



5 February 2010

General Manager
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir/Madam,

I am writing to express concern in relation to the Government's proposed changes to the current research and development (R&D) tax regime. I believe the proposed changes will reduce the level and quality of innovative R&D in Australia and in particular will impede innovation in the digital economy which, as you would appreciate, is central delivering on the potential of the National Broadband Network.

SAP has a significant investment in a Research facility in Brisbane, and more recently in Sydney. The amendments display policy, design and definitional characteristics which, if implemented, could cause a significant diminution in the future level of software R&D carried out in Australia by SAP Research.

The Bill:

- excludes the claims for integration of open source and off the shelf software which is unrealistic insofar as ICT R&D is concerned. The industry trend is towards opening systems to realise the benefits of business networks rather than technology silos.
- requires claimants to now determine whether their R&D activities pass four interlocking threshold tests, adding considerable administrative burdens
- requires claimants to distinguish between core and supporting R&D activities according to new test criteria
- contains a "multiple sale" pre-requisite that is, from what I understand, unique to Australia and widely acknowledged in the Government's own reviews as having outlived its relevance.



It is not clear how the Government could adopt a "tax incentive", which effectively excludes applied software development, as a cornerstone of an innovation policy. This is an 'old economy' view of the world. Innovative software development is fundamental to the development of a vibrant digital economy and absolutely integral to virtually all scientific, industrial and commercial advancements in today's society.

In addition, the government's decision to build the NBN should create the capacity to build smart applications in health, education, agriculture, science and engineering solutions enabled by ICT. These innovations need to be developed here as much as possible, and should receive government support through an appropriate R&D tax incentive system.

I urge you to take up the issues raised in this letter with your colleagues so that we can ensure an effective R&D tax system.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tim Ebbeck", with a long, sweeping flourish extending to the right.

Tim Ebbeck
President & Managing Director
SAP Australia New Zealand