

Small Business and General Business Tax Break – Consultation
Business Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

9th March 2009

Dear Sir or Madam,

Thank you for the opportunity to respond to the Exposure Draft legislation for the investment allowance tax break initiative announced by the Treasurer on 3 February 2009. Before setting out our concerns with this initiative, it may assist if I outline my Association's profile.

The Australian Information Industry Association (AIIA) is Australia's peak technology industry body. AIIA's role is to lead and represent the ICT industry in Australia to maximise the potential of the Australian economy and society. AIIA's membership encompasses all sectors of the ICT sector including hardware, software, services and telecommunications. It has almost 500 member companies, from individual consultants, small to medium enterprises to the world's leading multinational corporations.

AIIA member companies employ over 100,000 Australians, generate combined annual revenues of more than \$40 billion (approximately 5% of GDP) and export more than \$2 billion in goods and services each year. ICT is an "enabler" and a "transformer" for business – in the current financial crisis, facilitating business investment in computer systems that comprise software, hardware and critical services, is one of many ways the government can boost economic activity by the business sector at the same time as ensuring the industry itself receives the benefit of an upturn in purchasing of its products and services.

This email represents AIIA's response to the exposure draft legislation setting out temporary bonus income tax deductions for new depreciating assets and new expenditure on existing assets. The stated aim of these temporary benefits is to act as a boost to business "in the face of a deteriorating global economic environment." (EM, page 5).

AIIA submits that while the initiative goes some way towards lessening the impact on business of the economic crisis, the exclusion of software and related services from the provisions effectively nullifies the potential productivity upside impact of the tax break, decreasing its attractiveness to business taxpayers and thus failing to act as an incentive for the local ICT/software sector which is increasingly impacted by a slowdown of business procurement.

Secondly, computer systems (which could be 'new, tangible assets' under the ED) are frequently purchased with embedded software in them and with associated related services connected to their supply – the administrative burden of apportioning the costs of the tangible and allegedly intangible assets in such a purchase will turn many taxpayers away from even availing themselves of the tax break. The difficulty of such an apportionment should not be underestimated – services now comprise the majority of any system purchase. Without the related services and software, the business benefit of such acquisitions would be negligible for the purchaser.

Given the stated aims of the tax break initiative, AIIA sees this as a significant lost opportunity by the Government to facilitate lasting economic growth in these dire financial times.

Further, given that software is already treated as an asset for the purposes of depreciation (Media Release 13/05/2008) and work related expenses (Tools and Equipment), there appears no supportable public policy reason for excluding software and services from the tax break provisions, other than the modelling of those provisions under the capital allowance deduction scheme.

Australian Information Industry Association

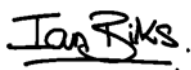
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Accordingly, we suggest that the laudable aims of the tax break initiative (to facilitate economic growth) be retained while the mechanics of delivering the break be altered so that software and services are recognised as assets.

We understand this cannot be achieved through investment allowance provisions because of the longstanding exclusion of intangibles, so we strongly urge the Government to consider adopting more simple mechanisms for providing the tax break, such as a 150% deduction for the expense on the total computer system including software and services. Given that the current ED postulates a possible scenario where a taxpayer may be able to claim up to 130% of the asset's value, we see no valid public policy reason for rejecting this suggestion, especially since the initiative is temporary only.

Members of AIIA's Board and Secretariat will be pleased to meet with you and your colleagues to discuss these proposals in more detail. We will of course be raising our concerns with other relevant Government officials.

Yours sincerely,

A handwritten signature in black ink that reads "Ian Birks". The signature is written in a cursive style with a horizontal line underneath the name. To the right of the signature is a vertical red line.

Ian Birks
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Australian Information Industry Association
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