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*Please quote Our Ref on all correspondence*

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19 September 2012

Business Tax Working Group Secretariat  
The Treasury  
Langton Crescent  
Parkes ACT 2600

Dear Sir/Madam

**R&D Tax Incentive - Proposed Changes**

On behalf of the company we present this submission to highlight the importance of consistency in government support for industry innovation through the taxation system.

The Business Tax Working Group (BTWG) has included several proposed changes to the new R&D tax incentive in its report dated August 2012. In essence, the BTWG targets fiscal savings through reducing or eliminating R&D tax incentive benefits for larger companies.

We wish to remind the BTWG that the R&D tax incentive was introduced with effect from the 2012 year of income after four years of consultation between government and industry. We are concerned that such significant changes are being proposed to the R&D tax incentive so soon after its implementation and which would create a disincentive for multinational companies to locate innovation activities in Australia.

As your discussion paper acknowledges, governments support R&D activities because of the positive benefits they can generate for the wider economy. The new R&D incentive promotes many positive features:

- Having a tax incentive encourages companies to carry out genuine product development and process improvement projects beyond 'business as usual' activities. Such behaviour promotes value adding by larger Australian businesses, leads to spin off benefits through the supply chain and a more knowledgeable and skilled workforce.
- The new R&D tax incentive has a tighter definition so that only core R&D activities or those with a dominant purpose of supporting core activities can be claimed. As the new R&D tax incentive has only been in place for a short time, the effect of this more focused definition has yet to be demonstrated.
- Industry sector improvements to performance through technology often require significant investment by companies. Examples include:
  - Developments in Cable Belt Conveying Technology for the transport of coal over long distances.
  - Application of Modular Bay Design Concepts and Modular Construction Techniques to the development of advanced Coal Handling and Preparation Plants.
  - Design and development of Coal Handling and Preparation Plants for technically-challenging applications and environments.

The R&D Tax Incentive helps to encourage a culture of innovation in Australia and more particularly in our industry. We consider that the message of cuts to R&D incentives for large businesses may create a

significant negative long term reputational impact and stifle the development of a culture of innovation and development.

It should be remembered that there was a significant drop in R&D spend in Australia when the rate of incentive was halved in 1996. There is an even higher level of global mobility now and greater incentives in other jurisdictions, compared to the late 1990's, which could lead to a transition of innovation away from Australia which we may struggle to reverse in the future. Whilst the same level of R&D could continue in the short term, we would be unable to commit to our current levels in the long term.

Should you have any questions, we would be happy to discuss this further.

Yours faithfully



**Miryam Meza**  
Manager Taxation