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Dear Sir

## **Submission on Research and Development Tax Incentive Consultation Paper**

### ***Introduction***

We welcome the Government's initiative to make significant changes to Australia's Research and Development tax incentive and support the reform objectives of making the new R&D tax incentive more effective in delivering support for business R&D, and making the rules less complex to understand and more predictable in their application.

### ***Tax credits in lieu of deductions***

We support the Government's recommendation to enable companies to report the R&D credit "above the line" and the rules enabling smaller enterprises to access a 45% credit, with their unused credits being cash refundable.

In our particular case, we request the eligibility to access cash be extended to subsidiary companies with a turn over of less than \$20million, which are not consolidated for tax purposes. This would enable these small companies, such as ours, to access the credit which would be otherwise not immediately available where the subsidiary makes a loss in a particular year. The justification for this is because the risky nature of R&D can be a significant contributor to a loss making outcome in a particular year, and the company should receive the benefit when it is most needed, not years later.

### ***Change of R&D definition***

We are concerned that the radical changes proposed in the R&D definitions will adversely impact our ability to utilise the benefits of the incentives in our participation in R&D.

Modifying and narrowing the definition of the “core” R&D definition and the proposed changes to the “*support activities*” definition will have an extreme impact of our eligibility to access R&D tax incentives.

Our work involves both the engineering design and the project implementation of pilot plants and of plants with significant technical innovation. We bear significant risk for both the design and the implementation of these projects. In addition, whether the invented process successfully works, or whether the client remains solvent for a sufficiently long period for us to actually get paid, are real risks associated with this industry. In our situation, we request (for qualifying projects) both the engineering design and the construction cost be eligible for R&D tax incentives rather than narrowing the definition of R&D eligibility.

There are now very few engineering companies in Australia capable of, or willing to, operate in the R&D field, with two of our closest competitors going out of business this year. Narrowing the eligibility definition will only make engineering companies more reluctant to participate in this high risk environment and will ultimately be detrimental to the R&D industry.

### ***Conclusion***

While we support the broad changes to the R&D Tax Concession scheme we believe our above requests for modification to the tax credit cash access eligibility rules and to the R&D definition are vital to ensuring local engineering participation in the R&D industry.

Should you have any queries, please do not hesitate to contact me.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'F Steyn', with a large, stylized flourish extending from the end.

Francois Steyn

Managing Director