Below are my suggested responses to the Re: think tax discussion paper.

**30. How could the current tax treatment of intangible assets be improved?**

Intangible assets which already have a defined expected life should continued to be deducted as so. For assets such as goodwill I would suggest that these should be deducted over the life of the asset or over 40years (at 2.5%) at prime cost.

If the business has an expected lifespan as instructed in the contract (ie. Joint Venture) then this would be the effective life, otherwise much like Div 43 deductions, intangible assets should be deducted at 2.5%.

This would further align the treatment of tangible and intangible assets.

**36. Should the tax system provide a more neutral treatment of income earned on revenue account and capital account? Does the distinction create significant compliance costs for business and, if so, how this be simplified?**

For a company, the 50% capital discount does not apply, therefore, in tax terms, there is no incentive to invest in capital assets. For the risk and associated costs involved it may be better to invest in lower risk interest bearing investments. However if the 50% capital discount (or any % discount) were available, would it not be an incentive for business to invest in capital assets?

On the large scale, the purchase, maintenance and reinvestment into these assets would benefit the economy as company's would now have an incentive to invest into capital assets. If these assets produce income then the company benefits from this new income channel and when they do sell the effective rate would only be 15% on the capital gain.

**39. Does the R&D tax incentive encourage companies to conduct R&D activities that would otherwise not be conducted in the absence of government support? Would alternative approaches better achieve this objective, and, if so, how?**

Offering R&D tax incentives would help a company reduce their tax liability, but, there is still the issue that the company has a tax liability, to which is due and payable by a set date. If the company needed this money for further investment, it now has to seek additional sources of funding (investment/grants) to fill the void.

I propose the follow two options;

- In the initial start up process (ie. 3 years) the company's tax liability (if any) is waived; or
- deferred until a proposed date in the future (ie. year 4)

But what if the company is already established and are simply injecting further funds into R&D or investing in a new division? Conditions may be put in place to open this benefit to a greater range of business, yet still impose limits to avoid abuse of the scheme;

- An R&D test (proposed R&D expenditure / total non-current assets).
- R&D investment limits
- Restricting the benefit to include only the new division.

These benefits would allow the company to proceed with it's R&D schedule at a greater scale, thus improving not only the company's outlook but also the stakeholders, including the Australian

Economy. Small businesses may be the backbone of the Australian Economy, but if entrepreneurs and R&D companies are given greater financial aid we can compete on the world scale and see jobs and investment remain in Australia rather than go overseas.

Flowing from the recent budget, perhaps it would offer better outcomes to give tax benefits to R&D companies that may offer more potential to grow and become international brands, rather than offer such generous benefits (ie. $20000 instant asset write off) to small businesses which are under less scrutiny from government authorities and have a higher chance of failing.

Lawrence Gleadhill

CPA Associate member

0430066785

lgleadhill@gmail.com