



THE AUSTRALIAN ACADEMY OF THE HUMANITIES

**Response to the Second Exposure Draft of the Legislation and Explanatory Materials for the
New Research and Development Tax Incentive**

The Academy notes that subsection 355-30(f) of this further draft of the *Tax Laws Amendment (Research and Development) Bill 2010* still preserves the provisions of subsection 73B(2C)(f) of *ITAA 1936*, the exclusion of social science, arts and humanities research activity as core R&D for the purposes of the new R&D tax incentive.

The Academy has provided a full account of its opposition to this exclusion in its submissions of October 2009 and February 2010. We remain perplexed that whole forms of research that may be otherwise eligible and beneficial to the nation are to be arbitrarily ruled out, and we continue to seek the removal of this exclusion. While we note that the changes to subsection 355-35 since the first draft do render these activities potentially eligible as supporting R&D, the substance of our argument is unchanged: these fields have contributions to make in their own right and should not be excluded.

We have still not heard any argument from any official that tenders an explanation of how these disciplines have by definition no contribution to make. We remain ready to hold discussions with officials to explain the opposite view: that some activity in this arena does contribute to the Australian national economic benefit and would be advanced with the support of market stimulation in ways similar to work in the science, engineering and technology domain. There are two main concerns. One is that growing and profitable creative industries in which Australia has a current competitive advantage are being hampered because elements of their R&D activity are arbitrarily excluded by this clause. The other concern is the more general point that social innovation and cultural change are widely identified as the next big drivers of productivity improvements, including in other areas of Government policy, yet the exclusion clause continues to narrowly and unimaginatively focus on technology delivery as the only fruitful form of R&D innovation that should be promoted.

Were the clause removed and all systematic, methodologically rigorous academic research were admitted, we do not anticipate that there would be many applications from the humanities, arts and social sciences: the point is that good work that is in scope would be recognised within this scheme. Furthermore, we are not asking for any kind of special treatment: we absolutely endorse the very strict adherence to all of the other eligibility requirements. All we argue for is that comparable work in these fields be allowed to make its case on its merits. If Treasury remains adamant that this is not a good idea, we would at least like the courtesy of both an explanation of what characteristics render work in these fields definitively out of scope, and the opportunity to present a case otherwise.

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