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Innovation: 10pc 'patent box' rate would boost manufacturing, report says

The closure of basic industries, such as vehicle assembly, has sparked a quest for higher value advanced manufacturing in Australia. **Nic Walker**

by **Ben Potter**

Australia can sharply improve its competitiveness in manufacturing by introducing a 10 per cent tax rate for profits earned on locally generated intellectual property, a new report says.

The report from the Australian Advanced Manufacturing Council says Australia comes a lowly 10th out of 12 comparable countries rated for their taxes on manufacturing.

But the introduction of a "patent box" - a special 10 per cent tax rate for profits earned on intellectual property (IP) developed and registered in Australia - would improve the position to first for local investors.

For foreign investors, who have to pay dividend-withholding tax, Australia's position would be improved to third behind Britain and Ireland. Countries surveyed also include the US, Germany, India, Singapore, Switzerland, Korea, Canada and Israel.

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Prime Minister Malcolm Turnbull thinks deeply about innovation. He is seen during question time at Parliament House in Canberra on Wednesday 2 December 2015. Photo: Andrew Meares **Andrew Meares**

Patent boxes - controversial measures aimed at boosting innovation - are being considered for Monday's innovation statement, but there is no sign that the government is looking favourably or unfavourably at them.

Britain's 10 per cent patent box was initially criticised because it didn't require the IP to be generated in the jurisdiction, but it is being amended to comply with new Organisationfor Economic Co-operation and Development (OECD) guidelines.

A report for the Department of Industry last month criticised the measure, saying it could trigger a "race to the bottom" and result in lost revenue for little gain.

But Bill Ferris - the veteran venture capitalist named chairman of Innovation Australia two weeks ago - said if the measure encouraged entrepreneurs to maximise their intellectual property development and gains in Australia "in a meaningful way", it should be considered.

GEELONG, AUSTRALIA - OCTOBER 07: Minister for Industry Christopher Pyne will deliver the innovation statement with Prime Minister Malcolm Turnbull on Monday, 7 December. He is seen at the Carbon Revolution plant inauguration in Waurn Ponds with Carbon Revolution CEO Jake Dingle (L) and local Federal member Sarah Henderson (R) on October 7, 2015 in Geelong, Australia. The privately-owned Australian wheelmaking company

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The report's recommendation is similar to one by former CSL chief financial office Gordon Naylor in June for a 10 per cent corporate tax rate on advanced manufacturing.

The government and the manufacturing sector are looking at ways to boost innovation and commercialisation of research because Australia's high labour costs mean most basic manufacturing is uncompetitive - except for products like heavy building materials which are costly to transport.

But we have traditionally performed poorly in measures of innovation, coming 116th out of 142 countries surveyed in the World Economic Forum's Global Competitiveness Report 2014, and last of 33 Organisation for Economic Co-operation and development nations for industry-research collaboration.

The innovation statement will try to fix this with tax breaks for investors and incentives for industry and researchers to work more closely together.

Former CSL CFO Gordon Naylor, seen before the full year financial results on August 12, 2015 in Melbourne, advocates a 10 per cent tax rate for advanced manufacturing. (Photo by Chris Hopkins/Fairfax Media) **Chris Hopkins**

But the advanced manufacturing lobby says more is needed because Australia's research and development incentives are not competitive against leading rivals for investment even before the 30 per cent corporate tax rate, which is higher than most countries, and dividend withholding tax.

The report says this makes Australia uncompetitive when multinational manufacturers look to short list countries for new investment. Earlier this year CSL said it chose a Swiss location for a new blood products manufacturing plant over Australia because of tax.

As well as introducing a "patent box" it seeks more generous R&D concessions and goodwill amortisation rules for tax purposes.

"This is an area of increasing competition internationally, and if Australia rests solely on its R&D scheme, it will get left further and further behind," the report says.