

5 February 2010

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

By email: [rdtaxcredit@treasury.gov.au](mailto:rdtaxcredit@treasury.gov.au)

Dear Sir / Madam

### **Tax Laws Amendment (Research and Development) Bill 2010**

The Veda Advantage Group welcomes the opportunity to respond to the exposure draft of the *Tax Laws Amendment (Research and Development) Bill 2010* (the exposure draft) issued on 18 December 2009.

As a general comment we support the reform of tax laws applying to research and development (R&D) particularly the stated objectives of ensuring the proposed rules are more generous and less complex so as to enable Australian companies to remain internationally competitive.

The focus of our submission is on matters relating to the R&D treatment of software as, in its current form, the exposure draft does not achieve the above aim.

### **Major Concern**

As a current R&D registrant, Veda Advantage has undertaken projects that have benefitted from the existing R&D concession. These have been labour intensive undertakings requiring specialist personnel and the Group would expect to continue such projects in the future. If R&D support for the innovative software activities was withdrawn then both the timeliness and the number of projects undertaken would likely be impacted. Consequently so would the demand for specialist staff.

The changes in the exposure draft effectively remove high risk and innovative applied software developments that may otherwise be available for concessionary tax treatment. This is due to an additional requirement is to make a commercial return from the supply of that software. However many businesses do not supply software directly to customers. It is arguably a dated concept, as it is not uncommon for companies to recover costs by including a charge for intellectual property in another fee or a different pricing structure.

This additional burden particularly affects those companies that utilise software as the fundamental means of developing and delivering their products and services to customers. Given the continued level of technological change impacting on the economy it is difficult to see how businesses developing and using 21<sup>st</sup> century process and delivery means are not treated on the same basis as other businesses that deliver products through more traditional means.

The proposed exclusions for all companies that use information technology in developing their commercial endeavours does not recognise how important a contributor this is in achieving a competitive advantage here and overseas. Furthermore companies across a number of industries can achieve considerable advancements through novel and technically risky information systems or whose products are dependant on innovative software development.

#### **Submission Request**

We submit that the Government should remove the specific exclusions on software development to ensure that genuine R&D undertaken that is information technology related is supported by the R&D tax credit program.

We consider that the exposure draft does not positively influence Australian companies' expenditure on software development whether it is core or supporting expenditure for innovative projects and the proposed treatment of this often substantial investment is at odds with international treatment.

Should you have any questions in regard to the above, please do not hesitate to contact me on (02) 9278 7526.

Yours faithfully

A handwritten signature in black ink, appearing to read "Bernard McCaffery". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

**Bernard McCaffery**  
**Group Taxation Manager**