

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Industry, Tourism and Resources Portfolio
2006-07 Additional Budget Estimates Hearing
15 & 16 February 2007

AGENCY/DEPARTMENT: INDUSTRY, TOURISM AND RESOURCES

TOPIC: *R&D Tax Concession*

REFERENCE: Hansard 16/2/07, Page E10-E12

QUESTION No. AI-17
(Hansard 16/2/07, Page E10-E12)

Senator CARR asked :—The Australian National Audit Office report on R&D tax concession in 2002-03 highlighted the proposition that three per cent of the companies registering represented 51 per cent of expected research and development expenditure. Are you aware of that?

Mr Peel—Yes, we have seen the audit report.

Senator CARR—Do you agree with that?

Mr Peel—They would have derived those figures from talking to us and looking at our numbers.

Senator CARR—Do you think it is still the case?

Mr Peel—I suspect it would be fairly close to still being the case.

Senator CARR—Do you have any information about the characteristics of those particular companies? For instance, are they particularly R&D intensive or are they just very big?

Mr Peel—I do not have that information here. I would have to take that on notice.

Senator CARR—What is your understanding?

Mr Peel—I will take that on notice.

Senator CARR—Your own level of expertise in this area would not give you a view as to whether or not these—

Mr Peel—If you want an accurate answer then it would be best if I took it on notice.

Senator CARR—In doing that, I presume you could also tell me figures on the R&D intensity of the firms receiving the concession. How many firms have an R&D intensity of, say, less than one per cent, what proportion of the firms do they account for and how much is that in dollar terms?

Ms Berman—We will take that on notice. We can give you intensity averages but we cannot give them per firm. We would have to do it in terms of, say, the offset users versus the premium or the size of the group.

Senator CARR—What is your sense of the intensity? What is the figure?

Ms Berman—We have done it in the past. I cannot recall exactly what it is, but it does vary according to sector and it varies according to size of firm, so there is a lot of variation in intensity.

Senator CARR—Could you provide me with those figures on intensity across industries as distinct from firms as well.

Ms Berman—Sectors.

Senator CARR—Yes, sectors. How many have R&D intensity between one and two per cent and what is the proportion of the cost that they account for?

Ms Berman—Certainly.

Senator CARR—Can you provide that in dollar terms as well?

Ms Berman—In terms of expenditure?

Senator CARR—Yes.

Ms Berman—I will take that on notice. I am not sure that we can provide it all but we can certainly provide you with intensities per sector.

Senator CARR—And you would be able to indicate to me the sectors where the largest spending companies are located?

Ms Berman—We will divide it up according to the sector definitions we have and I will give you the sector intensities.

Senator CARR—Australia has only 43 Australian based companies that spend more than \$10 million per annum on R&D—would that be true?

Ms Berman—Again, I do not have that information with me today but we do have access to those numbers.

Senator CARR—It was also put to me that the areas in which these firms are located are automotive, pharmaceuticals, biotech, mining and related engineering, agriculture—particular rural R&D corps will be prominent there—and gaming. Would that be right: gaming?

Ms Berman—I could not comment on gaming. Certainly I would expect pharmaceuticals and some manufacturing to be in that higher category.

Senator CARR—It has been put to me that there are in fact two poker machine companies in the top 50 in Australia. Would that be right?

Ms Berman—I have no comment. I am totally unaware of that.

CHAIR—I do not think that you have formally said that you are going to take these questions on notice, but I am assuming that is what you are going to do?

Ms Berman—Not for poker machines.

CHAIR—No, before that.

Ms Berman—I have taken on notice that I will look at intensity for specific sectors.

Senator CARR—And firms. There were two sets of questions.

Ms Berman—Size of firm and sector.

Senator CARR—Also, the intensity less than one per cent, the proportion of cost they account for and how much that is in dollar terms.

Ms Berman—I said I would see what I could do on that one. I cannot be sure that I can be exact in that case because, as I said before, grouping means that it is very difficult to give correct data. When people put their data in they do not say, 'I am grouped with these three other companies.' That information is given to the ATO; it is not given to us. Anything we give you has to have a caveat on it because it might not be totally accurate.

Senator CARR—Let us have a look at your answer. I think the department has been extremely helpful. I am not trying to argue the toss here. I am trying to establish what it is that we do know about the operation of this scheme and what the department knows about it. We will obviously come back and talk again when we have had a look at those. I am sure there is plenty of opportunity to pursue it.

ANSWER

Large R&D performers

The population of companies referred to in the ANAO report relating to the 2002-03 income corresponded to those companies reporting R&D expenditure above \$10 million *per annum*. As at 30 June 2006, data for the most recent complete income year (2004-05) show that 136 firms (2.3 per cent of registered companies) had R&D expenditure over \$10 million dollars. These 136 firms represented 49 per cent of R&D expenditure under the tax concession for that year. They are large employers with an average turnover of \$1.6b and average R&D expenditure of \$28m. Based on the expenditure by these 136 firms, the largest sectors by R&D expenditure are Mining; Machinery and Equipment Manufacturing; Communication, Services, Finance and Insurance; Construction; Metal Product Manufacturing and, Petroleum, Coal, Chemical and Associated Chemical Manufacturing.

The above figures are from AusIndustry's database of R&D Tax Concession data provided by companies registering for the concession. Firstly, the figures are based on company expenditure as reported to AusIndustry and not on actual claimed expenditure. The latter information is held by the Australian Taxation Office. Secondly, the figures do not take grouping into account. Thirdly, in 2004-05, 431 firms registered a zero turnover and these firms have been excluded from the intensity calculation.

