



Opica Group Pty Ltd  
[Redacted]

28th February 2020

Committee Secretariat  
Senate Standing Committees on Economics  
Via email : [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Senate Committee

**R&D: Draft legislation to reduce R&D benefits for companies with turnover less than \$20m**

Opica Group Pty Ltd is an innovative technology company that provides the only Responsible Lending platform for Australian lenders and brokers to assist them in assessing the credit worthiness of a consumer applying for finance. We have 6 employees, all of whom are passionate about what we have created for the finance community ensuring that lenders are able to provide the best financial instruments to its customers. We believe in ensuring lenders are adhering to the recommendations of the Royal Commission into Banking & Finance and rely heavily on the R&D grants provided by the government to assist us meet the financial burdens of building ground breaking technology that assists all Australians achieve the great Australian dream of home ownership.

Investment in innovation is an important part of our corporate strategy. To date, we have invested in a number of projects directly related to the provision of a sophisticated Responsible Lending engine that uses artificial intelligence and machine learning to accurately determine whether a consumer can afford a set level of finance based on their historical spending habits. We have been able to build a "brain" called "Sherlock" that analyses and interprets thousands of lines of data about an applicant and can predict a range of outcomes that directly impact that individual applicants credit worthiness.

The R&D Tax Incentive has supported our R&D effort, allowing us to pursue innovation projects that we may otherwise not have pursued due to the inherent technical and commercial risks. Undertaking these R&D initiatives has allowed us to remain at the forefront of Responsible Lending technology solutions through constant innovation with industry participants, everyday Australians applying for mortgage finance and regulatory bodies such as the Australian Retail Credit Association. Further, the relative certainty of the program allows us to plan ahead unlike grant or loan programs, which are usually highly competitive and therefore cannot be depended upon.

We are extremely concerned by the Government's recently proposed changes to the *R&D Tax Incentive Programme*, as announced in the *Treasury Laws Amendment (R&D Tax Incentive) Bill 2019* introduced to Parliament on 5 December 2019. This Bill seeks to reduce the cost of the program to the detriment of companies actively trying to innovate in Australia. The Bill proposes to reduce the current 16% net benefit to 13.5% which is a 15% drop and which follows a 10% reduction in 2016. We also view the proposed retrospective introduction of the changes from 1 July 2019 as deeply unfair.

The current Bill is almost identical to the *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018* first introduced in September 2018, which was universally criticised and rejected by all areas of industry, and the tertiary and research sectors. That Bill was also recommended for deferral by the Senate Economics Legislation Committee until further examination and analysis of 'unintended consequences' was undertaken. We note that the Committee's key recommendations have not been considered in the current Bill.

Some key insights as to how the proposed changes will adversely impact our business:

- **Reduced benefit:** The R&D Tax Incentive originally offered us a 45% refundable tax offset. In 2016 that was reduced to 43.5% and under the proposed Bill that will reduce to 41% (and to 39.5% when the small business tax rate drops to 26%). These constant cuts to the program are impacting our



Opica Group Pty Ltd  
[REDACTED]

ability to plan our investment in innovation and are contrary to the 'additionality' objective of the program.

- **Reduced benefits will reduce our ability to employ technical staff and maintain or grow our R&D spend:** The proposed reductions will have the opposite impact of that intended by the R&D Tax Incentive – we will have less ability to invest in R&D and employ talented staff in Australia. We will need to reconsider the quantum of R&D employment and spend in Australia.
- **Retrospectivity and impact on current R&D projects:** We have a number of projects underway that involve R&D activities and for which we have budgeted in the R&D Tax Incentive. If enacted, the Bill will take effect for income years commencing on or after 1 July 2019. This is retrospective and will have an immediate impact on our current projects – any proposed changes to the R&D Tax Incentive should be widely consulted on and have a commencement date at least a year or more into the future to allow us to plan for it. To retrospectively reduce the R&D Tax incentive will have a crippling effect on a small business like Opica and will in all likelihood result in financial hardship for us and our employees.
- **Integrity measures:** We also note that the Bill includes various integrity measures. While we support measures to improve integrity of the program, we note the recent report of the Australian Small Business and Family Enterprise Ombudsman which found both the ATO and AusIndustry approached reviews prejudicially as a cost saving exercise. We urge both regulators to use additional funding to improve their review processes and restore industry's faith in their administration of the program.

In the current economic climate, business needs Government leadership and support, especially where it will help drive commercial innovation. We believe the Government should increase its support for R&D via the R&D Tax Incentive, not reduce. **We therefore strongly oppose the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019* in its current form.**

We would welcome the opportunity to discuss our company and the value the R&D Tax Incentive provides to us and encourage you to contact the undersigned on either [REDACTED] [REDACTED] [REDACTED] or [REDACTED] should you have any questions in relation to the above

Regards

[REDACTED]  
Brett Spencer  
Chairman – Opica Group Pty Ltd