



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

BILLS

**Tax and Superannuation Laws Amendment
(2014 Measures No. 4) Bill 2014, Tax
and Superannuation Laws Amendment
(2014 Measures No. 5) Bill 2014**

Second Reading

SPEECH

Wednesday, 24 September 2014

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Speaker Zappia, Tony, MP	Question No.

Mr ZAPPIA (Makin) (16:43): I endorse the comments of the member for Grayndler. This debate deals with two bills—the Taxation and Superannuation Laws Amendment (2014 Measures No. 4) Bill 2014 and the Taxation and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014. In combination, these bills deal with nine specific matters—all of which could have been, and should have been, the subject of individual debate, because they are each important in their own right. Yet the government has chosen to lump them all in together, and by doing so it hopes to take the spotlight off those measures which it knows are not popular or knows are not smart.

Time will not enable me to speak to each of the nine effects of these two bills. I will confine my remarks to the matters of multinational tax arrangements and the reduction of research and development tax offset provisions. I recently spoke in the Federation Chamber about the growing tax avoidance industry around the world and the billions of dollars of tax revenue that is being lost to governments as a result of tax avoidance techniques implemented by multinational entities using smart accountants, lawyers and tax haven countries where it is estimated that trillions of dollars are being stashed away. However, it is not even necessary to use tax haven countries to avoid tax in Australia, because it can be done by using other tax avoidance techniques. Prior to the 2013 federal election, the Labor government had proposed measures that would have closed the loophole to about \$1.1 billion of tax that was being avoided by taxpayers in this country. The Abbott government, on coming to power, has decided to do away with all those measures Labor had proposed that would have closed those loopholes. That becomes, in turn, a \$1.1 billion burden that the Abbott government will now have to impose on other taxpayers or else increase taxation or reduce government services. In other words, the rest of the community pays because the Abbott government did not follow through with that \$1.1 billion of measures the previous Labor government had proposed.

The second matter I want to refer to is the reductions to research and development tax offsets. It is becoming very clear that the Abbott government simply does not understand the importance of research and development to Australia's future. First, it cuts about \$300 million of funding from Australia's leading research institutions, including \$146 million from the CSIRO, ANSTO and others; \$80 million from the Cooperative Research Centres; and \$75 million from the Australian Research Council. The work of these organisations is internationally valued and contributes immensely to Australia's productivity and security. So much of the research results in innovation that in turn is transferred to other sectors, from medicine to defence to industry and agriculture and through to the environment. Indeed, much of the private sector benefits from the work of these organisations and in turn depends on that work, but the government funding to them is being cut. When the research and development tax offset is then reduced, the problem is compounded, because the result is less research and development from government and less research and development from the private sector. On top of that, we have the Minister for Education threatening to cut research funding to the universities if he does not get his way with respect to the higher education funding cuts that he is proposing. On one hand the government is saying, 'We're not proposing any cuts to the higher education sector' and on the other it is saying, 'But if we don't get what we want, we're going to cut the research dollars to them.' In other words, it is an admission that cuts are proposed to the higher education sector throughout the country. It would be particularly shameful if the cuts impacted in any way on the research work done by the universities, because they in turn work in partnership with the other government departments and with the private sector.

The issue of private sector research and development will further deteriorate, because a major contributor to research and development in Australia for decades has been the automotive sector. And the facts will show that billions of dollars have been invested by the automotive sector in this country into research and development. The fact is also that the Abbott government has turned its back on tens of thousands of Australian car workers and their families. Simultaneously, it has turned its back on hundreds of small and medium-size enterprises that also depend on the auto industry in this country. But it is now also turning its back on research and development

dollars that car makers were putting into this country. And many of the research and development dollars from the car makers in turn were in turn flowing on to other industry sectors that benefited from that investment.

We are going to lose all that, because the government has no interest in car makers in this country. We saw that only too clearly this morning, when legislation was introduced into this House by the Minister for Industry with respect to cutting another \$500 million of funding from the Automotive Transformation Scheme between now and 2017—another clear signal from this government that it is not interested in car makers in this country and it is not prepared to do anything to assist them and not prepared to do anything to assist those support-component manufacturers who also invest in research and development. Some of them, with some government support and some supportive government policies, may well be able to continue after the car makers have ended. But it seems that this government is not prepared to give them the support they need and indeed is cutting funding that was previously allocated to that sector by the Labor government so as to help that industry remain competitive.

Other Western countries, including the USA and the UK, have in recent years turned their manufacturing sectors right around. A decade or two ago, they too were becoming non-competitive with countries with low labour costs. But in the last few years, and in particular in more recent years, both of those countries have redeveloped their manufacturing sectors and are now extremely competitive with low-labour-cost countries. Indeed, I understand from a report from the Boston Consulting Group that US manufacturers are today more competitive than their counterparts in China. That is not surprising, because we are seeing manufacturers transfer their operations back to the USA from China and we are seeing manufacturers transfer their operations from several countries to which they had previously located, back to what I call advanced First World countries.

The point I make about that is that manufacturing can be competitive if governments are prepared to back it and invest in it. If governments are prepared to give to the manufacturing sector the right kind of policies and financial support, then it makes a difference.

But there is one other critical element to all of this, and it comes back to the issue of research and development. If a company is going to be competitive then it needs to invest in research and development. If a country is going to be competitive it needs to invest in research and development. The research and development that companies and countries invest in not only benefits particular organisations, but the country as a whole. It seems to me that the Abbott government does not seem to get that any investments made in research and development are actually a good investment in the country. The return for the dollars invested is worth making. If in the future we are going to be a competitive country, then we need to be innovative, and if we are going to be innovative, that comes from research and development. Yet we are seeing the exact opposite being done here in Australia by this government, and that is a shame.

There is a snowballing effect with respect to not investing in research and development. The tax measures that take away one of the incentives for companies to invest in research and development simply compound and add to all of the other cuts I referred to earlier.

There is another matter that flows from all of this, which is what we call the brain drain from our country—the loss of scientists and researchers to other countries. That will happen once the dollars dry up in research and development in this country. Recently I spoke with a young man in Adelaide who is a graduate of medical science at Adelaide University. Based on his study results, he is clearly an outstanding graduate with an extremely bright future, so much so that he has already been offered a job in the USA by one of the medical research institutions, yet he cannot get a job here in Australia. The loss of people like that will ultimately be a loss to Australia's competitiveness, to our innovation and to our ability to do things and be a forward-looking, advanced country. We will lose people like that and we will lose people with specialist skills who are already in the sector, because we dry up the funding to research and development. Again, that will be to the detriment of this country in years to come.

Taken individually, each of the hits to research and development in Australia may be absorbed. But, collectively, the impacts will have devastating consequences for years and years to come. Diminishing the research and development tax incentives, cutting funding to government research and development organisations, the loss of the automotive manufacturing research and development dollars that we have benefited from, and the loss of intellectual capital—that is, the loss of scientists and researchers—will cost Australia dearly in the years to come. It is ignorant policy by a government that knows it will not be here when the damage is realised in years to come.