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5 February 2010

General Manager
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600
email: rdtaxcredit@treasury.gov.au

Dear Sir/Madam,

RE: Submission concerning "Exposure Draft – Tax Law Amendment (Research & Development) Bill 2010"

We have read with interest the Explanatory Materials relating to this proposed legislation. Much of what we have read was foreshadowed in Consultation Paper "The new research and development tax incentive Consultation paper" released in September 2009. We submitted our concerns about some of the matters raised at that time and which don't require repeating here.

In respective of the proposed legislation we have several ongoing concerns.

1. Augmented feedstock rule
   This must be one of the most turgid – if not difficult to comprehend – pieces of (proposed) tax legislation to have been developed. The explanatory materials on this rule occupy about 20% of the document. We can only hope that once the R&D Guidelines are issued that the explanatory material is expanded and enhanced with **quantitative** information embedded into the examples.
2. Absence of a Core Technology Claim
   The current legislation makes no provision for special deductions for circumstance where R&D claimants have purchased intellectual property to support their R&D projects – a "Core Technology" claim. These deductions are addressed in s73B(12A) & (12B) ITAA 1936. Once the claimants utilise this facility they are no longer able to switch their claim to amortising under s40-95(7) ITAA 1997. Since the proposed new legislation does not address this matter, we are concerned that those claimants who have committed expenditure to "Core Technology" will have no way of amortising it, thus creating a "black-hole" asset.
3. It is proposed (page 90 of the explanatory materials) to charge a fee for lodging an application for registration. We question the wisdom of this as it adds yet another layer of complexity to an already complex system

We appreciate the opportunity to comment.

Yours faithfully,

(Dr) Noam White
Principal Consultant
Innovation Support Pty Ltd