

26 October 2009

Mr Paul McCullough
General Manager
Business Tax Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Mr McCullough

On behalf of the **Australian Technology Network of Universities (ATN)** I write in response to the recently released consultation paper regarding *the new research and development tax incentive*.

The ATN comprises Australia's five major universities of technology in each mainland State and represents a significant portion of Australia's higher education sector, teaching 20% of university students.

Our members in particular have a strong interest and profile in conducting collaborative and practical research, and we have a proportionately stronger focus on research which partners business, industry and community organizations than any other university group. We focus strongly on the application and transfer of knowledge for innovation, wealth creation, and environmental and social sustainability.

As such, we take a keen interest in developments designed to increase Australia's innovation capacity. A robust research and development sector is a lynchpin in the nation's innovation system as outlined in the *Review of the National Innovation System* and foreshadowed in the innovation white paper '*VenturousAustralia*'. Measures which support deeper engagement of industry in research and development and innovative 'start-ups' and provide essential support for stronger relationships between university researchers and industry are critical

We therefore welcome the government's laudable program to incentivize the conduct of R&D in Australia through the tax system. However in what is otherwise a well constructed incentive scheme, our universities do have one concern that we believe may unnecessarily disadvantage a specific portion of the innovation system.

Specifically, principle 1, paragraph 22 of the paper reads:

The new Refundable R&D Tax Credit will be open to companies with up to 50 per cent ownership by exempt entities (such as universities). This is double the 25 per cent cap that exists under the current R&D Tax Offset. This will encourage collaboration between those entities and small firms while still providing some protection against the R&D Tax Credit being used to fund non-business R&D (that receive public support through other programs).

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Thus under Principle 1 companies with greater than 50% ownership by tax exempt entities such as universities are not eligible for the tax credit.

While this will achieve the goal of preventing the credit being used by universities for their normal research activities, we believe this is too prescriptive as it relates to university spin-offs where the university holds a majority share of the equity in the spin-off and needlessly hinders such entities.

Accordingly we recommend Principle 1 be amended to state, in part (changes in italics):

The new Refundable R&D Tax Credit will be open to companies ~~with up to 50 per cent ownership~~ in which equity is held by exempt entities (such as universities) so long as the tax exempt shareholder does not have the ability (in its own right) to exercise Board or member control over critical business matters (to be defined) such as the application of the company's capital.

This would preserve the intent of the original wording, whilst still allowing spin-off companies to keep the same level of competitiveness in their R&D activities.

Thank you for the opportunity to contribute to the development of this policy. The ATN believes that Australia has the capacity to maintain a world-class innovation system and continually strives to assist in developing policy frameworks that lead to that end.

Should you have any queries or wish to discuss this further, please do not hesitate to contact me on (08) 8302 9135 or via email at vicki.thomson@unisa.edu.au.

Yours sincerely,



Vicki Thomson
Executive Director
Australian Technology Network of Universities