Deloitte.

Contents

1. Background

Deloitte Touche Tohmatsu Ltd (Deloitte) is the largest network of global professional services member firms, with over 169,000 staff working in over 140 countries, and provides comprehensive business services across audit, consulting, financial advisory and taxation.

The Deloitte R&D Tax and Incentives team in Australia is part of the Global Deloitte R&D network, which has over 450 partners and staff who assist clients with claiming incentives for R&D activities. In Australia, we have over 45 partners and staff from a variety of backgrounds, from law and accounting to engineering and computer science, assisting Australian companies with understanding and claiming the R&D tax concession and R&D tax offset. The partners in the Australian R&D practice have in excess of 70 years' combined experience in working in R&D policy and practice.

Our clients range from start-up companies conducting cutting-edge research to some of Australia's top ASX-listed companies, covering all industries and sectors. Since the release of the exposure draft of the ***Tax Laws Amendment (Research and Development) Bill 2010 (***the Bill***)*** we have spent considerable time consulting with our clients, including hosting a series of breakfast briefings, in order to incorporate their concerns, in conjunction with our own, in this submission.

2. Executive summary

We welcome the opportunity to make a submission on the proposed changes in the exposure draft legislation, *Tax Laws Amendment (Research and Development) Bill 2010*, released on 18 December 2009.

Our main concerns and recommendations may be summarised as:

- The Bill fails to deliver on the Government's objective to deliver a more "…generous, more predictable, and less complex tax incentive…"[1]. Instead, the complete disconnect between the Government's published innovation policy[2] and the outcome of the Bill will, if further action is not taken, result in a regime that provides a limited subsidy for failure rather than an incentive for success.

  Recommendation: We propose ongoing consultation with Treasury to assist with developing an incentive regime that reflects the Government's innovation policy better while also maintaining broad-based industry support for R&D being conducted in Australia.

- The concepts of 'spillover' and 'additionality' are at odds with the Government's innovation agenda. Likewise, the addition of these concepts in the Object clause[3] included in the new R&D provisions set out in the Bill will only add confusion about whether there is an additional 'eligibility' requirement that must be met.

  Recommendation: We propose these concepts be removed from the Object clause.

- On their own, the augmented feedstock provisions are likely to act as a significant deterrent to R&D being conducted in Australia. The draft provisions fail to recognise the commercial reality of performing R&D, (i.e. financial risk), and the commercial and economic benefits arising from conducting not just 'research' but also 'development'.

  Recommendation: We propose that the current provisions should be maintained, or alternatively, the introduction of a cap on notional spend (based on industry type) or expanding the list of quarantined expenditure.

- The rewording of the definition of 'core' activities to incorporate 'considerable novelty' and the 'and' test creates a higher than necessary eligibility threshold, resulting in one of the most restrictive definitions of R&D globally. The introduction of new concepts and terminology, for which there is no existing precedent, creates greater complexity and confusion about application.

  Recommendation: We propose the current definition of "innovation or high levels of technical risk" should be maintained, in line with well established principles of R&D across industry and internationally.

- The incorporation of a 'dominant purpose' test for supporting activities, and the expansion of excluded activities to also incorporate support activities is a further example of the failure to recognise the commercial environment in which R&D is conducted in Australia and the type of R&D being conducted. The ongoing failure to acknowledge that claimants bear financial risk when undertaking dual purpose

[1] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research New R&D Tax Credit – Exposure Draft Legislation 18 December 2009

[2] *Powering Ideas: An Innovation Agenda for the 21st Century*, 12 May 2009

[3] Subdivision 355-A

activities is likely to lead to eligible R&D expenditure being severely diminished and to innovation activity in Australia being deterred.

Recommendation: We propose that the current definition of supporting activities, (i.e. a direct connection) should be maintained, and the excluded activities should be limited to core activities only.

- We fail to understand why the software industry has again been specifically targeted for restricted access to/exclusion from the tax offset, even though it is an industry likely to deliver the intended policy objectives of 'spillover' and 'additionality', while also establishing Australia as an 'innovation nation'.

  Recommendation: We propose that software R&D activities should be subject to the same eligibility criteria as all other R&D activity. We recommend its removal from the exclusions list for supporting activities.

- The introduction of such significant change to the R&D regime is likely to place considerable pressure on claimants' administrative resources, to the point that the increased compliance costs are likely to hinder, rather than encourage, any attempts to access the new tax offset.

3. Introduction

As with the consultation paper issued by Treasury on 18 September 2009, *The new research and development tax incentive* (Consultation paper), we welcome this opportunity to make a submission in response to the proposed changes in the exposure draft legislation, *Tax Laws Amendment (Research and Development) Bill 2010*, released on 18 December 2009 (Bill).

The vital role that innovation and science will play in the context of Australia's future productivity has long been the focus of the Australian Government. In particular,

> …*"[i]nnovation and diffusion of new and better production methods, and the introduction of new goods and services, are the core drivers of productivity growth – getting more, and more highly valued, outputs from any level of inputs."... These were the Australian Government's priorities before the world plunged into recession, and they remain its priorities now.*[4]

The question of how best to support this agenda was never going to be easy, and to date a key policy lever to provide this support has been the R&D tax concession. We welcome the Government's commitment to retain its support of this important incentive (in the form of a tax offset), but question whether the proposed changes deliver on the policy objective above and the more recent promise of being more generous, predictable and less complex.[5]

We acknowledge that the Bill incorporates a number of positive measures, many of which were in response to concerns voiced by industry about the practical application of the R&D tax concession - the most obvious being the support measures:

- The increase in the rate of the tax offset for all businesses
- Increasing the turnover threshold for companies accessing a cash refund from $5 million to $20 million
- Removing the ceiling on R&D expenditure necessary to qualify for the tax offset.

In looking at the package as a whole, however, the Bill fails to offer Australian businesses the financial support and incentive necessary to deliver on the Government's innovation objectives, and instead ***represents the implementation of one of the most restrictive and complicated regimes we have seen globally***.

We estimate that the vast majority of existing claimants (regardless of turnover) will fail to meet the eligibility requirements of the new R&D tax offset, and even if they can be met, the expenditure exclusions and clawback provisions that have been incorporated will significantly curtail the size of their claims (based on analysis of our client's claim history, we estimate by more than 70% in most instances).

For those small to medium-sized entities that the amendments are specifically aimed at supporting, the definitional and compliance measures will negate their ability to access the tax offset that initially appeared so generous. The Government claims the new measures will reverse "… the previous government's retrograde decision to halve the R&D Tax Concession when it came to office"[6], but it is our opinion that the proposed changes will have the same, if not greater effect.

