boats, rail, trucks, mining equipment, bus and emergency vehicles.

Redarc was named 2014 Telstra Business of the Year. The award was presented by Federal Treasurer Joe Hockey. Will Irving, Telstra Business Group Managing Director and Ambassador for the Telstra Australian Business Awards, said Redarc is a high growth, high quality manufacturer that has focused on innovation. "They demonstrate that with a very strategic focus on their value proposition, as well as partnerships with universities and high levels of investment in research and development and production quality, domestic manufacturers can capture value and not just survive, but thrive."

Redarc acknowledges that the secrets of the company's success are continually investing a minimum of 15 per cent of our sales revenue back into research and having about 25% of our employees working in R&D and innovation.

In the 2012/13 year alone, we spent almost $3 million on R&D which we claimed under the R&D Tax Incentive. Most of this was spent on labour; employing Australians to develop innovative solutions to problems.

Under the R&D Tax Incentive, we receive a 45 percent refundable tax offset. This equates to a 15 percent permanent tax benefit. For instance, last year's R&D claim of nearly $3 million resulted in a net benefit of nearly $450,000. Under the proposed reduction, this would reduce our benefit by 10 percent. Such a large reduction will directly reduce our R&D funding.

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Moreover, we have received government recoupments in the past. Currently recoupment clawback operates to reduce our net benefit to 5 percent on R&D expenditure for which any government recoupments were received. Under the proposed reduction, this will further reduce our net benefit to 3.5 percent (a reduction of 30 percent). The Government has said it wants to target its R&D assistance to small and medium sized entities, but under this proposal, it is the small and medium sized entities who can least afford this reduction to the R&D tax offset.

Similarly, if feedstock formed a large part of our R&D expenditure, we could end up out of pocket. Feedstock increases assessable income and is decoupled from clawback or the proposed rate reduction. This means if we spent 90 percent of our R&D on feedstock, we would end up paying additional income tax on 30 percent of our R&D spend. For a Government that says it wants to support R&D in Australia, particularly R&D by small and medium sized entities, this proposal is ill conceived and risks penalising companies that undertake R&D involving feedstock or which receive government recoupments.

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 are proudly Australian, but 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 ourselves, 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 sincerely

Chris Johnson
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