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Attention: General Manager

Our company has been claiming the current R&D Tax Concessions and we are concerned that some of the proposed criteria outlined in the new Tax Credit scheme may disadvantage companies such as ours, in terms of the real benefits that we can expect from conducting legitimate research and development activities.

We are constantly being encouraged to become innovative, particularly to be competitive in the global economy but this cannot be achieved without R&D investment. As a small private company we allocate a greater percentage of profits than most medium and large companies to R&D. To ask our already overworked staff to devote more time and resources to compliance and paper shuffling removes any incentive to carry out R&D work.

Although large enterprise is critical to the Australian economy, Australia is also highly dependent on small to medium size businesses who add to its GDP through development of new products, processes or services. Most private industries, especially SMEs, do not and often cannot undertake pure research in their own right because of high cost and high commercial risk, but are dependent on other established pure research bodies to provide innovative platforms which can be used as foundations for development of commercially viable products or processes. However, development of new products and processes is a critical component of the R&D industry in Australia.

We seek that the following aspects of this new scheme be reviewed and changes considered to reflect the true current and future reality of research and development initiatives undertaken by Australian enterprise as well as ensure that continued benefits from such undertakings flow on into the Australian economy :

**PROJECT ELIGIBILITY:** *The new proposed scheme will require both High Level of Technical Risk **AND** Innovation to exist in order to claim R&D expenses.*

*We believe this condition should be scrapped and the current ‘...AND/OR...’ condition retained. Reasons for this:*

- The difficulty of defining the degrees of what does and does not constitute the element of ‘innovation’, which in itself can be an extremely complex and highly contentious issue and may ultimately be subject to personal interpretation.*
- The difficulty of proving what is or is not ‘innovation’ when no patent exists. How does one prove or otherwise, that the outcome is innovative and that there is no other competitive product out there bearing same level of sophistication or innovation?*
- The cost and burden of proof a company would have to undertake may greatly diminish it’s desire to partake in R&D.*
- How is an assessor with no high level of associated technical knowledge be able to pass judgement on what is or is not innovative in a highly specialised field? Will the government support this new enterprise by entering a new phase of training and employing highly skilled and knowledgeable assessors undertaking the task of determining eligibility, or will this scheme, like so many others fail to meet expectations because compliance cannot be guaranteed due to highly restrictive definitions and inadequate resources? Why not face reality from the outset and ensure compliance can be a guaranteed outcome by virtue of setting realistic benchmarks?*
- The element of High Level of Technical risk is a far better measure in such circumstances and provides a better gauge of the high level of development that a company has had to undertake.*

CORE R&D versus SUPPORT R&D: *“Supporting R&D will continue to be recognised under the new R&D tax incentives but claims will be subject to new limitations” (Principle 7),*

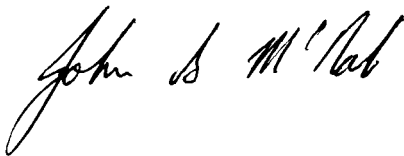
*Commercial reality dictates that development of core processes, as distinct to pure research, very often blends in with support requirements.*

*Questions that arise here are:*

- How will a company be expected to differentiate between "core" and 'supporting' R&D activities?*
- At what stage will the cost of maintaining the records relating to the costs associated with both types of R&D for each project become a significant add on project cost to a company by virtue of it being extremely time consuming and meticulously demanding.*
- Would a company, as many now already do, consider that the uncertainty of getting an expected \$\$\$ outcome from the government far outweighs the potential benefits, hence will either not proceed with the projects or not claim and hence 'short change' the project's potential?*
- In reality this concept could prove to be a compliance nightmare, resulting in much time and money spent by private enterprise as well as assessors on 'finding needles in haystack's' and could strongly influence many companies to rethink their position with respect to R&D commitment.*

Please consider the above aspects in the formulation of this new scheme.

Yours Faithfully

A handwritten signature in black ink, reading "John S. McNab". The signature is written in a cursive, flowing style.

John S. McNab  
Managing Director  
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Dural NSW 2158