

The Economics Legislation Committee
Department of the Senate
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Australia
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2 June 2010

Dear Economics Legislation Committee

Submission in response to Tax Laws Amendment (Research and Development) Bill 2010 and Income Tax Rates Amendment (Research and Development) Bill 2010

Please find following comments from Hydrix Pty Ltd, a Registered Research Agency (RRA) with AusIndustry RRA number RRA43660. To become an RRA a company has to be assessed by AusIndustry as possessing the highest levels of ability and experience in R&D, must observe best practice R&D processes and its staff at a minimum must be degree qualified in the relevant areas of any eligible R&D. In other words, an organisation that is certified as an RRA has been judged by the government to be amongst the best, most structured and most able of Research and Development organisations in Australia.

We understand that the Committee is considering abolishing one of the key benefits to Industry of using an RRA to undertake research; namely removal of the ability for a company to claim, in advance, payments made to the RRA for contract R&D projects to be performed in the following twelve months (<http://www.ausindustry.gov.au/InnovationandRandD/RandDTaxConcession/Pages/RegisteredResearchAgencyRRAApplicationForm.aspx>) via the associated 'Application for Advance Registration of R&D Activities (Section 39HH, Industry Research and Development Act 1986)'

We ask that that Committee maintain the current ability for a company to claim, in advance, payments made to the RRA for contract R&D projects to be performed in the following twelve months, being a process of major benefit to Australia's technology and digital industries.

In our wide experience drawn from working with many innovative Australian SMEs over a number of years, we find the majority of them are either actively seeking investment to fund or accelerate product development, or who are in start up mode mostly with limited funds for R&D. The ability for SMEs, particularly those companies with truly innovative products and services with global potential, to be able to advance claim payments to an RRA is a critical one. This before-the-fact tax concession claim process provides companies planning to undertake eligible R&D with a cheque from the government equivalent to 37.5% of the total budgeted R&D spend - in effect the government is underwriting the company's R&D efforts but is using money which the company would likely claim back as an R&D tax concession after-the-fact anyway.

There are a number of substantial benefits to companies claiming payments to an RRA in advance:

- given the company's proposed R&D plans and expenditure has been previously submitted, analysed and approved by AusIndustry, and given an experienced RRA has been contracted to undertake the R&D, the likelihood that the R&D will result in a successful product or service is greatly enhanced over other more ad hoc R&D activity with tax concessions claimed after the fact
 - i.e. through advance claims, the government is in fact supporting R&D projects that have a significantly greater likelihood of success. This in turn means companies that will generate potentially greater revenue streams faster, larger profits faster and therefore more tax to the government than other companies who do not have this same support
- An advance tax concession claim, if successful, potentially reduces a company's own up-front out of pocket R&D expenditure by nearly 40%. This means that less investment is required by the company in turn making investments in such a company by third party investors and Venture Capitalists considerably more attractive –i.e. less investment for greater outcomes
- a successful advance tax claim allows companies to accelerate their R&D efforts – ie more investment sooner, meaning they will get products or services to market faster and in turn will grow faster - meaning increased employment

In summary, due to the number of tangible and significant benefits that can accrue to a Australian Industry and all Australians from the program including increased employment, faster corporate growth, increased taxes and greater international success, we commend the Committee to leave as is the current ability for a company to claim, in advance, payments made to the RRA for contract R&D projects to be performed in the following twelve months.

Yours Sincerely



Peter Lewis
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Hydrix Pty Ltd