



University of
South Australia

General Manager
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The Treasury
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23rd October 2009

Dear Mr McCullough,

Comments on *The New Research and Development Tax Incentive: Consultation Paper*

The University of South Australia (UniSA) is pleased to provide comments on the recently released consultation paper *The New Research and Development Tax Incentive*. UniSA is an integral part of the Australian innovation system and supports a diverse range of research activities from initial conception to commercial implementation. Although not taxed itself, the University deals with a broad range (>1400) of external clients, many of whom will be directly affected by the proposed changes. The influence of the taxation system on R&D activity is fundamental and affects all in the innovation system as well as having a longer term influence in achieving and maintaining national prosperity.

1. More Policy Initiatives Required

We note that the consultation paper proposes no real increase in the total amount of R&D expenditure via the tax incentive system. It remains a national challenge to develop industries with a true embedded R&D capacity. Since the current system has largely struggled to develop such industries, a policy initiative to increase R&D in total would be more welcome than the simple benefit redistribution as proposed in the consultation paper.

2. In the Right Direction

UniSA continues to support changes to policy that enhance R&D capacity and simplify the system in general, in particular supporting:

- Tax credits to replace the current tax deductibility scheme. This is a simple and transparent approach for determining tax benefits,
- The redistribution of the tax benefit to encourage smaller businesses with <\$20M turnover,
- Supporting foreign owned companies who establish a local company undertaking R&D,
- Increasing the ownership cap from 25% to 50% for exempt entities thereby encouraging University-industry collaboration,
- Relaxing the IP ownership rules so that it only matters where the R&D is conducted, thereby encouraging as much R&D activity as possible, and
- Steps that minimise administration such as self-assessment.

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3. R&D Outside Australia

It is implied in the consultation paper that policy change is being considered to widen the tax incentive scheme to include activities outside of Australia. It should be a core aim of the innovation system to build Australian industries with embedded R&D capability and subsidisation of R&D occurring overseas should be avoided.

4. More Clarity Needed


More clarity is needed in a variety of areas outlined in the consultation paper, in particular:

- The definition of R&D, and the definition of R&D “that otherwise would have occurred”. The inherent vagaries make it open to a wide variety of interpretations,
- The measurement and interpretation of R&D “spillovers” into other industries, and
- The level of extra administration required to demonstrate “additionality” and “spillovers”.

The support and creation of businesses undertaking R&D is fundamental in building a truly knowledge driven economy that will maintain Australia’s prosperity for future generations. Ongoing R&D tax reform is welcome but must encourage additional R&D activity across all industries and across all businesses no matter what the size. This overall objective should be maintained in considering further tax reforms.

Please do not hesitate to contact me should you require any further information or clarification regarding any of the information in this submission.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Caroline McMillen', written in a cursive style.

Professor Caroline McMillen
Deputy Vice Chancellor: Research and Innovation
University of South Australia