

## Submission in response to

### **“The New Research and Development Tax Incentive – Consultation Paper”**

#### **Introduction**

Innotech Pty Ltd is a 100% R&D company specialising in the Electronic Design and Software fields. Primarily we design products for the Building Automation and Environment industries, but also design products for the electronic communications industry.

We employ 16 people, whom the majority are Electronic Engineers, Computer Programmers and Industrial Designers.

We typically run many R&D projects at the same time and staff members are required to work on multiple projects simultaneously.

#### **Question 1**

*Should there be any exceptions to the general rule that eligible activity must be carried out in Australia?*

#### **Response**

Does not affect us as our entire R&D is performed in Australia.

#### **Question 2**

*How should the R&D tax incentive treat R&D expenditure that is currently deductible at 100%?*

#### **Response**

An equivalent level of support should be provided. The implementation of this however should not place any further administration impost upon companies claiming this support than what they have under the current system.

#### **Question 3**

*Should payments made to associate entities only be eligible for the new R&D tax incentive where they are paid in cash?*

#### **Response**

This does not affect us.

**Question 4**

- Should supporting activities:
- (a) be capped as a proportion of expenditure on core R&D?
    - (i) If so what would be the appropriate proportion?
  - (b) only eligible where they are for the sole purpose of supporting core R&D activity?
  - (c) exclude production activities or dual role activities?
  - (d) only be eligible on a net expenditure basis?
  - (e) attract a lower rate of assistance than core R&D?
    - (i) if so what would be the appropriate rate?

**Response**

The major problem with treating Core Activities and Supporting Activities differently will be in the logistics of identifying which activities fall into which category. Typically our R&D Engineers are interested in technology and problem solving rather than paperwork and would be prone to making mistakes in their classification of activities. We would have to implement a checking system to ensure that we classify the activities correctly. This immediately places a high administration burden upon the company.

- (a) Typically the proportion of supporting activities compared to core R&D for our projects is relatively low and capping these to 25% of project expenditure would be sufficient. However, in some of our projects there may be cases where the supporting activities may be larger and a limit of 50% would be more appropriate. We would therefore recommend a 1:1 proportion of Core to Supporting activities.
- (b) & (c) It is not unusual for some of our supporting activities to provide benefit to other areas of the business. In these cases the extra activities are generally a small proportion of the supporting activity. We would not like to see these supporting activities excluded from being claimable on the basis that they may be beneficial for us elsewhere.

We believe that a dominant test on supporting activities would be a fair resolution, requiring the supporting activity to be primarily related to the core activity for it to be claimable.
- (d) Not Preferable.
- (e) Not preferable.

**Question 5**

*Should the current list of activities excluded from being considered core R&D be:*

*(a) amended in any way?*

*(b) Extended to exclude such activities from being considered supporting activities?*

**Response**

As long as supporting activities can be claimed at the current rate of assistance then we do not see a need for any changes to the list.

**Question 6**

*How should the new R&D tax incentive treat software R&D?*

**Response**

We do not see a need for Software to be treated differently to other R&D activities. If there is Technical risk and Innovation in the software project then it should be treated as a standard R&D activity and claimable as such.

**General Comments**

We would like to thank the Treasury Department for providing the opportunity for companies like ourselves to pass comments on the implementation of the new R&D Tax Credit Scheme.

Our primary concerns revolve around the definitions of supporting activities and the overhead required to administer the scheme. As a small company accessing the R&D Tax incentives is important to us to continue to design and develop innovative products.