How many firms have R&D intensity below 1%?

Answer:

In 2004-05, the number of firms registered for the R&D Tax Concession with an R&D intensity of less than 1% is 687 or 11.8% of the 5830 firms registering for the R&D Tax Concession in that financial year. The figure is based on 2004-05 R&D tax concession registration data as at 30 June 2006 as held by AusIndustry.

The figures provided are subject to some caveats. Firstly, the figures are based on company intentions and not on actual expenditure. The latter information is held by the Australian Taxation Office. Secondly, the figures do not take grouping into account. Thirdly, in 2004-05, 431 firms registered a zero turnover and these firms have been excluded from the intensity calculation.

By sector, how many firms have intensities of below 1% or 2% and how much R&D expenditure do they undertake?

Answer:

Table 1 provides the number of firms and their R&D expenditure by firms with below 1% R&D intensity and below 2% R&D intensity. It also shows the sector breakdown for each intensity range.

Table 1: Firms with R&D intensity below 1% and below 2% by Sector (2004-05 registration data as at 30 June 2006)

		Intensity of 1% or below		Intensity of >1% to 2%	
Sectors	ANZSIC	Number of Firms	R&D Expenditure (\$m)	Number of Firms	R&D Expenditure (\$m)
Agriculture	00X	34	14.5	18	11.3
Mining	10X	111	133.3	58	281.3
Food, Beverage, & Tobacco Man.	21X	92	122.2	35	74.7
TCF & Leather Man.	22X	np	np	np	np
Wood & paper Product Man	23X	16	11.4	4	76.7
Printing, Publishing & Recorded Media	24X	7	3	7	3.0
Petroleum, Coal, Chemical and Assoc Product Man.	25X	63	64.3	44	42.4
Non Metallic Mineral and Product Man.	26X	18	25.4	16	39.2
Metal Product Man.	27X	45	54.2	24	92.2
Machinery & Equipment Man.	28X	65	56.0	69	64.2
Other Manufacturing	29X	28	8.0	19	16.3
Utilities	36X	16	10.5	2	1.1
Construction	40X	33	16.5	18	42.5
Wholesale & Retail Trade	45X	31	76.7	13	20.0
Accommodation, Cafes and Restaurants	57X	np	np	np	np

Transport & Storage	60X	21	54.4	3	18.3
Communication Services, Finance & Insurance	73X	45	376.6	15	60.3
Property & Business & Computing Services	77X	43	40.6	26	22.5
Govt Admin, Defence, Education, Health and Community Services	81X	4	0.5	5	0.8
Cultural, Arts, Sports, Recreational, Personal & Other Services	92X	10	10.5	4	6.6
Totals		687	1080.0	383	877.4

The above figures are from AusIndustry's database of R&D Tax Concession data provided by companies registering for the concession. The figures provided are subject to some caveats. Firstly, the figures are based on company expenditure as reported to AusIndustry and not on actual claimed expenditure. The latter information is held by the Australian Taxation Office. Secondly, the figures do not take grouping into account. Thirdly, in 2004-05, 431 firms registered a zero turnover and these firms have been excluded from the intensity calculation. Further, in Table 1, some data was non-publishable (np) as it could allow a company to be identified

Can you provide me with those figures on intensity across industries?

Answer

Table 2 provides the per cent of R&D expenditure by sector in relation to three ranges of R&D intensity – 1-10%, 10-100% and >100%. In all cases, the estimated intensity may be incorrect due to the failure to take account of grouping provisions as noted below.

Table 2: Percentage of R&D expenditure by firms in the stated intensity ranges by sector (2004-05 registration data as at 30 June 2006)

	The percentage of R&D expenditure by sector by intensity range. #		
	Intensity 1-10%	Intensity 10-100%	Intensity >100%
Agriculture	1%	1%	0%
Mining	11%	5%	3%
Food, Beverage, & Tobacco Man.	4%	0%	0%
TCF & Leather Man.	0%	0%	0%
Wood & paper Product Man	2%	0%	0%
Printing, Publishing & Recorded Media	1%	0%	0%
Petroleum, Coal, Chemical and Assoc Product Man.	5%	1%	1%
Non Metallic Mineral and Product Man.	1%	0%	0%
Metal Product Man.	5%	0%	0%
Machinery & Equipment Man.	12%	6%	1%
Other Manufacturing	2%	2%	0%
Utilities	0%	1%	0%
Construction	5%	1%	0%
Wholesale & Retail Trade	2%	0%	0%
Accomodation, Cafes and Restaurants	0%	0%	0%
Transport & Storage	1%	1%	0%
Communication Services, Finance & Insurance	7%	2%	2%
Property & Business & Computing Services	3%	5%	2%
Govt Admin, Defence, Education, Health and Community Services	1%	2%	1%
Cultural, Arts, Sports, Recreational, Personal & Other	0%	0%	0%

Services			
Total intensity per range	62%	27%	11%

\$7538m of R&D expenditure was performed by firms with a turnover of greater than zero. Those with zero turnover performed R&D totalling \$248m.

The above figures are from AusIndustry's database of R&D Tax Concession data provided by companies registering for the concession. The figures provided are subject to some caveats. Firstly, the figures are based on company expenditure as reported to AusIndustry and not on actual claimed expenditure. The latter information is held by the Australian Taxation Office. Secondly, the figures do not take grouping into account. Thirdly, in 2004-05, 431 firms registered a zero turnover and these firms have been excluded from the intensity calculation.