

26 July 2018

Response Paper to Treasury Laws Amendment (Research and Development Incentive) Bill 2018

Background

TechLever currently represents ~40 clients who predominantly develop software and engineering products for international markets. Clients are almost exclusively SMEs, with less than 50 employees and less than \$10M turnover. Their R&D expenditure ranges from \$23K to \$2.3M and are on the cusp of external investment and/or acquisition and have been preparing R&D Tax claims on average for 3-4 years.

Response

There is nothing in this proposed bill that is of benefit to these hardworking innovative SMEs compared to now, let alone two years ago.

Throughout this whole process; from seeking input on the review, feedback on the proposed recommendations and now response to proposed changes to the bill - at no point has this Government listened or given meaningful reply to any feedback from industry or professional service providers other than to push ahead with what is unabashedly a nasty budget cut that fluffs the big end of town.

In the early 2000s all major AAA video game developers, both local and international, closed operations in Australia. There is currently no Australian video game development company that is >\$20M, but somehow a growing export industry is now deemed unworthy of support for their R&D and innovation irrespective of the intensity of their inputs.

Where will the next Cochlear or Resmed come from if major support only benefits those with >\$20M turnover? With the current changes, there is substantially less support for the next Atlassian to burgeon. It is evident that unless a business has gone through a major acquisition or has >\$20M turnover this Government does not pay attention. It is also clear that this Government has a very poor understanding of where R&D exists if they're 'surprised' that budget estimates find the program oversubscribed.

This draft bill and consultation paper fails to base its decision on metrics that consider SMEs. The bill further reduces support for my client's; it hinders their ability to remain globally competitive by leading with technology through investment on R&D.

As part of AusIndustry's State Reference Group for R&D in Victoria I have been privy to statistics surrounding claim size of self-applicants to the R&D Tax Incentive program compared to claim, and fee, size of applications prepared by small/mid-tier and Big 4 accounting firms. The government's own data from 2017 meetings indicated that the size of R&D claims were 3-4 factors larger when prepared by Big 4 firms when compared against self-applicants and those using smaller consulting firms. This does not provide a reasonable basis for the proposed increases of benefit to companies that exclusively use Big 4 firms, and as a result - larger fees on work which are also claimed as a partial R&D deduction. This is not in the interest of saving money from the R&D program to provide better focus for research outcomes.

The amendments relating to 'administrative matters', 'Reporting of information about research and development tax offset' (3G), claims published to improve public accountability, simply does not achieve that end goal. Instead it serves a ready-made 'shopping list' for large consulting firms to scoop up future R&D clients to further line their pockets with inflated fees, based on the Government's own data, is a rort.

Final Comments

The Budget night announcement was underhanded in swapping out the vernacular that has been used for R&D Tax since 2012 to the new “percentage points above the tax rate”. This government used a bait-and-switch, it was not upfront and did not publicise they were proposing to REDUCE existing rates of R&D benefit for SME. We are back to R&D Tax Concession land - right in the middle of our Ideas Boom - didn't see that coming on the Innovation agenda; but maybe that's what real disruption is all about!?

What message does the dropping of support to SME send to up-and-coming researchers, technologists, entrepreneurs? How are we to incentivise STEM in schools if we can't be inspired by our own home-grown talent?

The sad thing is that all my clients would be doing R&D irrespective of if there were government incentives, regardless if they even had a job that makes money. This reduction reduces their power to act more quickly and beat others on the world stage, it allows them to stay local and employ locally. The STEM-driven Australians that I know and support create and make new technology because they have to, it is their vocation. For shame to be selling out their dream to your short-sighted, under-handed, corporate interests.

Regards,



Ben Thompson
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