In light of this we do not understand how such changes can be described as revenue neutral. We encourage Treasury to substantiate this position with the economic modelling undertaken in this respect. We understand

---

[4] *Powering Ideas. An Innovation Agenda for the 21st Century*; p. 11

[5] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research "New R&D Tax Credit – Exposure Draft Legislation" 18 December 2009

[6] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research "R&D Tax Credit to Boost Business Investment" 12 May 2009

that when such changes were contemplated in 2001, the then Labor opposition commented that "…[i]n not providing a detailed desegregated breakdown of the economic analysis of the impact of the Bill, the Government has further obscured debate on this particular point, and [in] light of this Labor Senators accuse the Government of stifling informed, open decision making"[7]. Deloitte agrees with these comments and suggest that the only way of improving the clarity of the policy is to substantiate the economic cost of the proposed R&D tax offset.

Our concerns relate specifically to the fact that the overall policy objective aimed at fostering innovation has become secondary to the focus of ensuring that a small number of perceived high value 'mischiefs' associated with the current R&D tax concession will be avoided in future. Even though Innovation Australia is of the opinion that "…the majority of companies represent a low risk in respect to their R&D eligibility[8], this focus now means that the cumulative effect of these restrictive provisions is such that the eligibility of any associated expenditure is likely to dwindle to the point that only costs associated with dedicated R&D facilities or start-up ventures are likely to qualify and even then, only on the basis of providing a subsidy for unsuccessful R&D.

We submit that the proposed legislative changes are therefore an inappropriate mechanism for dealing with these issues, and that rather than providing a limited subsidy for failure, the intent should be to give incentives for and encourage a broad range of industries and activities to increase business expenditure on R&D to contribute to a more competitive Australia.

In this submission, we do not intend to comment on each new provision incorporated into the Bill on the basis that this is the appropriate 'next step' in consultation with Treasury. Rather, it is our intention to bring to your attention a number of key issues that highlight the need for **further** consultation, clarification and revision. We make these points against the backdrop of the objectives of the draft legislation, as identified by Ministers Swan and Carr in their media release on the Bill and explanatory materials.[9]

It is our submission the proposed legislation and practical implications thereof are at direct odds with the underlying objectives espoused.

The proposed legislative changes will seriously impede the R&D efforts of Australian companies if the Bill is enacted in its current form. They will only serve to diminish Australia's ability to encourage innovation and attract foreign investment. To this end, we have focused our submission on the following key elements of the reform:

- *Formalising the object of the R&D tax offset on the basis of 'spillover' and 'additionality'*
- *The augmented feedstock provisions*
- *Amendments to the definition of 'core' R&D activities*
- *Amendments to the definition of 'supporting' R&D activities*
- *Amendments to the definition of 'supporting' R&D activities with respect to software*
- *Compliance and administration concerns.*

[7] Senate Economics Legislation Committee *Consideration of Legislation Referred to the Committee Taxation Laws Amendment (Research and Development) Bill 2001*, Labor Senators' Minority Report, p. 26
[8] Innovation Australia Annual Report 2007-08, p. 31
[9] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research "New R&D Tax Credit – Exposure Draft Legislation"18 December 2009

4. Issue one: Formalising the object of the R&D tax offset on the basis of 'spillover' and 'additionality'

We remain firmly of the view that the concept of 'spillover' and 'additionality' over and above a "broader commercial or other purpose" should not be included in the object clause of the legislation.[10] This concept is subjective at best, and its incorporation only creates confusion about whether there is an additional 'eligibility' requirement that must be satisfied by claimants - and if so, how are any such benefits to be qualified, quantified and substantiated?

Such tests also put Australia out of step with the rest of the world in terms of R&D policy.

The AusIndustry website features a number of 'good news' stories about the current R&D tax concession, with a predominant focus on its success with small businesses. It is interesting to note one claimant's comments that sometimes it "…takes 10 years to get something to generate a return".[11] Likewise, in the *venturousaustralia* report it was mentioned that "firms in tax loss are often the most innovative" while many start-ups, currently too large to access the offset "…endure tax losses for the best part of a decade, particularly in sectors like biotechnology".[12] The question has to be asked – how do you measure or assess 'spillover' and 'additionality' in these instances and what is a reasonable timeframe in which this should occur? Will such claimants continue to qualify under the R&D tax offset regime even though any financial 'spillover' or 'additionality' may not occur for quite some time, if at all?

We are concerned that the policy intent of encouraging R&D over and above that which a claimant would otherwise undertake fails to take into account the commercial reality of undertaking R&D in the current economic climate and global market place. At the time the R&D tax concession was introduced in 1985, R&D was predominantly centred on "...radical product and process innovations focusing on the well-endowed and almost self-sufficient R&D department as the locus of innovative activity".[13] That focus has now changed, thanks to the broad-based nature of the R&D tax concession, and rather than stand-alone R&D departments driving innovation it is driven by the requirement to anticipate and respond to customer needs and to provide a market differentiator, quickly and before a competitor does. Innovation is now demonstrated, in one form, by rearranging "…today's technologies (developed by other organisations) rather than inventing new ones"[14] - as acknowledged above in terms of "getting more, and more highly valued, outputs from any level of inputs".[15] This changed nature of innovation provides an increasing return on investment relative to the cost of the R&D, and as such provides Australia with strategic and comparative advantage across many industry sectors. The current form of the draft legislation fails to support the very innovation contemplated in the Government's innovation agenda.

Not only is 'additionality' reflected in the overall policy intent of the Object clause, it is also the dominant driver of the augmented feedstock provisions and the new 'dominant purpose' test. On its own, the concept of 'additionality' will act to diminish the value of the tax offset severely for any business conducting R&D in a commercial context, which in Australia is likely to be the majority of existing claimants. The most recent figures released by the Australian Bureau of Statistics (ABS) indicate that of all industries contributing to Australian

---

[10] Sub-section 355-5(1)-(3), *Tax Laws Amendment (Research and Development) Bill 2010* Exposure Draft

[11] http://www.ausindustry.gov.au/CustomerStories/Documents/Bugs%20for%20Bugs.pdf

[12] *venturousaustralia. building strength in innovation*. 29 August 2008 p. 105

[13] High variation in R&D expenditure by Australian firms, Department of Industry Tourism and Resources, March 2007, p. 4

[14] High variation in R&D expenditure by Australian firms, Department of Industry Tourism and Resources, March 2007, p. 4

[15] Refer to footnote 4 *Powering Ideas. An Innovation Agenda for the 21st Century*; p. 11

business expenditure on R&D (BERD), manufacturing and mining were the most significant, contributing 30% and 23% respectively.[16] It is these industries that seem to have been specifically targeted and therefore will be particularly disadvantaged by the proposed legislative changes. The Government is failing to recognise or acknowledge the substantial and long-term economic benefits that have been created by companies in these industries as a direct result of commercialising the results of their R&D programs.

