



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



**HOUSE OF REPRESENTATIVES**

**PROOF**

**TAX LAWS AMENDMENT (RESEARCH  
AND DEVELOPMENT) BILL 2010**

**INCOME TAX RATES  
AMENDMENT (RESEARCH AND  
DEVELOPMENT) BILL 2010**

**Second Reading**

**SPEECH**

**Thursday, 17 June 2010**

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

---

## SPEECH

**Date** Thursday, 17 June 2010  
**Page** 33  
**Questioner**  
**Speaker** Bird, Sharon, MP

**Source** House  
**Proof** Yes  
**Responder**  
**Question No.**

**Ms BIRD** (Cunningham) (12.40 pm)—I rise to speak in support of the bills before us today—the Tax Laws Amendment (Research and Development) Bill 2010 and the Income Tax Rates Amendment (Research and Development) Bill 2010. I understand that several speakers on the other side have raised, as the member for Maranoa did, issues around their desire to see more time for consultation. In the detail of my speech I will go through the quiet extensive process that has been put in place to reach this point. I just make the observation that it seems to be a consistent theme from the other side these days to say that we need more time for consultation when really they just do not want to support reform.

There is a clear indication, and the government strongly believes, that innovation is the primary driver of sustainable growth as well social wellbeing and therefore should be a priority for any government, as it is for this government. The bills before us are an important component of the government's broader innovation agenda. The first schedule of the Tax Laws Amendment (Research and Development) Bill implements a more generous research and development tax incentive benefit for eligible activities, and it is better targeted towards research and development that benefits Australia than the existing tax concession system.

Importantly, it should also be noted that the new scheme is also substantially simpler and is supported by improved administrative arrangements to make it more efficient. At the heart of the new incentives are two core components: the first is a 45 per cent refundable research and development tax offset for eligible entities with a turnover of less than \$20 million; and the second is a non-refundable 40 per cent research and development tax offset for all other eligible entities. These changed rates are supported by a delivery mechanism that is clearer and by a better targeted definition of the eligible research and development activities. That will ensure that the incentive is available in the circumstances, consistent with the underlying rationale for government intervention, and that it delivers value for money for taxpayers.

It is the intention of the government that the new research and development incentive will start on 1 July 2010 so that the benefits can be delivered

as soon as possible. To this end the government has provided \$38 million in the 2009-10 budget to ensure that AusIndustry and the ATO are equipped to assist taxpayers in adjusting to the new scheme as it comes into force. These new incentives are targeted at stimulating productivity growth and innovation throughout the Australian economy with the aim of building prosperity and competitiveness for the long term. The new 45 per cent refundable tax credit is equivalent to a 150 per cent tax deduction and is therefore a doubling of the current base incentive for smaller entities to expend money on research and development. This is important, as in so many parts of the country, including my own in the Illawarra, smaller and medium-sized businesses are often the driving force for growth in jobs and opportunities in our regions.

The Treasurer and the Minister for Innovation, Industry, Science and Research indicated in announcing the reforms that approximately 5,500 small business firms could benefit from the incentive. The 40 per cent non-refundable tax credit is equivalent to a 133 per cent tax deduction and therefore raises the current base incentive for larger entities by one-third. These bills are based on extensive inquiries, as I indicated at the beginning of my comments, into building an effective incentive scheme to appropriately support research and development activities across the economy.

12:44:18

In 2007—nearly three years ago now—the Productivity Commission released a research report entitled *Public support for science and innovation*. This report identified some issues with the existing scheme that hampered its effectiveness. Prior to that time, in the previous government, when I was a member of the House Economics Committee we took evidence from across industry about concerns they had about the effectiveness of the scheme as it existed. The Productivity Commission report identified that the criteria for the basic 125 per cent tax concession was not successful in screening out research and development that would have happened anyway, that the benefits of the existing incentive were not large and could in effect be negative, and that the net payoff from the concession could be substantially improved by

maintaining access to the concession for small entities only.

This report was followed in 2008 by the Cutler review. On 22 January 2008, Minister Carr announced a review of Australia's innovation system and appointed Dr Terry Cutler to undertake the review. The report was released in August 2008 and was titled *Venturous Australia: building strength in innovation*. The Cutler review made several findings, including that the existing incentive should be changed from a tax deduction to a tax credit, that a 40 per cent tax credit should be available to larger entities and a refundable 50 per cent tax credit to smaller entities, that all research and development undertaken in Australia that meets the relevant definitions be eligible for tax credit and that research and development expenditure undertaken in Australia by foreign owned entities be eligible for the tax credit.

On 12 May 2009 the government released its response to the Cutler review. The response outlined the government's long-term innovation policy agenda and was titled *Powering ideas: an innovation agenda for the 21st century*. The government broadly accepted the intentions of the findings of the Cutler review and consequently announced the proposed new incentive, which was included as a budget measure in the 2010-11 budget. In announcing the government's response the Minister for Innovation, Industry, Science and Research, Kim Carr, outlined that the government's support for innovation and for competitiveness in our industries and companies was even more significant and important through the period of international instability that was the global financial crisis.

As part of the overall innovation changes that this government has put in place, we have started an annual *Australian innovation system report*, which is intended to be an ongoing annual series providing information on the state of innovation in Australia. The first report has been published—for the 2010 year. The report makes the very important point about the integration of the innovation system in Australia. This bill goes to the issues around private companies investing in innovation and development supported through, appropriately, government programs. The report indicates the great importance of integration between the public and private sectors and also collaboration between them. I think it is worth repeating a comment made in the report under the heading 'Research capacity and skill base':

Australia's innovation performance is underpinned by its research capacity and skills base. Research in the public and private sectors creates new ideas which fuel innovation, while skilled workers drive innovation by turning ideas into new products, services and processes for the benefit of the economy and society.

