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The Treasury
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5 February 2010

Dear Sir

The New Research and Development Tax Incentive - Exposure Draft Legislation and Explanatory Materials

Please find below UXC Limited's submission in respect of the Research and Development (R&D) Tax Incentive – Exposure Draft Legislation and Explanatory Materials released on 18 December 2009.

Company Profile

UXC is the largest Australian-owned ICT services company. UXC is a \$700m revenue ASX 300 company with 3,500 staff focused on two market segments, IT&C and Utilities. Driven to succeed through our focus on growth and passion for performance we provide innovative market-leading solutions and services to medium and large organisations and Governments across Australia and New Zealand.

UXC is engaged in the provision of Business and IT services, Voice and Data Network Services and Applications, Infrastructure Support Services and Utility Asset and Data Management. Our vision is to be the premier independent solutions and services group servicing medium to large entities in the private and public sectors across Australia and New Zealand, and to be the investment of choice in the ASX IT sector.

We seek to achieve this through continuous investment into research and development activities and projects in order to maximise and contribute to future business growth for our company and for the Australian economy.

UXC Businesses:

Business Solutions Group

Our Business Solutions Group is engaged in providing ICT solutions focussed around Consulting, Business Applications and Infrastructure. More than 1,500 businesses and Government organisations across Australia and New Zealand look to one or more Business Solutions Group Business Units for Services and solutions to their IT/ICT and infrastructure needs. With over 1800 staff members the Business Solutions Group (BSG) offers organisations one of the most comprehensive ranges of IT and ICT services and solutions of any company in Australia or New Zealand.

In the last 12 months our business units have had continued partnering success with UXC business units achieving:

- Microsoft Dynamic Partner of the Year – Asia Pacific 3 years running
- Oracle Asia Pacific Fusion Technology Partner of the Year
- JD Edwards Asia Pacific Partner of the Year – mid-market applications
- SAP Excellence Awards in CRM and Innovation
- Alcatel Asia Pacific Partner of the Year
- Cisco Gold Partner
- Cognos, Business Objects, SAS and Hyperion – Platinum, Gold, Silver Consulting and Preferred Partner respectively

Field Solutions Group

The Field Solutions Group (FSG) is engaged in asset and data management for utilities, including asset inspection, management and maintenance services; water conservation, energy saving, and other environmental services; the provision of utility meter installation and reading services; directional drilling and infrastructure construction activities; and related data management and geographical information services (GIS).

Professional Solutions Group

The Professional Solutions Group provides a broad range of management and ICT consulting services to large Australian enterprises and Government, with particular focus on assisting clients to optimise the benefits of their ICT investment through effective programme management, commercial services, planning and quality assurance.

How the R&D Tax Concession Has Benefited UXC

UXC Group have been claiming the Research & Development (R&D) Tax Concession since 2003 and regard the concession as an integral means of promoting the undertaking of R&D in Australia.

Our R&D work has involved the continuous creation of innovative new products, ideas, solutions and services for Australian businesses and consumers that have substantially increased credibility with UXC customers, helped sell other products from the company, as well as increased commitment from staff/key shareholders continuous investment in R&D as part of company strategy.

In this sense we have focused on trying to enhance the total returns from supporting R&D investment. That is, not just achieving a successful outcome for an R&D project but contributing to lifting the company's performance and capabilities generally. Our R&D activities generate wider public benefits in terms of lower cost products and services, generic technology, and an increase in the number and quality of people capable of conducting commercial R&D work, to increased credibility amongst customers and investors, and expansion of the technological base of the Australian economy.

How the New R&D Tax Credit Will Impact UXC

UXC believes that the proposed changes to the R&D tax credit are overly restrictive and will severely impact on the ability of UXC and other organisations to access this government incentive to continue to invest in R&D activities.

The main area of concern that UXC has with regards to the new proposed changes are:

- Subsection 355-35 (2)(o)-(r) – Excluded Core and Supporting R&D Activities;

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We believe that the R&D tax credit should be available to all forms of software development, provided they are undertaken for a commercial purpose and all relevant general eligibility requirements are met. Specific exclusions should not be required for integration of off-the-shelf commercial and open source software. Whether commercial returns arise directly or indirectly should not be the determining factor in whether a particular activity is excluded from obtaining R&D assistance.

Likely Consequences of the Proposed New R&D Tax Credit on UXC

The draft legislation for the new R&D Tax Credit will impact UXC's ability to claim any support from the government in relation to developing new and improved products and processes to increase productivity within the sector we operate in. As a direct result of this, UXC, the largest Australian-owned ICT services company, may choose not to undertake developments that increase productivity, unless absolutely necessary to keep costs down in the current economic climate.

In the aftermath of the global financial crisis, where cash flow is tight, the lack of support from the Government is highly regrettable, as UXC and other large multi-national organisations will also be forced to consider moving operations overseas, possibly to countries which have more supportive and attractive R&D policies.

We currently have operations and businesses within the New Zealand and Canadian markets, and are interested in expanding into the Asian market. Particularly within the Asian market which have more supportive and attractive R&D policies.

As such, UXC strongly urges the Government to remove the exclusive restrictions in the draft legislation as this will have the opposite effect to that intended by the government.

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Should you have any queries in relation to this, please do not hesitate to contact me on (03) 9224 5777.

Thank you.

Yours sincerely



Mark Hubbard
Finance Director / Company Secretary