'Additionality' as a reason for restricting or clawing back types of expenditure represents an overly simplistic view of the true cost of undertaking R&D. Companies do not undertake R&D for R&D's sake and the time/cost and financial risk of undertaking R&D is always in addition to what a company would otherwise choose to do. The Government has acknowledged that "[b]usiness spending on research and development collapsed in the late 1990s, and while it has grown since then, we still lag [behind] many of the countries we compete with".[17] A dual purpose, specifically a commercial purpose, does not equate to 'business as usual' – expenditure is still at risk. Facilities and resources are scarce and often a company will suffer reduced efficiencies or fail to generate sufficient profits, which affects future cash flow and R&D-related decisions. The nature of R&D is such that there is no guarantee of success. This is demonstrated in the following example:

> *A small manufacturing company is undertaking R&D to improve the throughput rate on its one manufacturing line so that it can offer its product globally. The majority of testing and trialling needs to be done in the production environment. On the basis that the activities are considered 'core' and do not fall within the 'exclusions' category, such trials will fall for consideration under the feedstock rules.*
>
> *Under the provisions to be introduced in the Bill, the company is excluded from claiming any of these costs in its R&D claim where the market value of the direct outputs exceeds the output cost. As it constitutes the majority of the expenditure identified, the cost benefit of preparing an application is negligible and the company fails to make any claim. Of note, however, is that during the period the R&D activities were being undertaken, the company experienced reduced throughput levels, additional resourcing costs and product quality issues as it attempted to work through the technical challenges of the project. At the completion of the project the company did not make a loss on those activities, however the company only generated marginal profits compared to a standard year when no R&D occurred and could not afford to continue with such activities. The company also bore the financial and technical risks of running the trial.*

This notion of 'additionality' does not account for a company merely breaking even, due to the performance inefficiencies that were experienced during the performance of R&D – potentially, the net effect is no surplus cash to fund future R&D activity. Yet it is arguable that 'spillover' has still been created in the form of new knowledge, job retention (which arguably is just as important in the current economic climate) and expanded market opportunities. In this instance the concepts of 'additionality' and 'spillover' are at odds with each other and with Government policy in this area.

Given the current economic climate, it is now more than ever vital that the Government encourages and supports R&D activity rather than attempting to distinguish between what would and would not have occurred anyway. In light of the global financial crisis, it is recognised that companies are spending less and less on R&D with "[b]usiness R&D … being re-oriented towards short-term, low-risk innovations, while longer term, high risk innovation projects are being cut first".[18] If the Government is serious about aiming "…to increase the proportion of businesses engaging in innovation by 25 per cent over the next decade…[and] … increase[ing] the number of businesses investing in R&D over time",[19] then the concept objective of 'additionality' will do little to encourage this.

---

[16] ABS Research and Experimental Development, Businesses 8104.0 2007-08, p. 13

[17] *Powering Ideas. An Innovation Agenda for the 21st Century*. 2009 p. 2

[18] *Policy Responses to the Economic Crisis: Investing in Innovation for Long-Term Growth*, OECD June 2009, p. 6

[19] *Powering Ideas An Innovation Agenda for the 21st Century 12 May 2009*, p. 6

Recommendation

We recommend that the concepts of 'spillover' and 'additionality' be removed from the legislation on the basis that their subjective nature makes them difficult to substantiate and creates uncertainty about their application. The actual policy intention of promoting innovation will be stifled as the Government attempts to impose restrictions on the financial incentives available for certain types of activities undertaken, rather than contemplating its significance to the overall benefit attributable to conducting such R&D in Australia.

5. Issue two: The augmented feedstock provisions

We disagree with enhancing the scope of the feedstock provisions to facilitate the 'clawback' of any commercial value attributable to the R&D activities undertaken. The outcome of this proposal, whether planned or otherwise, is to provide a limited subsidy for failure rather than an incentive for R&D activities, and cannot be supported in its current form. We submit that this approach fails to recognise the commercial and economic benefits that arise from R&D.

Although the feedstock provisions only come into play once eligibility of a project has been established, it is our opinion that it should be dealt with prior to this, on the basis that it is likely to be a deciding factor in whether companies will even commit to determining their eligibility in the first place. The implications for these provisions are far reaching and, potentially, will have the most significant impact on all claimants.

> *In the 1980s and earlier, when these tax instruments were introduced, the prevailing model of business research centred around in-house corporate laboratories. Today the prevailing model is one of open innovation markets, where corporations exchange, collectively develop, or trade in technology or intellectual property.*[20]

Unfortunately the feedstock restrictions imposed by the Bill appear to favour the business model that existed 25 years ago when the R&D tax concession was first introduced, rather than supporting a culture of innovation and technological development as proposed by the Government's innovation agenda. The effect of the new feedstock provisions is to suggest that experimentation and failure will be rewarded, while successful outcomes will be less likely to merit making a claim

The underlying objective of the feedstock provisions is to reduce "…the extent to which the R&D tax incentive provides an unwarranted subsidy to activities that are already directly profitable".[21] Unfortunately, the practical application of these provisions is so extreme as to make them unworkable. The administrative cost alone will be prohibitive to many claimants – the requirement to value feedstock output and the output's market value will be onerous, particularly where such valuations occur in different financial years.

Likewise, the objective of the feedstock provisions fails to take into account that although an R&D output may be marketable, the R&D claimant was at risk in attempting to bring a new or improved product, process, service, device or material to market – in effect, companies are bearing financial risk. The consideration of the net cost only, rather than its contribution to overall net profit, can be misleading and unfairly discriminate against the value of such activities in an R&D context.

A common theme throughout this submission is the failure of Treasury to understand and appreciate the commercial nature of investing in innovation in the current age and in particular, the importance of the very activities that are being targeted by these provisions. This failure does not align with the Government's own innovation policy, which highlights the importance of turning a concept into a profitable output and recognising

[20] *venturousaustralia. building strength in innovation*, 29 August 2008 p. 101

[21] Paragraph 2.51, *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 19

that too often "…Australian inventions and discoveries end up being commercialised overseas, where the value they create is captured by others. This costs Australia jobs and wealth, and denies us the chance to build new industries".[22] In failing to support the very activities that potentially generate the greatest 'spillover', the proposed legislation defeats its own objective.