Indeed, these bills sit within that overall structure. I want to highlight in my contribution to this debate some real-life examples of that in my own area of the Illawarra. I am pleased to see in here Parliamentary Secretary Marles, who has played a significant role in the announcement of some of these. I have been very pleased to welcome him to the Illawarra.

I will first outline for the House a program that is a tremendous example of the collaborative model, and that is the Cooperative Research Centres Program. The parliamentary secretary recently attended the Innovation Campus at the University of Wollongong with me and members not only of the university but also of industry to launch the Energy Pipelines CRC. This is a particularly exciting initiative. At that launching we had people from industry not only from across Australia but from industry internationally. This particular CRC will be located at the University of Wollongong. It is important to note that the CRC will receive \$17.48 million over the 10 years of its operation. That will be complemented by significant partner cash from the private sector of around \$70.6 million—a great example of the government and the private sector working together. The CRC's aim is to deliver long-term safety and security for Australia's energy sector, a task that could hardly be more important as we look around the world and see nations dealing with energy security and energy efficiency issues.

Some of those from industry who were in attendance on the day said to me that—sadly—pipelines, because they generally are under the ground, out of sight, tend to be out of mind. It would be a great failing for a nation to take that view, because the reliability and security of our pipelines is so important to the provision of energy throughout the nation. In my own area, only very recently we saw an example of how disruptive a failure in the pipelines can be when we had a failure in the gas pipelines to the Southern Highlands area. The local ABC radio station had people ringing in and giving quite innovative feedback, I have to say, on how they were managing to get a shower or to make a cup of coffee. People were commenting on how much we take for granted our energy supply and how disruptive it is when it is no longer there. The cooperative research centre at the University of Wollongong will be working specifically around metals and materials development in order to provide not only cheaper, more efficient pipeline but also more reliable and secure pipeline. The development of that sort of expertise in Australia would be hugely valuable and no doubt important in placing us competitively on the international scene in this area as well.

So I was very pleased. It is no surprise that in the Illawarra we combine the great development of

manufacturing knowledge and skills from our years and years of involvement in the manufacturing sector—including and epitomised by BlueScope Steel, a tremendous corporate citizen in our area—with that driving house of research and innovation, Wollongong university. Marrying those two in such an initiative seems to me a tremendous outcome and something that will indeed place us nationally very well in innovation.

The second development locally that I wanted to outline to the House was this. In March this year I participated in a groundbreaking ceremony at another facility, the Innovation Campus of the University of Wollongong. This was to establish the Australian Institute for Innovative Materials Processing and Devices Facility, funded by the federal government with a \$50 million grant. That is another critically important facility contributing to innovating and working closely with industry in order to well position the country on innovation and commercialisation. Currently there are no facilities available in Australia to produce multifunctional materials at the scale and quantity required to bridge what the university describes as ‘the valley of death’ to commercialisation. The new facility that my colleague Jennie George and I turned the sod for at the Innovation Campus of the Wollongong university is due to be completed by March 2011. I would like to indicate that the Deputy Vice-Chancellor (Research), Professor Judy Raper, has been quoted as saying about this facility:

Australia now has the opportunity to transform multifunctional materials research and be the world leader in this research and also in its commercialisation.

The piece went on:

Multifunctional materials (such as electromaterials that generate and/or transfer electric charge—an area where UOW is a recognised international leader—have the potential to solve many of the world’s health and technology problems.

However, many such advanced multifunctional materials cannot be processed using conventional methods.

Professor Raper said the challenge now—

for the university—

was to take these materials from fundamental research, through the proof of concept stage and into real world applications, novel fabrication, processing and to develop manufacturing methods.

This is a truly fantastic initiative and I think it epitomises the intention of not only the university but the broader Wollongong community for the Innovation Campus and, indeed, for Wollongong to be a city of innovation. It is a really important outcome for our region but also for the nation as it builds upon those

partnerships of meaningful research and engaging with industry.

Only last Friday I again was over at the Innovation Campus to announce that \$25 million had been granted by the federal government to establish a new facility. It will be titled the Retrofitting for Resilient and Sustainable Buildings facility. It is a really important initiative, where the university will be working to do research and, again, product development in partnership with Illawarra TAFE around the retrofitting of buildings for a more efficient energy future. This will be a tremendous new facility. It will develop evidence based practice in sustainable building technologies and design for Southern Hemisphere environments. This is really important in developing efficient methods for our environment rather than just taking Northern Hemisphere developed solutions, which may not always translate over particularly well. I was very pleased to attend the Innovation Campus. They assure me they still have more blocks of land available. Whilst we have had a tremendous investment over at that Innovation Campus in the 2½ years of the Rudd government, I look forward to more in the future.

I want to conclude my comments in this debate by indicating that all of this fits together into an integrated approach by this government to innovation. Our world and the future of our nation in a highly competitive global economy will be heavily reliant on capacity in the development of knowledge and technology and pressured by emerging social and environmental issues. This will require us to ensure an efficient and effective national system that fosters and supports innovation across and between the public and private sectors. In the minister’s publication referred to earlier, *Powering ideas*, this government identified a number of critically important initiatives to best position our nation. The Prime Minister’s Science, Engineering and Innovation Council steers a whole-of-government approach to ensure integration of policy developments. This work will be supported by the research workforce strategy, which is currently under development, and the Innovation Metrics Framework to provide an evidence base for policy and review. These bills sit, importantly, within that comprehensive framework of innovation and, after a significant number of years of consultation and development, they should be supported by this parliament as an important part of our innovation future. I commend the bills to the House.