



**BOSCH**

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23 October 2009

Dear Sir

**Submission re the 'New Research and Development Tax Incentive' consultation paper dated September 2009.**

Thank you for the opportunity to provide comments on the proposed legislation.

Robert Bosch (Australia) Pty Ltd is committed to applying all statutory requirements in our business transactions. At times these requirements are somewhat burdensome, so we welcome any initiative to reduce compliance costs associated with the R&D Tax Concession. However, the proposed changes to the R&D Taxation Laws raise the following concerns:

1. Change in definition of R&D Activities

The proposed change to the definition of eligible R&D activities from 'innovation or high levels of technical risk' to 'innovation and high levels of technical risk' will in our view result in a number of projects no longer being eligible to claim the 125% R&D tax concession, as activities undertaken in an R&D project may not be able to satisfy both criteria in the definition. As such, Bosch believes the proposed change to the definition will have a negative effect on the quantum of R&D undertaken within Australia. This negative effect is therefore defeating the government purpose to encourage Australian industry to undertake more R&D activities.

2. Supporting R&D activities subject to major limitations

The application of limited supporting activities will in our view have a substantial impact on a company's R&D claim. This change represents a significant shift away

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from established practice and will deny claims for supporting activities, which have previously been legitimate R&D activities and are a necessary expense. As supporting R&D activities are essential, this will have a direct effect on the quantum of a company's R&D claim and be determinative to their decision to undertake R&D in the first instance.

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### 3. Distinguish between Core and Supporting R&D activities

The proposed change to limiting the amount of supporting activities by capping eligible supporting activity expenditure at a percentage of core R&D expenditure will, in our view, increase the complexity and administrative burden in separately identifying core R&D and supporting R&D plus associated expenditure. It is therefore suggested that a list of clearly identified core and supporting activities be provided as guidance for businesses to pursue.

### 4. Excluding production activities

The proposed change to limiting the amount of supporting activities by excluding production activities, such as saleable prototypes, in our view is fundamentally flawed. By their very nature, prototypes are necessary elements to prove the technical feasibility of a proposed design or development. Without them an assessment or confirmation would not be possible. They are as integral as an idea or a drawing. In most cases they also generate significant costs to the business.

### 5. R&D Expenditure Conducted Overseas

With reference to Principle 1 of the consultation paper, eligible R&D activity must be conducted in Australia. However, there is a significant business need to conduct R&D overseas. We require our Australian based and international Bosch affiliates to have direct contact with our overseas customers in order to fit our R&D to customer requirements. Additionally, in order to test our products in different environmental conditions, we are required to perform winter testing in locations such as Sweden or New Zealand. We propose that where R&D conducted overseas is critical to the success of the R&D outcome, that these expenditures be considered eligible.

Yours sincerely

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Harald Krug  
CFO, Vice President Finance and Controlling  
Robert Bosch (Australia) Pty Ltd