We question the ability of the feedstock provisions to "…deliver a more generous, more predictable, and less complex tax incentive".[23] As a starting point we raise the following questions:

- How proximate is the link to revenue? A finished good or material may sit in quarantine for a period of time before being sold. Will the claimant have to impute a value or make an adjustment to an earlier claim? Arguably there is no 'certainty' that either 40 or 45% of this will be returned in the form of a tax offset[24]
- How do you accurately determine and substantiate the market value of a product that is useable, but unsuitable for sale, or requires further transformation before a market value can be attributed?
- To what extent will expenditure 'directly relate' to the production of that output?
- A software developer can only meet the multi sale test if software is developed for the purpose of generating a commercial return from it, yet a large proportion of the R&D expenditure will potentially be clawed back as a result of these feedstock provisions. Is this anomaly the intended outcome?
- In a commercial environment, (i.e. outside pure research activities) the feedstock provisions negate any value in even determining whether activities meet the definition of core or supporting activities, as it little benefit is likely to be available to claim once these provisions are considered. Is this the intended consequence?

The Cutler Review highlighted a general concern with some large scale mining and engineering claims[25]. These provisions, however, are now far broader than those contemplated by Cutler and are now so onerous that they will affect any claimant that is performing R&D with the intention of creating "new or improved materials, products, devices, processes or services".[26] Draft legislation is not the appropriate forum for dealing with such concerns under the guise of good policy. On the basis that 62% of R&D conducted in Australia represents 'development' or application R&D, these provisions are likely to have a dire impact on Australian BERD.[27]

In its current form the feedstock rule will have a detrimental impact on R&D being conducted in Australia. The fact that these provisions and supporting materials are not yet finalised suggests a rushed job at best, with little understanding or regard for the practical outcomes of the proposed provisions as they currently stand. The feedstock provisions could not be classified as 'good policy', but rather, reflect an approach to the legislation that has failed to deliver a uniform, clear and appropriate incentive for performing R&D in Australia.

Recommendation

We recommend that the Bill does not include changes to the current feedstock provisions. The current provisions reflect the commercial environment in which R&D is undertaken in Australia, while at the same time recognising that claimants are bearing financial risk.

---

[22] *Powering Ideas. An Innovation Agenda for the 21st Century*; p. 3

[23] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research 18 December 2009

[24] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research 18 December 2009

[25] *venturousaustralia. building strength in innovation*, 29 August 2008 p. 109

[26] Sub-section 355-25(1)(c), *Tax Laws Amendment (Research and Development) Bill 2010* Exposure Draft

[27] ABS, Research and Development, Business 2007-08, p.12

Alternatively, we suggest the introduction of a cap on the notional deduction (depending on industry type) or an expansion of the list of quarantined expenditure to include, at a minimum, such items as salary and wages and other indirect costs.

6. Issue three: Amendments to the definition of 'core' R&D activities

We have previously expressed our opposition to core R&D activities being redefined to require claimants to demonstrate, among other eligibility requirements, considerable novelty (a new concept) **and** high levels of technical risk[28] - see our submission dated 26 October 2009, in response to *Principle 6* of the Consultation Paper.

We remain strongly opposed to 'core' R&D activities being redefined in this way. Our concerns about the ability of this change to act as a suitable driver for achieving the intended policy outcome for innovation, balanced with the aim of reduced complexity and a broad-based industry application remain very much the same.

As outlined above, the resounding message from the Consultation Paper and the explanatory materials accompanying the Bill about the reason for this change is the need to ensure that appropriate 'spillover' benefits are derived from the activities being supported via the R&D tax offset.[29] There has been no compelling evidence provided by the Government, however, such as financial modelling or specific examples, to highlight the lack of 'spillover' achieved under the current definition.

In fact, Australia's BERD has increased steadily from 0.92% of GDP in 2003-4 to 1.27% in 2007-08, and although Australia's BERD/GDP ratio for 2007-08 is below the OECD average of 1.59%, "…its growth from 2006-07 was greater than the OECD average…".[30] Over the same period, the number of claimants of the tax concession has increased from 5,639 in 2003-04 to 7,754 in 2007-08.[31] Without firm evidence to the contrary, the view that there has been insufficient 'spillover' appears theoretical at best. Likewise, the resounding response from the majority of the 197 submissions received in response to the Consultation Paper, particularly those from industry, was the provision of many clear examples of activities that demonstrated only one the eligibility criteria, yet all delivered the intended 'spillover' benefits.

It is important to reiterate that the same issue was raised and defeated in 2001 in the *Taxation Laws Amendment (Research & Development) Bill 2001,* highlighting the fact there has never been industry support for the suggestion that a 'core' R&D activity must have both elements. On the amendments proposed in 2001 it was noted that any such changes would likely have had a "…deleterious impact on investment in research and development in this country"[32] and as such, could not be supported. We submit that public sentiment on this point has not shifted.

We believe the new definition will set the threshold for eligibility level too high, and will act as a disincentive and deterrent to industry. It does not provide any more clarity of definition and also places greater administrative and compliance burdens on both claimants and assessors in attempting to apply the new principles in the context of particular industries, without the benefit of any precedents to apply. We note that the explanatory materials make no further comparisons to international models as a motivator for such change, even

[28] Sub-section 355-25(1)(b), *Tax Laws Amendment (Research and Development) Bill 2010* Exposure Draft

[29] Paragraph 1.13, *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 7

[30] Australian Bureau of Statistics, Research and Experimental Development, Businesses Australia, 2007-8 8104, p. 5

[31] R&D Tax Concession Fact Sheet: http://www.innovation.gov.au/Section/AboutDIISR/FactSheets/Pages/RDTaxConcessionBERDFactSheet.aspx

[32] The Senate *Taxation Laws Amendment (Research and Development) Bill 2001* Second Reading Speech, 26 September 2001, 28048

though this was canvassed in the Consultation Paper.[33] ***If these changes to the definition are enacted, Australia will move from having one of the most progressive definitions of R&D to one of the most restrictive.*** Surely in an era where we are competing heavily for international investment in Australia it makes little sense to discourage such activities by incorporating such a restrictive view of R&D? We provided a number of examples of the international definitions currently in operation in our Consultation paper submission, supporting the assertion that Australia's current definition is in line with most international jurisdictions.

