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Driving Business Success for Consulting Firms in the Built and Natural Environment

19 April 2010

**Mr Paul McCullough**

General Manager, Business Tax Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

Dear Mr McCullough

**The New Research & Development (R&D) Tax Incentive: Second Exposure Draft**

Thank you for your advice regarding the consultation on the second exposure draft (ED) of the legislation for the new R&D Tax Incentive. We are pleased to see the changes evident in this ED respond to many of the concerns expressed in our submission (as then the Association of Consulting Engineers of Australia) of January 2010, and my subsequent letter of March this year.

In particular we appreciate: the alignment of the expenditure not at risk provisions with the existing rules; and the more limited exclusion of software R&D. We strongly support the removal of the proposed 'augmented feedstock' rules and the retention of the current rules in this regard. Any further modifications to the definition of 'feedstock' should not limit incentives for R&D conducted by professional services firms as per concerns set out in our earlier submissions.

The introduction of a new definition for 'Core R&D Activities'—while appearing to remove many of the ambiguities present in the first ED—creates some uncertainty about the practicalities of implementation. We are grateful for the guidance and examples provided to support the interpretation of the second ED, but share wider industry concerns that there is now insufficient time to properly consider and debate the implications of the changes put forward in advance of the proposed 1 July 2010 implementation date. In this context we advocate that the government postpone changes to the eligibility rules until 2011 to provide for a full debate of the draft legislation and its wider implications.

Yours sincerely,

**Jonathan Cartledge**  
Policy Officer

