



GRANTS FOR RESEARCH AND DEVELOPMENT

(Statement by Mr. J. McEwen, Acting Prime Minister and  
Minister for Trade and Industry)

1. The Acting Prime Minister and Minister for Trade and Industry, Mr. McEwen, today announced some further details of the scheme for Government grants for research and development mentioned in the Treasurer's Budget Speech of 16th August last.
2. Mr. McEwen said that complete details would be contained in the legislation which would be introduced shortly. However, he thought it would be useful in the meantime to inform the business community of the broad outlines of the scheme so that they could organise their affairs to derive full benefit from the incentive.
3. The scheme will operate with effect as from 1st July, 1967 until 30th June, 1972. Before the latter date is reached the Government will review its operation.
4. Mr. McEwen explained that grants would be made only to manufacturing and mining companies incorporated in Australia.
5. Grants, which will be taxable in the hands of recipients, will be payable in respect of additional expenditure on research and development work undertaken by a company during the currency of the scheme. For these purposes "research and development" will be defined along the following lines :  
  
Systematic experimentation or analysis  
in the fields of science, engineering  
or technology to acquire new knowledge  
or to develop new or improved material  
products or processes associated with  
the production or use of such products.

6. The following activities would not be regarded as falling within the scope of the above definition :

- . Market research
- . Sales promotion
- . Feasibility studies
- . Technical service to customers
- . Management studies
- . Labour efficiency surveys, investigation into incentive wage systems etc.
- . Methods engineering
- . Operational research
- . Routine quality control and routine materials testing
- . Mineral exploration and prospecting.

7. Mr. McEwen added that the full definition of research and development which will be contained in the legislation will exclude the following categories of design work from eligibility for grants.

- Design work which arises from the need to meet the individual requirements of a particular user of the product or process;
- Design work which is primarily directed towards styling as distinct from an improvement in the functional characteristics (including the reduction of costs) of the product or process.

Mr. McEwen continued :

8. The scheme will apply only to companies which increase their research and development in Australia as compared with a base period. For this purpose, the base year will be the financial year 1965/66.

9. Firms must apply for grants and in the first instance, will be required to establish the extent of their eligible research and development activities in the base year. Where a firm was not engaged on research and development in the base year, its base will be nil.

10. Grants will be administered in two ways. A firm which satisfies the administering authority that it has increased its research and development work as defined, will automatically qualify for a percentage grant in respect of eligible additional expenditure up to \$50,000 a year.

11. A firm which wishes to receive a grant in respect of eligible additional expenditure beyond \$50,000 a year will need to obtain individual (but not necessarily prior) approval on a selective basis in respect of the excess. Applications will be assessed in the light of the extent to which the research and development appears likely to contribute to the following objectives :

- The development and use of Australian physical resources;
- The expansion of exports;
- Import saving and the ability to compete with imports;
- Productivity and cost reduction;
- Defence capability.

12. The grants will not be paid in respect of all components of research and development costs. They will be limited to expenditure on wages and salaries, plant and equipment, and contracted research and development. Two of these components, expenditure on wages and salaries and expenditure on contracted research and development, will be treated together in estimating their eligibility for grant purposes. The other component, expenditure on plant and equipment, will be treated separately.

13. Wages and salaries will qualify only in respect of professional and technical staff engaged in Australia wholly on research and development. "Professional" staff will be those who have completed a university degree or technical college diploma in a branch of science or engineering which admits to membership of a professional institute. "Technical" staff will be those who are directly assisting, in a technical capacity, the professional staff engaged on research and development. The wages and salaries of certain other staff categories, such as secretarial staff, librarians, cleaners, etc., even although they may be employed wholly in a research and development establishment, will not qualify for the grant.

14. Grants will be payable in respect of the increase in eligible wages and salaries over the base year 1965/66.

15. In calculating the wages and salaries component in the base year, firms will be required to include the appropriate proportion of the salaries of staff during periods when they were engaged part-time on research and development.

16. In a "grant year", however, only the salaries of staff wholly engaged on research and development will qualify.

17. Where appropriate, the administering authority will make an adjustment to the actual amount of increase in a firm's eligible expenditure on research and development salaries so as to offset the effect of inflation of salary levels. The adjustment will be made by recalculating the base year expenditure figure so as to reflect what that figure would have been if the salary levels ruling in the grant year had also applied in the base year. The adjustment will not apply in the case of a firm starting research and development afresh. In the case of firms already engaged in research and development, the adjustment will be made only in respect of staff who were employed on research and development in the base period in respect of research and development positions which existed in the base period.

18. For contracted research, firms will be eligible for grants in respect of increases (above the 1965/66 base) in payments made to "outside" organisations which have been approved by the administering authority.

19. Plant and equipment to be eligible must be used solely for research and development. The aggregate amount of this component of a firm's grant from the inception of the scheme may not exceed the net aggregate of the eligible wages and salaries and the contracted research and development components. This means that expenditure on plant and equipment will qualify for grant purposes only when and to the extent that there has been a qualifying expenditure in the sector comprised of salaries and wages and contracted research and development. There is a further condition that no grant will be paid in respect of expenditure on plant and equipment in any grant year if the sum of the expenditure on wages and salaries and contracted research and development is less in that grant year than in the base year. Subject to these provisos, the method to be adopted in calculating grants in respect of plant expenditure is as follows :

- purchases of new research and development plant and equipment will be eligible for grant purposes even if the firm's expenditure on this component is lower than in the base year. That is to say, expenditure on research and development plant and equipment is not tied to base year expenditure.
- the plant and equipment eligible for research and development grant purposes is to be regarded as identical with that research and development plant and equipment which is allowed by the Taxation Commissioner as eligible for depreciation over three years as provided in

6.

Section 73A of the Income Tax Assessment Act. It is to be noted that although Section 73A refers to "scientific research" this term embraces many phases of product research and development.

20. The rate of grant applying in the automatic cases will, at least initially, be 50% of the increase in eligible expenditure. This rate will be the same for all companies. The rate for selective grants will be determined in each case by the administering authority but will not exceed 50%. The rate may vary from one firm to another in the same year.

21. Firms will, of course, be required to substantiate their claims for grants. It would therefore be advisable for firms currently engaged in research and development to establish by 1st July a system under which eligible research and development expenditure is separately recorded and properly documented with explanations. It will also be necessary for firms to keep records of the work upon which professional and technical staff are engaged so that those wholly engaged after 1st July on research and development can be separated from those doing work which does not constitute research and development as defined.

22. Mr. McEwen said that the Government intended to introduce the legislation during the current session of Parliament. No grants would be payable until after the legislation is enacted and the administering authority established.

23. Mr. McEwen added that the scheme would be administered by an authority responsible to the Minister for Trade and Industry.

22/67T.

CANBERRA, A.C.T.

4TH APRIL, 1967.