



The Treasury – Australian Government

The New Research and Development Tax Incentive

Submission by: Spatial Industries Business Association

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Consultation Paper – September 2009



Introduction

1. The Spatial Industries Business Association (SIBA) is the Association that represents the interests of private sector businesses in all the spatial industries throughout Australia.
2. Part of SIBA's role is to influence policy that has an impact on the financial viability and strength of our members.
3. SIBA has played a significant role in the research and development activities of the industry through the management of projects such as the federally funded Spatial Information Demonstration Project (SIDP)
4. SIBA plays a significant part in the development of research and development programs at the Co-operative Research Centre for Spatial Information (CRCSI) and assisted the CRCSI in supplementary and renewal bids for funding culminating in the establishment of CRCSI-2 in January 2010.
5. SIBA staff and members are involved in the private sector consortium (43 Pty Ltd) that is a full partner in the CRCSI and will continue into CRCSI-2
6. Selected SIBA members have significant R&D programs both within Australia and overseas.
7. SIBA has canvassed members to obtain comments in relation to the items raised in the New Research and Development Tax Incentive Consultation Paper and the following comments are a reflection of those issues that will have an impact on the spatial information industries.



Access to the new Incentive

8. SIBA supports the opening up of the access to companies with up to 50% ownership by exempt entities (such as universities). We would like to verify that this criteria will include Cooperative Research Centres and their implementation companies.
9. SIBA can envisage some impact on R&D in the spatial information industries with a rule that eligible R&D activity must be conducted in Australia.

An example in the spatial industry would be development of high cost remote sensing satellites, aerial scanners and the like which Australian companies may wish to participate in to provide an end user perspective that will benefit the Australian community to the development of such equipment.

SIBA recommends that there should be some flexibility allowed in special circumstances with appropriate application criteria.

10. SIBA supports the removal of the requirement that IP form an eligible R&D activity should be wholly owned in Australia.
11. SIBA seeks some clarification of the “on own behalf” rules. As a large proportion of the R&D in the spatial industries is carried out through involvement in the CRCSI (and this will continue through CRCSI-2) we are particularly concerned that that this rule not be a disincentive to that involvement.



12. Companies are involved in the CRCSI in two ways —

- Through an annual cash subscription and in-kind payments to the CRCSI as a whole
- Through financial and in-kind support for a particular project that the company sees as of particular interest to its operations

13. SIBA strongly supports the contention that R&D funded collectively through entities such as a Co-operative Research Centre is still regarded as activity conducted by the company or on its behalf and that both methods of expenditure listed in (12) above are eligible expenditures.

The New R&D Tax Credits

14. SIBA wishes to clarify the issue in relation to payments to associates and the suggestion that entities only be eligible for the new R&D tax incentive where paid in cash.

15. A large proportion of the R&D activity in the spatial industries is carried out through and in collaboration with the CRCSI and a significant and sometimes dominant proportion of the payment to the CRCSI is in the nature of in-kind support.

16. Therefore SIBA could only support that option if the underlying cost of providing in-kind support is considered eligible expenditure as is the case under the current arrangements.



Eligible R&D Activity

17. SIBA cautiously supports the amendment to eligibility which requires R&D to involve both innovation “AND” high levels of technical risk. We are unable at this time to think of an example in recent times where both of these would not have been satisfied in a spatial research activity.
18. SIBA welcomes the principle that supporting R&D will continue to be recognised under the new R&D tax incentives. We make the following comments on some of the suggested limitations for supporting R&D :
19. Capping at a fixed proportion would not be feasible in some instances. For example, the cost as a proportion may be much greater for supporting R&D that has to be undertaken in remote and regional areas than supporting R&D carried out close to the core R&D. An example in the spatial industry would be ground truthing activities necessary to support R&D in remote sensing applications.
20. Capping at a proportion would also be difficult for multiyear projects since the need for supporting R&D may vary from year to year as the project progresses.
21. Limiting eligibility to activities for the “SOLE” purpose of supporting core R&D activity would create difficulties of definition. Most activities in the spatial industry that support core R&D would have some other useful but incidental purpose.

An alternative we support would be the use of “DOMINANT” which would allow some interpretation and flexibility. Otherwise, SIBA recommends the status quo.



22. In service industries such as the spatial industry, the fact that R&D is necessary or has occurred is not always immediately apparent but becomes so as the provision of services on a project progresses.

This is particularly so when the services are supplied in remote areas and activities to develop new methodologies (and methodologies are the core of service industries) are recognised as significant innovations over time when they may have started out as “tweaks” or “adaptations” of existing methodologies.

23. Separating core and supporting R&D in those circumstances can become very difficult. SIBA therefore recommends the same rate of tax incentive for both core and supporting R&D

24. In summary, for supporting R&D SIBA supports option (b) with the word “SOLE” replaced with “DOMINANT”

25. SIBA does not support the option to exclude certain activities from being considered supporting activities — for reasons associated with difficulties in definition, particularly in the circumstances described in (22) and (23) above

26. A significant proportion of R&D in the spatial industry is software related. SIBA is of the view that software R&D should be treated in the same way as other R&D. A requirement for multiple sales excludes software that is developed for in-house use only.

We note that software developed for in-house use only may still result in significant spillovers from the results of the R&D for which the in-house software was a part.



27. With respect to the UK system for incentives in software R&D, we point out that, unless the R&D is for the writing of a completely new software language, all software is developed using other software tools. The criteria described may have been applicable 20 years ago but is not relevant today.
28. The criteria about replicating an established paper procedure (and manual tasks being automated being ineligible) requires clarification. In the spatial industry, the R&D effort that has gone into development of automated data and feature extraction from satellite and other remotely sensed imagery has been considerable.

This work was previously done with more manual input in the procedure called photogrammetry — so it is a process that has been automated but there was no “paper procedure”.

SIBA suspects that this criteria was developed around clerical or similar procedures and does not relate to the highly technical opportunities available today — another indication that the UK system is outdated.

Conclusion

SIBA is supportive of the general thrust of the reform agenda for R&D tax incentives but suggests that the spatial industries have some unique requirements and some of the proposals in the Consultation Paper would have adverse impacts on the industry and its ability to continue to develop.

SIBA would be pleased to comment further if necessary.