

Submission on The new research and development tax incentive.

From Alan Tomlinson, Good Questions Research Pty Ltd

41 Alpha Road Willoughby 2068 Ph: 0414 869585

I would like to make submission on every question raised in the consultation. I am the manager of an innovative private research company, which has used and will use the incentive.

Question 1

Should there be any exceptions to the general rule that eligible R&D activity must be conducted in Australia?

There may be exceptional expertise, or access to highly specialised equipment that is required for a vital part of a research project. As a guide line 10% of project core research might be allowed, with a detailed justification attached as to why necessary.

Question 2

How should the new R&D tax incentive treat R&D expenditure that is currently deductible at 100 per cent?

Probably with no “enhancement”, in other words no change. If it is not “at risk” why reward? The “at risk” principle might be more widely applied, in that there seems to be a class of R&D where long delayed failure is as profitable, and of more prolonged benefit than quick success. Research failure may be quick and brutally instructive, but delaying failure usually transfers the risk and loss slowly to the taxpayer.

Question 3

Should expenditure incurred to associate entities only be eligible for the new R&D tax incentive where paid in cash?

YES! Paying real taxpayer dollars for “book entries”, between related entities is to provide a shovel, wheelbarrow and stolen truck to fraudsters and opening up the door of the treasury.

Question 4

Should supporting activities:

(a) be capped as a proportion of expenditure on core R&D?

(i) If so, what would be the appropriate proportion (for example, 1:1)?

(b) only be eligible where they are for the sole purpose of supporting core R&D activity?

(c) exclude production activities or dual role activities?

(d) only be eligible on a net expenditure basis?

(e) attract a lower rate of assistance than core R&D?

(i) If so, what would be the appropriate rate be?

The volume of accounting and record keeping, funds management and reporting required by self assessed R&D will require a solid body and cost of support just to function. The secretary who records and reports may be more vital in the short run than the researcher in a white coat in the lab.

CSIRO are our national scientific body, and one would assume they know what support and on costs are for its talented and professional researchers. Their factor is the cost of total remuneration package for the “man in a white coat” x 3.5. That is to say for every researcher with a total package of \$ 100,000 per year, the supporting costs are \$ 350,000.

The CSIRO has a huge “economy of scale”, and owns its infrastructure, has a regular income and thus it should be able to provide on costs for research in the most cost effective manner.

A research business under \$ 20 million has few economies of scale beyond blood relatives who will work weekends without pay. Thus a MINIMUM supporting cost of 350% of “white coat” science research should be allowed at full assistance.

Question 5

Should the current list of activities excluded from being considered core R&D be:

(a) amended in any way?

(b) extended to exclude certain activities from being considered supporting activities?

The bias against resource industry, and in favour of software and manufacturing is blatant.

However that is policy, so let us have certainty, as unfair certainty is easy to work with than uncertainty pretending to be fair. The risks are less, and business can plan around the policy.

Question 6

How should the new R&D tax incentive treat software R&D?

Software development is mature, like resource extraction and making cars. You could punish it like resources, or rain money on it like the car industry. This is governments choice, fiat, and policy fantasy. So do whatever the minister likes, but please be consistent. Industry watches and adapts, most R&D for mining innovation is now done outside Australia.

This program is committing to spend \$ 1.4 billion a year, but without a clear objectives, or measures of how well the spending achieved the outcomes it was meant to...beyond increasing the statistical reporting of BIRD.

Principle 5 sets out that:

The new R&D tax incentive should target R&D that:

(a) is in addition to what otherwise would have occurred; and

(b) provides spill overs — benefits that are shared by other firms and the community — that are large relative to the associated subsidy.

(a) is naïve, in that there is no mechanism to encourage, detect or reward such goals. It is also lacking in honesty as government routinely announce “new spending” that is in fact almost entirely old funds already committed.

(b) is logical, the spending of tax payers funds is to grow the national productivity significantly more than the investment.

But as neither will be measured, why include them? To achieve both to a high degree, remove the exclusion on resource exploration..exploration does both strongly.

Where performance is measured Australia can “punch well above its weight”. The success of the Australian Institute of Sport in winning Gold Medals is a great example. Pragmatic choice backs sports where we can win, and doesn’t fund those where the probability is low.

Yet in research investment by excluding: *prospecting, exploring or drilling for minerals or natural gas for the purpose of discovering deposits, determining more precisely the location of deposits or determining the size or quality of deposits*; we throttle the engine that makes the gold.

The resource industry earns the bulk of the nations export revenue; generates huge multipliers through the economy, and pays massive wages; but is prohibited from managing risk, and discovering new knowledge through scientific exploration.

Yet the car industry, which is a basket case dependant on never ending public funding, is routinely splashed with taxpayer funds dressed in a white coats and marked R&D.

If there is an economic benefit in 1 \$ 1.4 billion program in penalising winners and rewarding losers, it must be a very different world to sport.

An R&D program with clear goals, and precise measures of economic, and social outcomes the Government wishes to achieve, should outperform one that lacks them.