



Utilising Plantation Timber - Australia's Renewable Resource

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The Treasury
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Submission in response to the Government's Consultation Paper on the new research and development (R&D) tax incentive

Austicks Pty Ltd (Austicks) is a privately owned company based in Gladstone, Queensland, who currently employs around 50 people, and produces high quality ice-cream sticks from hoop pine, generating an annual turnover of around \$9m. Austicks has been manufacturing ice cream sticks and coffee stirrers in Gladstone since 1997. The company's operating objective is to continually strive for better utilisation of available timber resources.

Austicks produces 1.2 billion units annually for the global market, and is the last remaining wood processing plant of its kind in Australia. With fierce competition from Canada, China and Europe, Austicks has remained competitive by identifying and implementing new technology and efficient processes to achieve greater productivity, lower operating costs, and a more sustainable future. Accessing the R&D Tax Concession has assisted the company make the improvements in its business necessary to remain competitive.

Austicks considers itself to be an SME and representative of the profile of company the Government desires to further assist through these changes. Austicks' R&D means the company can remain competitive and continue to employ 50 people in the Gladstone area. Further, when conducting R&D, Austicks uses local service and equipment providers to assist it to deliver improvements to its business.

We welcome the increased concessions to SMEs, but we are very concerned that the proposed limitations on supporting activities will completely erode any additional benefit.

Austicks' concern regarding the Government's proposal to limit supporting activities

We believe that if the Government limits supporting activities (through any of the proposed options) Austicks' benefit from claiming R&D will decrease significantly. While Austicks is a SME and would qualify for the 45% Tax Credit, we expect the benefit to the company to reduce under the new program if supporting activities are limited. We believe the proposed limitations to supporting activities, while aimed at large claimants, will have unanticipated detrimental impact on SMEs like Austicks.

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The pressures from our overseas competitors coupled with the resources which we have at our disposal (as an Australian manufacturing SME) results in an inability to conduct R&D trials within the vacuum of a pure R&D environment. The result is that we need to test new methodologies and technologies within a real-time production environment. A significant proportion of Austicks' R&D claims relate to trials and this is necessary for the continued competitiveness of our business.

We believe that we should not be limited from conducting eligible R&D activities within this environment or disadvantaged because of the commercial reality of the business environment in which we operate.

We also note that all of the proposals to limit supporting activities require companies to separately identify and cost core and supporting activities will be a disincentive for SMEs to access the program. We do not currently distinguish between core and supporting activities when preparing our R&D claims and this requirement would be a big imposition on a business of our size.

If changes to the definition are required, then our preference is to require core R&D to involve both innovation and high levels of technical risk whilst leaving the definition of supporting activities unchanged and attracting the same concessional rate as core activities.

By requiring core activities to be both innovative and have high levels of technical risk, this will limit our core activities, which will have a corresponding limitation on the supporting activities. Further limitations are not necessary and will be detrimental to our ability to access the program, despite being an SME undertaking R&D generating material spillovers in our local economy – the profile of company which is intended to benefit most from these changes.

There is enormous risk that the policy intent of these changes will not be delivered and SMEs like Austicks will receive less benefit under the new program. Or worse, the administrative complexities will result in Austicks not accessing the program. Austicks implores the Government not to limit supporting activities as this would disadvantage Austicks (and other SME manufacturers) because of the way in which they must conduct their R&D due to competitive pressures and commercial reality.

Yours sincerely

Madeleine Spry
Financial Controller