

Association of Mining and Exploration Companies (Inc)

Assn No. AO810217E ABN: 33 362 864 696

8th March 2010

Paul McCullough
General Manager
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: R&D_Tax_Credit@TREASURY.GOV.AU

Dear Paul McCullough

Re: AMEC Submission to the Draft R&D Tax Credit

Thank you for your correspondence dated 24th February 2010 concerning the opportunity to comment on the R and D Tax Reforms. These reforms are very close to the industry's heart as they are crucial in the context of exploration companies using drilling programmes for the proof of concept of R and D.

Supporting R and D Activities

You asked for me to put together some examples as to why certain exploration expenditure should qualify under support activity. The comments below I hope will assist you. AMEC members are seriously concerned that those activities that are directly related to the proof of concept will not be allowable. We certainly do not support the whole of mine situation but really believe that provision could easily be made for specific activities that involve exploration that is directly related to the R and D.

As requested, please find below some examples of where R&D activity requires exploration activities as a supporting cost:

The dominant purpose requirement will exclude the majority of R&D activity conducted by industry from attracting benefits under the R&D Tax Credit program as industry undertakes activities for multiple purposes to create efficiencies and maximise return on invested expenditure. For example mining companies will undertake drilling activities and use the data for several purposes including exploration and metallurgical test work which will be used for the flow sheet design. The dominant purpose test will potentially exclude this drilling from forming part of the R&D claim as the data satisfies multiple purposes. Examples include:

- Development of novel optimised data modelling algorithms requires field data acquired during an exploration program.
- Development of enhanced/optimised flow sheet design for a new metallurgical product development requires data retrieved from exploration drilling program.
- Development of mining techniques and processing flow sheet design requires understanding of unique physical parameters such as volatile gas reserves in coal seams, hydro and aquifer regimes, or geotechnical/stability management in excessive ground stress environments, significant data is gathered during the exploration period using exploration techniques such as seismic acquisition and drilling.
- Trials that require new exploration tool development such as downhole or transportable geophysical survey techniques during the exploration process

All of these activities occur during the exploration phase of project development and AMEC is concerned that they will now be unfairly excluded from attracting any incentive under the new R&D Tax Credit. There are many other examples and AMEC requests that the door be kept open so that applications can be assessed on their merits.

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Feedstock

The nexus between the R&D activity and the output under the proposed feedstock provisions is extremely broad potentially allowing any output to be captured. Additionally the proposed rules do not have any time limits; thus any output that is produced by the R&D at any time, even if produced many years later, could potentially be subject to the feedstock provisions. For example drilling activity undertaken in the appraisal phase of a mine development, which provides critical data for an innovative flow sheet design may be captured under the feedstock provisions and offset against future ore sales that may not take place for at last 5 - 10 years.

Novelty

Core R&D Activity requiring an appreciable element of novelty and high levels of technical risk will exclude many beneficial R&D projects from gaining support where they fail to satisfy one element, or the degree of novelty or risk considered acceptable under the legislation.

If you would like to discuss these issues further then please call me on 08 9225 4399.

Thank you once again for the opportunity to follow through with additional comments. We look forward to receiving the draft legislation once it has been completed.

Yours sincerely



Simon Bennison
Chief Executive Officer
Association of Mining and Exploration Companies Inc

