

1995

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

SENATE

BOUNTY LEGISLATION AMENDMENT BILL 1995

SUPPLEMENTARY EXPLANATORY MEMORANDUM

(Amendments to be moved on behalf of the Government)

**(Circulated by authority of the Minister for Industry, Science and Technology,
Senator the Hon. Peter Cook)**



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OUTLINE

The purpose of the schedule of amendments is to amend the *Bounty (Computers) Act 1984* (the Computers Act) to extend the bounty period by 5 years, from 31 December 1995 to 31 December 2000, and to exclude expenditure on research and development (R&D) as an eligible factory cost against which bounty is calculated from 1 January 1996.

The bounty period under the Computers Act is due to expire on 31 December 1995. These amendments are to implement the Government's decision to extend the bounty for 5 years, at a rate of 8% to 31 December 1996 and 5% thereafter. The computer bounty (in combination with zero tariffs on computer imports) supports the development of an internationally competitive computer hardware industry in Australia while allowing access to computer hardware at world prices. It plays an important role in supporting investment and value added production in Australia including the manufacturing in Australia of essential hardware underlying the information superhighway.

For these reasons the Government has decided to continue assistance to this industry sector by extending bounty payments for an additional 5 years in respect of the value added in Australia during the production of bountiable equipment. Equipment eligible for bounty includes microprocessors, modems, multiplexers, printed circuit boards and programmable controllers.

To address the Government's concern as to the high cost of the computer bounty, the amendments also propose to exclude R&D as an eligible factory cost against which bounty is calculated from 1 January 1996. In recent years over 40% of the \$75m of bounty paid per annum has been in respect of R&D. This exclusion is not expected to adversely affect bounty recipients as the Government maintains a comprehensive range of programs supporting R&D in Australia.

FINANCIAL IMPACT STATEMENT

The 5 year extension to the *Bounty (Computers) Act 1984*, in combination with the exclusion of expenditure on research and development as an eligible factory cost, is expected to require additional outlays as follows:

1995-96 (1 Jan 96 to 30 Jun 96)	\$25.30m
1996-97	\$43.80m
1997-98	\$39.16m
1998-99	\$44.70m
1999-00	\$46.38m
2000-01 (1 July 00 to 31 Dec 00)	\$26.84m

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NOTES ON AMENDMENTS

Amendment 1

This amendment inserts proposed item 3A into Schedule 2 to the Bill. The new item amends the definition of "bounty period" in the *Bounty (Computers) Act 1984* (the Computers Act) by omitting "1995" and substituting "2000" to provide for the 5 year extension of the bounty to 31 December 2000.

Amendment 2

This amendment inserts proposed item 4A into Schedule 2 to the Bill. The new item amends the definition of research and development (R&D) in section 3A of the Computers Act to provide that for the purposes of that Act the object of R&D must be the manufacture, **before 1 January 1996**, of bountiable equipment:

- (i) containing new or improved materials or products;
- (ii) incorporating new or improved processes; or
- (iii) applying new or improved system design or engineering.

This amendment is consequential upon the amendment proposed in amendment 3 (proposed item 8). The purpose of the amendment is to limit eligibility for expenditure in relation to R&D to the pre-1 January 1996 criteria, despite the 5 year extension of the bounty.

Amendment 3

This amendment adds 5 new items at the end of Schedule 2 to the Bill as follows:

Proposed item 8 - Subsection 6(2)

This item omits current subsection 6(2) of the Computers Act and substitutes a new subsection 6(2) which allows a manufacturer of bountiable equipment to include certain expenditure on R&D as an eligible factory cost in relation to the manufacture of bountiable equipment, subject to the following conditions:

- (i) the expenditure must have been met by the manufacturer in an accounting period, or part of an accounting period, occurring before 1 January 1996;
- (ii) the R&D must have been carried out in Australia;
- (iii) the R&D must have been in relation to bountiable equipment of a kind that is, or likely to be manufactured in Australia, by the manufacturer before 1 January 1996.

This amendment limits eligibility for expenditure in relation to R&D to the pre-1 January 1996 criteria, despite the 5 year extension of the bounty.

Proposed item 9 - Paragraph 6(5)(c)

This item, in combination with the amendment proposed in item 11, amends paragraph 6(5)(c) to limit eligibility for the cost of R&D carried out by a person in Australia on behalf of the manufacturer to that which is carried out before 1 January 1996 and which is likely to result in the manufacture of bountiable equipment by the manufacturer before 1 January 1996.

This amendment is consequential upon the amendment proposed in amendment 3 (proposed item 8). The purpose of the amendment is to limit eligibility for expenditure in relation to R&D to the pre-1 January 1996 criteria, despite the 5 year extension of the bounty.

Proposed item 10 - Paragraph 6(5)(r)

This item amends paragraph 6(5)(r) of the Computers Act to limit the inclusion of interest on money borrowed to finance R&D as an eligible factory cost to that interest incurred before 1 January 1996 on money borrowed before 1 January 1996 for the purpose of undertaking R&D before 1 January 1996.

This amendment contains bounty eligibility for expenditure on R&D to that which is presently available. It is intended to prevent increased claims on R&D undertaken during the pre 1 January 1996 bounty period which could result from the 5 year extension of bounty eligibility for hardware production.

Proposed item 11 - After subsection 6(5)

This item inserts proposed subsection 6(5A) which, in combination with the amendment proposed in item 9 above, limits eligibility for the cost of R&D carried out by a person in Australia on behalf of the manufacturer to that which is carried out before 1 January 1996 and which is likely to result in the manufacture of bountiable equipment by the manufacturer before 1 January 1996.

This amendment is consequential upon the amendment proposed in amendment 3 (proposed item 8). The purpose of the amendment is to limit eligibility for expenditure in relation to R&D to the pre-1 January 1996 criteria, despite the 5 year extension of the bounty.

Item 12 - Paragraph 10(g)

This item omits paragraph 10(g) of the Computers Act and substitutes new paragraphs (g) and (h) which set the new bounty rates to apply for the 5 year extension period. New paragraph (g) provides that an amount equal to 8% of the value added to the bountiable equipment by the manufacturer is payable to a manufacture where the manufacture of the equipment is completed **before 1 January 1997**.

New paragraph (h) provides that an amount equal to 5% of the value added to the bountiable equipment by the manufacturer is payable to a manufacture where the manufacture of the equipment is completed **before 1 January 2001**.