

ACN 136 437 342

**To:** Small Business Entities & Industry Concessions Unit  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
**By email to:** RnDamendments@treasury.gov.au

Wednesday, 18 July 2018

Attention: The Manager

**SUBJECT: Feedback re ‘Better targeting the research and development tax incentive’**

Dear Sir / Madam,

I am the Director / Secretary of two small business companies going through an intense R&D period, in an effort to develop new products and services with intended outcomes to create significant new employment opportunities for Australians (100+), as well as substantial export opportunities (\$50M+). The projects have been active for some time now and seeing some success, but are still at the fledgling stage, and will be for some years to complete the deep R&D activities needed as we transition into ‘proper commercialisation’.

For a brief insight to my perspective, the overall objectives of these two very different projects can be seen at [www.iput.com.au/tech](http://www.iput.com.au/tech) (an enabling technology that provides substantial opportunities to improve productivity of mined material beneficiation process, especially in coal and iron ore) and [www.vrdriversim.com.au/moki](http://www.vrdriversim.com.au/moki) (develop technology and training centres to substantially reduce the road toll and associated injury and accident rates). My professional engineering career includes preparing claims for, and mostly undertaking, 18 substantial R&D projects for a large commercial steelmaker, so I am quite familiar with the processes of R&D.

I provide the following comments for consideration, directly related to the proposed changes:

- 1) The aim of this change is “to better target the program and improve its effectiveness, integrity and fiscal affordability”. As the driving force behind two small businesses undertaking major R&D endeavours solely to generate new employment and exports, it is inconceivable to me that a substantial reduction in the available funds is compatible with that objective, or going to inspire me to take more or greater risks. Quite the opposite. For small business Applications, to reduce available funds is incompatible with the stated aims of this scheme.
- 2) For businesses making a loss, this change is a direct reduction in available funds of 10% on what we would previously have been able to access. For <\$2M turnover, we are at  $(27.5\% + 13.5\%) = 41\%$ . Previously we were at 45%, which is  $(45\% - 41\%) / 41\% = 9.8\%$  less than we would otherwise have been able to access. That reduction is not going to be OK by any entity in this demographic.
- 3) The 10% reduction in funds provided under this incentive to small business has not been openly declared. It is only obvious when you look at the hard dollar impacts of the actual cashflow outcomes.
- 4) Worse still, to a loss making R&D entity, this change amounts to a regressive tax. As the company tax rate scales back to 25% over coming years, the overall impact now increases to  $(45\% - (25\% + 13.5\%)) / (25\% + 13.5\%) = 16.9\%$ . Yet the circumstances of the R&D entity remains unchanged.
- 5) This omission of any clarity / proper declaration of the intended 10%, increasing to 17%, cuts to a significant sector conducting R&D is sufficient to invalidate the current consultative process. Had this intended



outcome been made clear, considerable outrage would have been expressed at the intended direction being taken. Either delete this poor outcome, or correct the oversight and seek genuine input on the intended policy change in order to validate it, should an appetite remain to proceed.

6) The main thrust of the Australian Innovation System Report 2017 was to encourage and foster High Growth Firms, yet the way this change will operate is to serve as a strong dis-incentive to this, the main sector expected to produce the desired outcomes. This further highlights my above point. The 45% rate should remain in place for small business entities.

I provide the following more general comments for consideration, related to the overall R&D Incentive scheme:

7) There are many incubator style start-up fostering efforts around. The crossover with R&D for these start-ups is poor to my observation, as there is a lot of potential missed to incentivise the right types of start-ups. This seems to come down to strong vested interests in the 'support services' administering the incubator funds, and I rather suspect a proper look at this sector and streamlining with R&D fundamentals might get much better value from funds expended.

8) For historical reasons, trustee entities have traditionally been barred from being eligible R&D entities. These reasons are no longer valid in today's corporate landscape and only serve to disincentivise otherwise capable and interested small businesses, or are simply red tape generators. Accountants have been setting up family businesses and partnerships as Trusts for quite some time now, and to forbid such an entity from conducting valid scientific research and spawning the next High Growth Firm is an anachronism. That there is a simple workaround via separating the Trust and corporate Trustee via a License Agreement, separate GST and bank accounts, or other such administrative burdens, is a drag on the individuals involved, who should be concentrating on getting the work done and claiming, where appropriate R&D work has been undertaken.

9) Compliant but meaningless R&D 'hoop jumping' on R&D procedure is geared up around the concepts of small step improvements. That is a classical quality management system tool, and a good thing. But what we also want, as a country, is to incentivise the people with the 'big hairy projects' to give it a red-hot go. The current system has a strong emphasis on myopic in-process detail, with not much interest in objectives. This is a missed opportunity as people with high uncertainty but very promising projects can be quite daunted by it. The R&D Tax Incentive system needs to contemplate and encourage participation of such game-changers.

10) The bureaucratic simplicity of 'boxing' R&D as hypothesis driven scientific experiments may be a needed process, and is simple to administer and audit, but far more value would come from having an objective based R&D activity project, and not being too particular about the exact processes to get there. This is an extension of the previous point. Per my intro, I am progressing two substantial endeavours, and live with how incongruous what needs to be done is with the system set up to foster such innovation. To have success in implementing these projects, I am of necessity highly objective driven. It is a very fluid pathway since I need to make progress on a big number of hypotheses simultaneously, with much interactivity going on. However, a person that can undertake this, with a reasonable prospect of getting the desired outcomes, can manage very well to jump through the hoops of sufficiently defining, and progressively varying hypotheses to suit experimental outcomes. I reiterate that, as a country, we really should have a way to categorise and better foster these 'leap of faith' style projects as a separate area of interest of the R&D Incentive scheme.

Thank you for your consideration of this feedback. I trust it will be incorporated for action in final proposals / future planning activities.

Yours sincerely

**Vince Sunter**  
Director