Likewise, the definition of R&D as espoused in the Frascati Manual (regarded as the benchmark for R&D definition in OECD countries) states that:

> *Research and experimental development (R&D) comprise creative work undertaken on a systematic basis in order to increase the stock of knowledge, including knowledge of man, culture and society, and the use of this stock knowledge to devise new applications.*[34]

The Frascati Manual further qualifies this statement by expanding on the three activities covered by this definition; basic research, applied research and experimental development. It does not mention the need for novelty/innovation and high levels of technical risk. The Manual does not talk about these concepts in the context of defining R&D, but instead treats them as a method for distinguishing between R&D and related activities. Related activities will not display "an appreciable element of novelty and the resolution of scientific and/or technological uncertainty".[35]

On this basis, ***there can be little support for the notion that a change in the definition of "core" R&D activities will bring us in line with globally accepted principles, as the definition as it currently stands already serves this purpose***.

In effect, the proposed change to the definition of 'core' R&D limits the focus to 'research' and not 'development'. The introduction of an additional eligibility threshold in the form of the 'and' test will limit the availability of the tax offset to entities that can afford to fund stand-alone research centres within their organisation, or focus predominantly on research. It is unlikely this was the intended consequence, however smaller entities are likely to struggle to meet the requirement for 'considerable novelty' in addition to 'high levels of technical risk'.

As expressly stated in the explanatory materials, the changes are targeting those initiatives that may not be undertaken due to 'technical uncertainty'[36] yet would deliver 'spillover' benefits to the broader economic community. The explanatory materials seem to be more heavily weighted towards the concept of technical uncertainty and its effect on directing the course of R&D activities, particularly in the current economic climate – in particular "[t]he R&D tax incentive is not intended as a subsidy for innovation in general".[37] On the basis of this statement we question why the 'and' test is a necessary at all.

6.1 The implications of "considerable novelty"

We disagree with the proposed change to the definition from 'innovation' to 'considerable novelty'. It is our opinion that this creates a higher eligibility threshold than is necessary, and by introducing a new term only serves to add an additional level of complexity to the definition.

The introduction of the new R&D tax offset provides the Government with an opportunity to create a level of practicality and certainty about what is eligible and what is not. Unfortunately the change in terminology, the use of new terminology and the overriding dependence on 'spillover' will not deliver on the promise of a tax

[33] Paragraph 55 The new R&D tax incentive Consultation Paper, p. 10
[34] Paragraph 63 Frascati Manual "Proposed Standard Practice for Surveys on Research and Experimental Development 2002, p. 30
[35] Paragraph 84 Frascati Manual "Proposed Standard Practice for Surveys on Research and Experimental Development 2002, p. 34
[36] Paragraph 1.9 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 6
[37] Paragraph 2.7, *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 12

incentive that is "less complex",[38] but will instead reward only a very narrow set of activities, the value of which is subjective depending on whose point of view is taken.

Taking our position further, 'considerable novelty' is not defined in the Bill. The explanatory materials suggest that the threshold will be met when the novelty is more than a mere logical progression and results in new knowledge over and above that which would be publicly available on a reasonably accessible worldwide basis. This leaves the assessment of 'considerable novelty' open to subjective interpretation and adds little to the current measure of innovation as showing an appreciable element of novelty. If the proposed change does little to add clarity then it is arguable whether it should be introduced at all.

6.2 The implications of high levels of technical risk

The expression 'high levels of technical risk' is defined in the Bill by proposed subsection 355-25(2).

The requirement under paragraph (2)(a) of that provision that the probability of obtaining a given technical or scientific outcome from the activities must be measured against "current knowledge, information or experience" introduces a broader test. The explanatory materials suggest that the base from which any high level of technical risk can be measured now contemplates that if a competent professional is able to source such "knowledge, information or experience", then the threshold is not met. Practically, how far must a claimant go in determining whether such information is readily available? A lot of R&D happens in parallel among companies in the same sector. Further the speed of R&D in some industry sectors will make it impossible to determine whether such knowledge, information or experience existed at any given point in time.

The proposed changes do not improve the definition in terms of clarity or simplicity but in fact complicate the determination of high level technical risk on the part of a claimant company.

The rewriting of the definition of 'core' activities as a whole raises a number of practical questions:

- The practical implications of information dissemination through the internet as required for considerable novelty and high levels of technical risk
- The focus on the 'purpose' of the activities
- The potential anomaly of treating a series of activities as 'core', yet having to characterise each activity as 'core' or 'supporting' when registering those activities.

Rather than promote additional 'spillover' benefits that otherwise may not have arisen, the change in definition is likely to discourage potential claimants from trying to claim, on the basis that the new tests are too hard to meet and too complicated to understand.

Recommendation

We recommend that the current requirement of 'innovation' ***or*** *'high levels of technical risk' be maintained, as it reflects well-established principles of R&D across industry, and remains in line with other international definitions and concepts. Likewise, we are concerned that the Government's desire to "tighten eligibility"[39] will probably have the consequence of restricting access to the tax offset of the very SME claimants the Government is hoping to offer incentives and encourage.*

[38] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research 18 December 2009

[39] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research 18 December 2009

7. Issue four: Amendments to the definition of 'supporting' R&D activities

We are concerned about the Government's intention to limit the expenditure eligible for inclusion as support activities unless such activities are:

- Undertaken for the 'dominant purpose' of supporting core R&D activities (section 355-35(1)); or
- Do not fall within the proposed list of exclusions (section 355-35(2)).

As with the change to the definition of 'core' activities, it would be beneficial to review the financial modelling that has been undertaken to support the view that "…R&D activities involving large amounts of supporting activities can attract subsidies that are out of proportion to the public benefit".[40] No evidence has been provided by the Government to support this view.

7.1 The 'dominant' purpose test

We do not agree with the introduction of a 'dominant' purpose test to qualify certain activities as 'supporting' core R&D. The underlying theme for introducing such change is described in the explanatory materials as necessary to avoid certain claimants being cross-subsidised for normal production activities that would otherwise occur.[41] This seems to reflect a particularly narrow view of the value-add role such activities play in both supporting the core R&D function as well as the commercial environment in which R&D is undertaken in Australia.

Although the amendments do not disregard support activities as a necessary function of the R&D process, our concern is about the restriction imposed on claiming an R&D tax offset for such activities unless they are undertaken for the 'dominant' purpose of supporting core R&D. It is our opinion that this treatment fails to recognise the commercial environment in which R&D is being performed, both within Australia and globally. In many instances it is not practical, or feasible, for a company to conduct these activities in isolation from its day-to-day operations. Many companies do not have dedicated trial facilities or a pilot plant that they can use to undertake R&D. To require this would be liable to impose a significant financial burden that could not be recouped in full, even taking the R&D tax offset into account. Unfortunately, there is often little alternative to conducting R&D in this way, as a company can't afford to 'put down tools' to run trials of the extent and type required to prove or disprove its technical objective.

