

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2014 - 2015

Department/Agency: Treasury

Question: SBT84-86

Topic: Tax and superannuation Laws Amendment (2014 Measures No.5) Bill 2014

Reference: Written - 04 November 2014

Senator: Carr, Kim

Question:

In respect to the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014, and the proposed reduction to the rate of the R&D Tax offset:

84. When Labor announced it would implement the R&D Tax Incentive in the 2008 Innovation Statement, *Powering Ideas*, a key feature in the design of the measure was to increase “certainty by uncoupling the level of R&D support from the corporate tax rate” (Powering Ideas 2008, page 47). Is Treasury aware that the incentive was intended to be independent of the company tax rate, so that the level of benefit remains constant regardless of changes to the company tax rate?
85. Putting the original intent of the measure aside, what is the rationale for seeking to reduce the R&D rate one year ahead of the proposed corporate tax rate reduction?
86. Reducing the R&D tax offset rates one year in advance of a non-guaranteed drop in the company tax rate results in three different benefit regimes in the 2013-14, 2014-15 and 2015-16 tax years. Is that correct? If yes, is Treasury concerned about the level of complexity from having three different benefit regimes over a three year period?*

*2013-14 (the current regime), 2014-15 (reduction in the offset) and 2015-16 (reduced offset and proposed reduction in corporate tax).

Answer:

84. Treasury is aware of the statement contained in the former Government’s 2008 Innovation Statement, *Powering Ideas*.
85. While appearing before the Senate Economics Legislation Committee on 5 June 2014, the then Acting Assistant Treasurer, Senator the Hon Mathias Cormann, stated that the reason for the reduction to the R&D tax offset rates commencing ahead of the cut to the company tax rate is to ‘help repair the budget’.
86. The refundable and non-refundable tax offset rates available under the R&D tax incentive will be reduced once. The reduced tax offset rates will apply to all income years commencing on or after 1 July 2014. The reduction to the tax offset rates will not affect the administration of the R&D tax incentive.