



26th July 2018

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The Manager
Small Business Entities & Industry Concessions Unit
The Treasury
Langton Crescent
PARKES ACT 2600

By email to: RnDamendments@treasury.gov.au

Dear Sir or Madam

Re: Consultative Response to Draft Treasury Laws Amendment (Research and Development Incentive) Bill 2018

Thank you for the opportunity to respond to the draft amendments to the Research and Development ("R&D") Incentive.

RnD Funding Pty Limited ("RnD Funding") is a specialist lending firm focussed on loans to SMEs that qualify for the refundable tax offset under the R&D Tax Incentive. Our typical clients undertake world class R&D activities and rely on the refundable tax offset as critical to their decision to undertake R&D activities in Australia.

We wish to express our objection to the proposed cap of \$4m per annum on refundable tax offsets. Whilst we acknowledge the intention of the proposed change is broadly in line with the 2016 Review of the R&D Tax Incentive and subsequent ISA 2030 Strategic Plan, published in January 2018, our objections relate to how the recommendations have been adopted in the proposed Bill. In particular:

1. We object that there are no grandfathering provisions for R&D entities that have been conducting R&D activities that are in the advanced stage of development. For such entities, the change in law is likely to jeopardise the continued viability of their R&D programs. We suggest a 2 two year transition for all entities that claim the R&D refundable offset in FY2018 would provide sufficient time to adjust to the \$4m per annum cap.

2. We object that there are no transition provisions for R&D expenditure incurred in a previous year which is deferred as a notional deduction until a future year e.g. payments to associates, depreciation and balancing adjustments. The proposed cap in this regard is tantamount to an unfair retrospective law change. We suggest the cap is modified to address this concern.

3. Whilst we are supportive of the carve out for clinical trial activities it is not clear why these activities have been singled out and activities in other fields considered of high value have not also been carved out. We suggest an equitable approach in line with the proposed changes would be for ISA to include a power to make findings about whether an R&D entity's activities are considered to be of national interest and so deserve to be excluded from the \$4m per annum cap. We have grave concerns that proposed changes will encourage companies to consider moving their place of business to other countries that offer uncapped R&D tax refunds. Our suggested approach would at least provide Australia with the opportunity to consider whether it would be preferable for those activities to stay in Australia.

Thank you again for the opportunity to respond to this public consultation. Please do not hesitate to contact either of us to discuss any aspect of this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Craig Stokeld'.

Craig Stokeld
Director, RnD Funding

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A handwritten signature in black ink, appearing to read 'Joe Nakat'.

Joe Nakat
Director, RnD Funding

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