



17 October 2008

Review of Australia's Future Tax System – Submission
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

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Dear Sirs,

Cochlear Limited: - Submission to the Review Australia's Future Tax System

Cochlear supports the recent announcement on 13 May 2008 by the Federal Government and the appointment of the panel chaired by Dr K Henry to review Australia's Future Tax System.

We are writing to the panel regarding its request for public responses on how to maximise Australia's economic position to deal with the demographic, social, financial and environmental challenges of the new century.

Cochlear Limited Profile

- Top 100 ASX listed company focusing on research, development, manufacturing and distribution of implantable hearing devices, established in 1983;
- Group turnover approximately AUD \$600 million, with over 95% of sales being outside of Australia;
- Employs approximately 2,000 employees worldwide, of which more than 1,000 are based in Australia; and has
- Over 100,000 recipients world wide;

Observations and Recommendations

Cochlear has responded in line with the terms of reference, with an emphasis on **three key features** that are required in order to address the current challenges faced by the Australian economy.

1. Role of Innovation in Australia

- Australia is a relatively small market and in order for Australian corporate groups to remain internationally competitive, the Federal government should look at long term initiatives to increase the GDP through sustainable growth drivers such as innovation.
- We fully **support the main recommendations coming from National Innovation Review** as they ensure Australia remains internationally competitive to attract innovation through research and development activities. The implementation of the review's recommendations would build relationships across the public and private sectors to ensure that commercial outcomes were achieved.

2. Supporting International Growth

- Access to funds will become an important issue over the coming months due to the current economic environment and lack of liquidity in debt markets. We support the current imputation and franking credit system which Australia has implemented. We strongly **recommend that the government does not return to a classical tax system**, where one economic income is taxed twice in different hands. Instead we would advocate the Federal government should consider moving towards either a full exemption system for investors or a partial franking credit for foreign taxes paid by Australian corporate groups.
- Globalisation has changed the way which companies behave, as many Australian corporate groups have set up operations abroad to access new markets. This international expansion has led to unfavourable tax circumstances through Australia's Controlled Foreign Corporations (CFC) regime. We **recommend that the Federal government look at harmonising the CFC regime (Board of Taxation's position paper on Anti Deferral Regimes)** to ensure that Australian corporate groups are not unintentionally taxed for foreign diversification.

3. Simplification and Certainty

- We are discouraged by the Federal government's position to exclude the GST as a part of this review, as it may have allowed for a simplification of the Federal and State tax divide. We strongly **recommend eliminating taxes which are minor (e.g. land tax, and other duties), and administratively burdensome (e.g. payroll tax, FBT).**
- Cochlear would also like to **encourage the Federal government to reduce uncertainty for taxpayers that are in the system.** This would involve a re-design of the Income Tax Assessment Act, improving the current dispute resolution process, creating an independent unit to govern the development of tax policy and administration of tax law, and appointing a separate body in the ATO to address transactional related disputes.

Please do not hesitate to contact me if you wish to discuss any of these points further.

Yours sincerely



NEVILLE MITCHELL
CHIEF FINANCIAL OFFICER &
COMPANY SECRETARY