The Sydney Morning Herald

Business
Industry sounds investment alarm on 'world's lowest' R&D incentive

Nassim Khadem, Nick Toscano
753 words
10 May 2018
The Sydney Morning Herald
SMHH
First
22
English

BUDGET

Some of Australia's largest companies will have their tax incentives for local research and development programs cut in half under this week's federal budget changes, with industry leaders and experts warning more work may shift offshore. In a move to save $2 billion over four years, federal Treasurer Scott Morrison has announced a revamp of Australia's research and development tax incentives, which, he says, will ensure the policy supports genuine investment in innovation.

The most divisive part of package is a new "intensity measure", under which companies with turnover of $20 million or more will, in most cases, be adversely affected.

Large businesses across manufacturing, pharmaceutical and biotech industries are bracing for a dramatic drop in their R&D tax savings from 8.5 per cent to 4 per cent.

If a company's R&D "intensity" — that is, expenditures on its research and development divided by its sale — is between zero per cent and 2 per cent, the company will only be eligible for a tax offset of 4 per cent. But if intensity range is above 10 per cent, it will be able to attract a higher rate of 12.5 per cent.

Representatives for some of the country's top manufacturers — including Dulux, BlueScope, Brickworks, CSR and Rheem — said the change would create a "two-speed R&D system".

"What we will see is a system that benefits international companies while disadvantaging local manufacturers," said Ben Eade, executive director of Manufacturing Australia.

"Multinational manufacturers that choose to undertake R&D in Australia but little or no local production are likely to see their incentives increase, but local manufacturers who undertake comparable R&D but have a capital-intensive cost base in Australia ... are likely under these changes to see their incentives halve."

Mr Eade said the industry agreed with the government on the need to manage costs of the scheme but it must be "equitable".

"It's too early to say whether specific manufacturers would [move R&D offshore], but this would certainly weaken the case for research and development to remain in Australia," he said.

KPMG Australia's lead partner for R&D advisory, David Gelb, said a 4 per cent R&D tax incentive would be the lowest rate in 33 years and "lowest in the world".

"Companies are likely considering more attractive offshore locations to undertake R&D as a result of this," he said.

PwC partner Sandra Boswell said Hong Kong and New Zealand had both recently announced "new, more attractive R&D programs with one base rate of 9 per cent in both territories".

"We are the only country that has reduced rates for the majority of claimants in 2018," she said.

Ms Boswell said small companies — those with less than $20 million turnover — had "fared somewhat better".

A spokeswoman for CSL said the company would await more detail to assess the impact on its annual $800 million spend on R&D.

CSL said the R&D tax incentive was just one factor taken into account when it decided where to base its investments but it was a "a significant factor in Australia's international competitiveness.

Cochlear chief executive Dig Howitt welcomed the lift in the previous $100 million cap to $150 million which was restricting its ability to increase its local spend saying it could allow the company to grow its local investment.

"Now that cap has increased, we will continue to get a tax benefit, which makes Australia more attractive, we will be more inclined to do it [invest in R&D] in Australia," he said.

Cochlear's R&D intensity is above 10 per cent which means it qualifies for the highest offset rate, which is 12.5 per cent. Mr Howitt said the change rewards companies that are genuinely investing in R&D.

But tax experts say Cochlear may be a rarity among companies with $20 million plus turnover.

Kris Gale, of R&D advisory firm Michael Johnson Associates, was involved in the redesign of the incentive back in 2011. He agreed that most $20 million-plus companies would be left worse off by the intensity measure.

"There seems to be an attack on Australian mainstream companies again for the sins of some smaller start up companies," he said.

"We have an environment where business expenditure on R&D is going down and the program that supports it is being undermined."

Document SMHH000020180509ee5a0001n

