



**AUSTRALIAN
COMPUTER
SOCIETY**

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Australian Computer Society Inc.
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A member of the
Australian Council of Professions

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

Dear Sir/Madam

**ACS Submission
Research and Development Tax Incentive Exposure Draft Legislation**

The ACS (Australian Computer Society) is the recognised professional association for those working in Information and Communications Technology, seeking to raise the standing of ICT professionals and represent their views to government, industry and the community. A member of the Australian Council of Professions, the ACS is the guardian of professional ethics and standards in the ICT sector, committed to ensuring the beneficial use of ICT for all Australians.

On behalf of the ACS, I write to express our strong support for the views expressed by IT Industry Innovation Council and the Australian Information Industry Association (AIIA) on proposed changes to research and development tax incentives as outlined in the exposure draft of the *Tax Laws Amendment (Research and Development) Bill 2010*.

Anthony Wong, ACS President is a member of the IT Industry Innovation Council which was established by the Hon Kim Carr as an advisory body on innovation within the ICT sector and on the potential for ICT to foster innovation across the economy.

The concerns expressed by the IT Industry Innovation Council and AIIA being echoed by the ACS include:

1. The definition of eligible R&D (both core and supporting) has been greatly narrowed by introducing the dual requirement of innovation and high technical risk. This can only reduce rather than further R&D in Australia, contrary to the stated aim of the proposed legislation. The ACS agrees with ITIIC on its specific comment to the proposed changes because:

ICT Professionals Shaping Our Future

- the definition differs from widely accepted working definition of what constitutes R&D found in the OECD Frascati Manual, which is a guideline generally adopted by research and development practitioners in ICT;
 - there is no evidence that the existing definition has caused inappropriate claims;
 - the increased compliance burden goes against the intended simplification and is of particular concern for SMEs.
2. The exclusion of software innovation in the business context by the adoption of tests restricting the concession to new operating systems or languages, new search engines and discovery level research is sector-specific and could have a potentially damaging impact to the ICT sector.
 3. The application of new limitations to the types of supporting R&D that can be claimed and/or a lower rate of assistance under the new scheme is likely to have an unintended impact on the activities of ICT companies.
 4. The introduction of the "Multiple Sale" condition. This requirement (that eligible software developments requires sales to at least two arms-length customers) can severely, and presumably unintentionally, impact companies that are licensing their software to large OEM's (Original Equipment Manufacturers). This would particularly impact SMEs.

The ACS wishes to raise particular concerns over the exclusion of software development from research and development concessions. Software development, through its enabling, integrating and collaborative functions, plays a pivotal role in productivity enhancement across all sectors of the Australian economy.

Further, innovative software development will be crucial to all Australians and businesses participating in and making the maximum use out of the National Broadband Network.

I look forward to your favourable consideration of these concerns. Should you have any queries, please do not hesitate to contact me on (02) 9299 3666.

Thank you for your attention.

Yours faithfully



Bruce Lakin
Chief Executive Officer