

Federal Government Consultation Paper

“The new research and development tax incentive”.

Response by WaterSecure

Principle 1

Question 1

Yes there should be exceptions to the general rule that eligible R&D activity must be conducted in Australia.

WaterSecure understands and supports the Australian Federal Government's desire to foster R&D activities within Australia by either Australian-owned or foreign-owned companies incorporated in Australia. However, exceptions to conducting all R&D activities within Australia are required.

WaterSecure believes that a substantial portion of R&D activities should be performed in Australia unless otherwise not capable of being performed here. Yet the reasons for inclusion of foreign R&D goes beyond the mere fact that R&D is not capable of being conducted here.

Another reason for including foreign R&D would also be to stop the duplication of R&D activities being performed overseas and thus more effectively and efficiently incorporate that R&D into Australian knowledge and practice. This would also lead to a more effective and efficient expenditure of the funds provided to foster R&D whereby those funds would be directed to new and original R&D rather than repeating or duplicating R&D activities performed overseas. Please note, WaterSecure understands that there may still also be some merit in repeating or duplicating foreign R&D but this would have to be assessed on a case-by-case basis as to whether the reasons thus for warrant Federal Government funding.

Additionally, foreign R&D may be necessary in order to bring expertise and knowledge into Australia and effectively disseminate that into Australian R&D. There is little sense in Australian researchers reinventing the wheel. To be most effective, R&D undertaken in Australia needs to be the smartest that can be achieved in order to gain the most benefit per dollar spent. Thus, WaterSecure believe that it is essential that foreign R&D also be fostered when it has a direct and tangible benefit to Australian R&D and is not done at the expense of Australian R&D. As stated above, WaterSecure believes that a substantial proportion of R&D needs to be performed in Australia but that this needs to be as highly efficient and effective as can be achieved.

Both of these additional reasons for including foreign R&D would mean a much more efficient utilisation of Australian taxpayer's money to better the standard of R&D in Australia, creating a smarter and more focussed R&D sector for the least amount of monetary input from the taxpayers. It would also help to foster better collaborations of Australian entities with foreign entities by promoting future R&D, production and expenditure by foreign entities within Australia. This has the real potential to lead to the enhancement of Australian R&D facilities, Australian companies, the public and the Australian economy. This could lead to more R&D being undertaken within Australia by foreign entities, thus achieving the Government's goal of increasing Australian R&D and also increasing innovation in Australia.

Paragraph 26, proposes that R&D be undertaken in Australia first and then followed by some foreign R&D. This does not align itself with bringing in to Australia previously conducted R&D activities, outcomes, knowledge and experience from foreign R&D. Therefore, WaterSecure believes that this requirement should not be adopted. However, we believe that the majority of R&D should be performed in Australia where it can be. Thus, foreign R&D should be allowed either before, concurrently with and after Australian R&D for any given project but that foreign R&D should not be in the majority for a given project unless strongly justified as being for the ultimate benefit for Australia.

Principle 2

WaterSecure believes that the proposed tax credit system is acceptable.

Principle 3

Question 2

WaterSecure believes that the approach adopted should provide an equivalent level of support under the new arrangements by allowing companies to access a non-refundable tax credit on these expenditures at the prevailing company tax rate.

Additionally, WaterSecure believes that the proposed approach will add complexity to the Scheme. Any new scheme should take the opportunity to implement streamlined and simplified approaches to maximise the benefits to industry and reduce compliance costs.

Question 2

WaterSecure believes the principles of accruals should be maintained as this is consistent with current tax rules. Implementing a cash based approach for tax deductions would be a departure and require additional compliance costs to implement and monitor.

Principle 4

WaterSecure accepts the proposal regarding the administration of the new tax incentive scheme.

Principles 5 and 6

WaterSecure believes that it is necessary to require both a high level of risk and innovation in order to achieve the Government's goal of producing spillover benefits. WaterSecure believes this will lead to a more focussed apportioning of funds to the R&D that most needs this type of support. Thereby, the funds available will be put to the most beneficial use for Australia.

The requirement of fulfilling both a high technical risk and innovation would mean that legitimate R&D may not be undertaken because of the lack of funding resources available. The proposed changes to the core and supporting activities, WaterSecure believe will be more effective in achieving a control on the actual expenditure on the program by the Government than reducing the scope of eligible R&D activities by this proposed requirement to meet both criteria.

Principle 7

WaterSecure do not have any specific comments or suggestions in regard to this principle beyond those discussed above. WaterSecure believes that changes to this principle to be more acceptable than reducing the scope of eligible R&D pursuant to the proposed changes in principle 6.

Question 4

WaterSecure believes there should be some scope allowed to claim for a proportion of supporting activities. This proportion should not exceed that of the core activities. Therefore, a level of 1:1 is acceptable to WaterSecure.

Additionally, in regard to “sole purpose”, WaterSecure does believe that the alternative stated in paragraph 63 is more acceptable when combined with a limit on the amount of supporting activity that can be claimed, as discussed above. Thus, supporting activities that are predominantly for the purpose of supporting a core R&D activity would be more acceptable.

Question 5

WaterSecure does not see any need to amend the list of activities currently excluded from being considered core R&D.

WaterSecure do not believe that a list of excluded supporting activities would be advisable. Each project will have a different set of supporting activities and each of these will be related to a core activity in vastly different ways. A general exclusion will

not be able to take into account this variety of different relationships between core activity and supporting activity.

Question 6

WaterSecure believes that software R&D should be eligible under the new tax incentive scheme as a supporting activity.

WaterSecure supports a review and believes that the UK approach is a sensible starting point. Things have changed but WaterSecure does not believe that any software development can be classified under R&D. The activities need to involve both innovation and a high level of technical risk in the software development world. Thus, a reliance on a multiple sale provision is a good basis. However, there may be occasions when some in-house software R&D will be required that does fulfil the requirements of the tax incentive. Therefore, this type of R&D should not be precluded from the scheme if a good enough case for inclusion in the scheme can be put forward for evaluation.



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