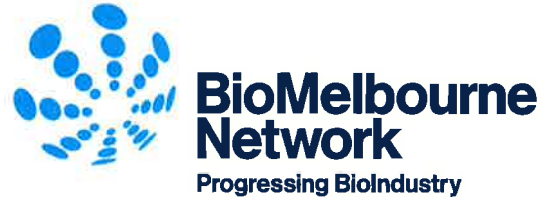


31 August 2012

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R&D Tax Incentive: quarterly credits submission

The BioMelbourne Network welcomes the opportunity to comment on the Treasury Consultation Paper R&D Incentive: Quarterly Credits, issued in August 2012.

The Network's membership is representative of the broad Victorian biotechnology and research sector. The Network's corporate members include both private and publicly listed businesses prominent within the local and global biotechnology sector. The ultimate commercial success of these businesses will typically be built upon a strong foundation of research and development.

The R&D Tax credits provide significant financial support to allow our members to continue their R&D programs. Both Federal and State Governments have, in this manner, continued to recognise the importance of maintaining and growing the local biotechnology sector.

The Network and its members were thus duly pleased to see the significant improvements in support offered by the reforms to R&D Tax Credits. We support the Government's initiative for refundable quarterly credits which are an important part of the R&D Tax Incentive for SMEs, particularly cash-strapped businesses for whom refunds will be an important funding source for R&D activities as well as supporting the general viability of small businesses.

In this submission we have set out a number of suggested enhancements to the proposed arrangements to improve the efficiency and effectiveness of the proposals for small business.

Proposed refundable credit integrity rules are unnecessary

The Consultation Paper correctly states that under existing rules, current income year tax payable companies can already anticipate the R&D tax offset through the PAYG instalment system to reduce PAYG quarterly instalments potentially to nil. There are no existing or proposed R&D tax offset integrity rules to apply to that situation, notwithstanding that the allowance of a credit for the R&D tax offset is economically equivalent to a refund of tax that would otherwise be payable.

However, the Consultation Paper provides that where a company has no PAYG instalment obligation and is expected to receive a refund of the R&D tax offset then it will need to satisfy integrity rules that otherwise would not apply.

We are concerned that for many small business groups the additional burden and cost of compliance in relation to the integrity rules may outweigh the benefit of the refund, particularly for relatively small refund claims (as a proportion of the total R&D tax offset).

We recommend that consideration be given to either removing the proposed integrity rules or have them operate on a more targeted basis: for example, where the amount of the R&D Tax Offset refund exceeds a threshold amount (e.g. \$1M) or the refund exceeds 50% of the total R&D tax offset.

Process for notifying Innovation Australia is unclear

A draft template needs to be released outlining the information that needs to be provided to Innovation Australia in the 'notification' order for companies to be provided with their 'number' which has to be then submitted to the ATO. Before we can comment any further greater information needs to be provided as to the level of detail in relation to R&D Activities that is to be provided in the 'notification of intent' document which is to be submitted prior to the start of the year of income. The paper states that the intention is to minimise additional compliance obligations. However if companies are having to prepare a shorter version of an Advance Finding request as the 'notification' which is provided to Innovation Australia, this will be another compliance burden for SMEs and therefore in conflict with the original policy intent behind this initiative.

Timing of notification deadlines is unclear

The Consultation Paper at page 11 provides a flow chart of the necessary processes that are proposed. However, there are no indicative dates included in the flowchart. We therefore recommend that the flowchart should be updated to include potential dates, and an assessment should be made as to whether the proposed timelines will be achievable for a small business.

~~If you would like to discuss this submission in more detail please contact me on 03 9650 8800.~~

Yours sincerely



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