Rather than acknowledging the role support activities play in undertaking R&D, it appears that such activities have been excluded merely on the basis of cost to revenue. Such activities provide vital feedback to R&D managers to determine whether it is possible to meet a specific technical objective. Similarly, such feedback will often guide the future direction of R&D activities and funding. The value such activities contribute to an R&D project cannot be discounted – on this basis alone it is unreasonable that the associated expenditure should be excluded because it is perceived as costing too much.

Where a company undertakes an experimental activity on a production scale with a dual purpose, determining whether the prevailing purpose is R&D is subjective. This is counter to the Government's intention of

[40] Paragraph 58 The new research and development tax incentive Consultation paper September 2009, p. 10
[41] Paragraph 2.39 Tax Laws Amendment (Research and Development) Bill 2010 Explanatory Materials, p. 17

introducing a less complex and more predictable R&D tax offset, particularly as very little clarity is afforded by the examples and substance of the explanatory materials.

We also question the ability of a claimant to document the 'dominant' purpose of any support activities undertaken appropriately. Given that documentation "…is not of itself determinative"[42] of whether certain activities can qualify under the PKI test we question whether this view applies to supporting activities as well. This delineation does little to reduce the complexity and administrative burden now being placed on claimants to support any application.

7.2 The exclusion of nominated activities from being both 'core' and 'supporting'

We are opposed to expanding the list of excluded activities from core to supporting. It appears on its face that the probable impact of this change this has not been thought through, as it contradicts the objectives of the R&D tax offset program. We disagree with the statement that the list will provide clarity about which activities will "…not meet the tests for R&D activities".[43] Direct exclusion represents a serious misunderstanding of the types of activities necessary to undertake an R&D project successfully. Under the existing definition of R&D it is generally accepted that a number of these activities would not qualify as 'core' in their own right – this has rarely been in dispute as it is difficult to assign innovation or high levels of technical risk to a number of the specific activities. Many industries would argue, however, that these activities are certainly 'support' in the required sense of the word. To require on the one hand that activities will only qualify when undertaken in an experimental manner, but to suggest on the other that 'trial runs' would not be an appropriate support activity seems completely at odds with undertaking R&D in a systematic and investigative manner.

It could be argued that changing the definition of 'core' and 'supporting' activities and the surrounding debate is a waste of time, as a large majority of R&D activity will probably be specifically excluded under proposed subsection 355-35(2) anyway. When combined with the application of the feedstock adjustment rules in proposed section 355-450, the argument is almost moot. This highlights the absurdity of the Government's approach to R&D and the danger created by the disconnect between good innovation policy on one hand, and Treasury's protection of the bottom line on the other.

> *Innovation is important to our bottom line, and we need to remain relevant in our industry. Manufacturing in this current environment is a tough gig when we are trying to compete with lower priced imports*": Managing Director, Fyna Foods.[44]

Fyna Foods is another example presented by AusIndustry as successfully accessing the current R&D tax concession. The types of R&D activities described as being undertaken by this company include extensive market research, machinery research, capability studies, flavour investigations and packaging development. Whether the broad scope of such activities would still be eligible for inclusion under the new rules is debatable, and based on the examples provided in the explanatory materials remains subjective at best.

The result is that claimants will now have to scrutinise each type of activity being undertaken very carefully , in order to:

1. Classify activities appropriately as core or supporting
2. If supporting, confirm the reason for the activity being undertaken, (i.e. the dominant purpose test) and if satisfied, does it fall within the list of exclusions?

---

[42] Paragraph 2.33 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 16

[43] Paragraph 2.42 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 18

[44] Tax Breaks for innovation help confectioner, AusIndustry website, June 2007: http://www.ausindustry.gov.au/customerstories/documents/customer%20stories%20december%202008%20updates/fynafoods%20111208%20web.pdf

Depending on the outcome, the claimant will then need to develop a method for segregating the expenditure associated with each activity so that only eligible expenditure is included in the claim.

This creates an overly complex administrative framework at the claimant level, and requires a completely new level of reporting that we anticipate most claimants will not have the ability to implement. Alternatively, the cost of doing so will far outweigh any benefits the new tax offset will deliver. The question of how this reduces complexity and cuts red tape while at the same time promoting innovation must therefore be asked. At this stage, claimants will be seeing very little value in continuing with the process of identifying eligibility.

The Consultation Paper canvassed a number of possibilities for dealing with supporting activities. The end result is a very restrictive view of what will qualify, and in conjunction with the restricted definition of 'core' R&D, is likely to hamper innovation in Australia rather than encourage it. We are concerned that the nature of the restrictions is such that the concept of R&D is being limited to the 'white coat lab brigade' and the broad-based industry concession that claimants are currently familiar with will disappear.

Recommendation

To ensure that the definition of R&D continues to reflect the industrial and commercial reality of undertaking R&D in Australia, and also implements to the Government's stated policy intent, we would suggest this aspect of the definition is reviewed with the purpose of retaining the current definition of supporting activities, (i.e. a direct connection) and limiting the excluded activities to core activities only.

8. Issue five: Amendments to the definition of 'supporting' R&D activities for software

We fail to understand the Government's rationale for denying the information and communications technology (ICT) industry access to the proposed R&D tax offset on the same grounds as other industries. This has been a long-standing issue under the current regime, and remains so, given the proposed legislation continues to restrict the eligibility of software development activities. In their current form, we fail to understand how the proposed changes to software eligibility will support Priority 3 of the Government's National Innovation Priorities to "…foster industries of the future, securing value from the commercialisation of Australian research and development".[45]

In particular, we do not agree with:

- Excluding all software related activities from eligible expenditure unless the 'multi sale' criterion is met (subsection 355-35(2)(p)-(r))
- Maintaining a 'multi sale' requirement essentially for the purpose of restricting 'in-house' software development
- Including a requirement for there to be a "…commercial return directly from the supply of…[the]…software" in the 'multi sale' test.

This is also directly at odds with the Government's Consultation paper released in September 2009, with the change in approach not having been explained.

8.1 The 'multi sale' requirement

In an attempt to support the economic goals of 'spillover' and 'additionality' the amendments to the software provisions can only be described as counter-intuitive. The Government's initial statement in the Consultation paper seemed positive, showing understanding of the role of technology in the current R&D environment and the need to modernise its treatment. It was a welcome acknowledgement by the Government that the current software restrictions do not reflect the current technological age and "…that the current multiple sales test has become an outdated articulation of policy intent as it relates to software".[46]

The fact that a multi sale test has a continued (and more restrictive) presence in the proposed legislation, is further evidence of the real disconnect between the Government's innovation policy objectives and its focus on restricting a certain class of claimant from accessing the tax offset – in this instance by strengthening the "…existing exclusion for 'in-house' software".[47]

The Government is keen to promote Australia as a significant player in the ICT market:

> *Today Australia is at the forefront of many ICT areas, including software development, systems integration and wireless networking, e-commerce, smart cards and computer games. Australia has become a centre for ICT support services for companies throughout the Asia–Pacific region, and many*

[45] Innovation Powering Ideas, An Innovation Agenda for the 21st Century, p. 4

[46] Paragraph 75, the new research and development tax incentive, Consultation Paper, September 2009, p. 13

[47] Paragraph 2.44 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 18

> *international ICT companies locate their regional headquarters in Australia to take advantage of local expertise and market opportunities.*[48]

In a competitive international market the proposed software provisions, in their current form, could have a detrimental impact on the attractiveness of Australia as an ICT development base, particularly when more generous incentives are being offered elsewhere. For example:

- Canada does not have special rules for software development
- India does not have special rules for software development. India further encourages IT development through tax holidays for IT companies undertaking export-oriented software development, in approved areas
- Singapore has adopted the current Australian multiple sale test
- The UK has no special rules for software development
- The USA has additional criteria for in-house software development but not for other types of software development.

By narrowing the circumstances in which the 'multi sale' test can be met, the proposed legislation fails to recognise the role of software for businesses today. Online applications and e-commerce are at the forefront of service innovation and are required to deliver new and improved solutions to customers. Unfortunately these types of R&D projects, where the R&D is exploited through its use (via an implied licence for example), will no longer be eligible on the basis that the implied licence generates "zero or a nominal charge".[49] The question must be asked: How is an internally designed and developed manufacturing line any different to an internally designed and developed portal for selling services? Essentially there is no difference. Both developments enable the construction of a finished good or service for sale, and we see no reason for treating the two differently.

Unfortunately the term 'commercial return' has not been expanded on in the legislation, except in the explanatory materials, which state that a "…zero or…nominal charge" will not satisfy this criteria.[50] It is questionable how this provides clarity about operation. It also fails to take into account the e-commerce age we live in, and the 'spillover' benefits attributable to activities that are generating significant revenue for the Australian economy. This shows a degree of naivety on the part of the Government. The creation of a direct bias against the ICT sector seems to be for no reason other than the apparent difficulty the Government is having in dealing with the concept of R&D in the ICT industry.

We also question how the 'multi sale' requirement interacts with the augmented feedstock provisions. The two concepts seem at odds with each other and are a further reflection of the piecemeal approach taken to drafting the proposed legislation. Software development will only be eligible where a claimant can prove it has made a 'commercial return' on that development. A commercial success, however, is likely to trigger the application of the augmented feedstock provisions to claw back a substantial portion of the claim. Success over failure means that the value of the R&D tax offset is eroded. We have expanded above on the feedstock provisions and their propensity to reward failure rather than success, and reiterate that this fails to align with the Government's innovation agenda.

Greater clarity about the reason for drafting the software exclusions in this manner is required before the legislation is enacted. The underlying policy driver has resulted in a far broader impact than just excluding 'in-house' software development. Rather, there is now a failure to recognise the creation of services as a valued R&D output. The consequences are far reaching and potentially destructive to the Government's innovation policy and its ability to attract foreign investment in a technologically dominated global environment.

Recommendation

[48] *About Australia: Information and communications technology* - http://www.dfat.gov.au/facts/ict.html

[49] Paragraph 2.45 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 18

[50] Paragraph 2.45 *Tax Laws Amendment (Research and Development) Bill 2010* Explanatory Materials, p. 18

On this basis, and in line with our original submission, we remain of the opinion that software R&D activities should be subject to the same eligibility criteria as all other R&D activities and reiterate that the draft provisions fail to recognise the significance of the rapidly-evolving industry and the role it has to play in establishing Australia as an 'innovation nation'.

8.2 Software development as true 'support' activities

The specific introduction of paragraphs 355-35(p) to (r)[51] exclude, in effect, any other software-related 'support' activities (assuming the dominant purpose test has been met) from being included in a claimant's eligible expenditure.

Similar to the feedstock restrictions being incorporated to deny a small number of claimants from accessing benefits out of proportion to the type of activity undertaken, it appears that these provisions have been introduced with a similar purpose in mind. Restricting the value of software-related activities on this basis fails to acknowledge the reliance on technology in the current environment and therefore, its necessary role in R&D activities. The better course would be to open the availability of the concession to the ICT industry, and deal with the small number of claimants that the Government believes are obtaining a benefit that is not in the spirit of the legislation by being able to claim 'in-house' software.

Paragraph 335-35(2)(r) is essentially all encompassing, and there has been little guidance provided about the background and purpose for its inclusion. Again, we submit that there are particular claimants being targeted, and in doing this, the restriction will unduly hamper those companies undertaking valid R&D.

The Cutler Review specifically identified software as an area in which progress was possible, and went as far as to say that open source software, from which no financial revenue will be generated in its own right, should be of the type promoted by the R&D tax concession:

> *The Panel accordingly recommends that R&D on open source programs should qualify for the multiple sale test. Given the pervasiveness of positive spillovers, it may also be cost beneficial to relax somewhat the degree of technical risk required in relation to open source software.* [52]

Unfortunately the current proposal has failed to deliver on this recommendation, and rather than acknowledging the role of technology in modern business, has completely undervalued it by excluding software-related activities as support activities.

This serves to highlight the disconnect between the policy of 'spillover' and the underlying attempt by the Government to restrict certain claimants from accessing the concession. Rather than dealing with particular claimants using other suitable measures, (e.g. guidelines or caps, as applied in other jurisdictions) truly innovative R&D will be denied, in its entirety, the benefits of the proposed R&D tax offset.

Recommendation

We recommend that software-related activities in general be removed from the exclusions list in the proposed legislation.

---

[51] *Tax Laws Amendment (Research and Development) Bill 2010* Exposure Draft

[52] *venturous Australia. Building Strength in Innovation*. 2008, p. 109

9. Issue six: Compliance and administration concerns

On the basis that the Bill fails to deliver a more "…generous, more predictable, and less complex tax incentive…",[53] we foresee a significant increase in compliance costs for both applicants and Innovation Australia in future. From a claimant perspective, these increased costs are likely to hinder, rather than encourage, any attempts to access the new tax offset. For example:

- The lack of transitional provisions to help claimants understand the impact on projects that will overlap the two regimes

- The definition of R&D in general, while appearing to confirm the long-held notion that a series of activities can constitute a 'core' activity, seems at odds with the administrative aspect of defining each individual activity as either 'core' or 'supporting' for the purposes of registering those activities. To date we have not seen the proposed application form, but question how the administration of the regime will be aligned with the definitions proposed

- We foresee an inordinate number of 'advance finding' requests and 'post registration' requests being submitted in response to the implementation of the proposed legislation if enacted in its current form. Little comfort can be gained from using similar words to the current R&D law on the basis that the nature of the concepts used have been radically overhauled. Has the Government considered this from a resourcing point of view?

- From a compliance point of view, no guidelines have been provided about the timeframe in which decisions must be made on 'advance finding' requests. Nor is the documentation even in place to allow claimants to begin preparing for the 1 July 2010 deadline. The Government must surely appreciate that forward planning is a key element of the current R&D regime and most claimants will already be planning for R&D to commence in the 2010 financial year

- There are still major gaps in the legislation, particularly about the feedstock provisions. On the basis that the provisions are incomplete, they fail to provide any certainty about the real financial impact on future R&D claims, again failing to provide claimants with the opportunity to plan and budget for their R&D activities

- There will be additional record keeping and administrative requirements. The process of understanding if your activities qualify is difficult and time intensive – if claimants manage to meet the higher threshold test for a 'core' activity, are able to identify some expenditure that falls under the 'dominant' purpose test but outside the 'exclusion' test, they are then likely to have the majority of their costs disqualified by the feedstock provisions. The task is cumbersome - but without tracking every activity, its role and its related expenditure, a claimant will not be able to gauge the potential benefits of claiming.

We fail to see how the Bill has simplified the existing R&D tax concession. Instead it has created new standards that will now be the subject of further review and clarification.

In effect, the evident policy disconnect between the Government's innovation agenda and the practical effects of the draft legislation means that claimants will perceive the change as making it too hard to qualify for the offset, and if they do qualify, too complicated to calculate for potentially very little return.

[53] Joint media release issued by the Treasurer and the Minister for Innovation, Industry, Science and Research New R&D Tax Credit – Exposure Draft Legislation 18 December 2009

10. Conclusion

"…[W]e are most concerned that the Government's apparent obsession with 'rorts' has resulted in an unhealthy contraction of Government support of R&D". This was the view of the Australian Democrats in their dissenting report in response to the review by the Senate Economics Legislation Committee of similar changes proposed to the current R&D tax concession in 2001.

Unfortunately, the proposed legislative changes contained in the current Bill give rise to very similar concerns.

The Government has an opportunity to establish a framework that delivers on its objective of encouraging and accelerating innovation. We strongly urge the Government to reassess the 1 July 2010 implementation date for the proposed legislative changes. Although the Government is attempting to introduce a system that provides greater clarity, certainty and better-directed benefits, the Bill in its current form can only be described as aggressively restrictive, complex and confusing. We have little doubt that the number of claimants able to access the tax offset as it is currently structured will be seriously curtailed, an outcome that will do little to improve productivity, support job creation or increase Australia's international competitiveness.

Deloitte.

Our Signals

Recruit and retain the best – our people are talented, enthusiastic, self-starters, team players who are bursting with potential. They are people with whom we have a lifetime association.

Talk straight – when we talk, it's open, regular, honest, constructive two-way communication between our people and our clients.

Empower and trust – we encourage a sense of ownership and pride by giving responsibility and delegating authority.

Continuously grow and improve – we have an environment that respects the individual, rewards achievements, welcomes change and encourages a lifetime of learning – with ourselves and our clients.

Aim to be famous – we aim to reach for the stars – and beyond. To be thought leaders, showcasing our clients and our team's talent and expertise.

Play to win-think globally – winning is our stated objective. It is also our state of mind.

Have fun and celebrate – there is never a wrong time to celebrate and have fun – recognising, appreciating, acknowledging and learning from the experiences and success shared between our client and Deloitte teams.

Our culture – our essence

Culture at Deloitte does not just happen – we work at it.

It's the sum total of the actions of our people, it's the way we treat others – it's the way we behave. Our seven Signals embody these values. Our passion for teamwork and exceptional client service is our point of difference.

At Deloitte, we live and breathe our culture.

Our internationally experienced professionals strive to deliver seamless, consistent services wherever our clients operate. Our mission is to help our clients and our people excel.

Recent awards and achievements

Awarded the Accountancy Firm of the Year - CFO Awards 2008 for the second time in three years

The largest, independent management consulting capability in Australia with over 630 people

Recognised for its innovative approach to managing growth in McKinsey's international organisational study *The Granularity of Growth* as a full-chapter case study

Tier one ranking as one of the best tax firms in Australia by the *International Tax Review* in its World Tax 2009 report

The largest Forensic practice in the Asia Pacific region and a nationally integrated Corporate Finance business of more than 250 professionals, active in takeovers, acquisitions, divestments and initial public offerings

A Risk Services practice nominated by industry analyst Forrester Research as the global leader in both Risk Consulting Services (Q2 2007) and Security Consulting (Q3 2007)

Corporate Reorganisation Services ranked the number one non-investment bank financial advisers globally by The Deal for nine consecutive quarters (to Q4 2007)

Recognised in 2008 as an Employer of Choice for Women for the seventh year in a row as well as winning the prestigious award for the Leading Organisation for the Advancement of Women by the Federal Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

Deloitte.

Contact us

Deloitte

225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in 140 countries, Deloitte brings world class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's 150,000 professionals are committed to becoming the standard of excellence.

Deloitte's professionals are unified by a collaborative culture that fosters integrity, outstanding value to markets and clients, commitment to each other, and strength from diversity. They enjoy an environment of continuous learning, challenging experiences, and enriching career opportunities. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

About Deloitte Australia

In Australia, Deloitte has 12 offices and over 4,500 people and provides audit, tax, consulting, and financial advisory services to public and private clients across the country. Known as an employer of choice for innovative human resources programs, we are committed to helping our clients and our people excel. Deloitte's professionals are dedicated to strengthening corporate responsibility, building public trust, and making a positive impact in their communities. For more information, please visit Deloitte's web site at www.deloitte.com.au.