

Chapter 1

Tax Laws Amendment (Research and Development) Bill 2010 Income Tax Rates Amendment (Research and Development) Bill 2010

Background

1.1 The Tax Laws Amendment (Research and Development) Bill 2010, together with its supporting bill, the Income Tax Rates Amendment (Research and Development) Bill 2010, introduces a new research and development tax incentive. The introduction of this incentive will provide increased assistance for genuine R&D and redistribute funding support in favour of small and medium sized enterprises.¹

1.2 By introducing a clearer definition of core R&D activities, a robust test for supporting R&D activities and a more rigorous administrative framework, the bill seeks to ensure that only genuine R&D receives public funding.²

1.3 The new incentive will be delivered to eligible entities engaged in eligible R&D activities through:

- a 45 per cent refundable tax offset for companies with a turnover of less than \$20 million; and
- a 40 per cent non-refundable tax offset for all other companies.³

1.4 In addition, the bill seeks to provide consistent treatment for software and rationalises the activities currently excluded from receiving R&D incentives.

1.5 In their submission to this inquiry, Treasury and the Department of Innovation, Industry, Science and Research informed the committee that:

The bill refocuses the tax incentive for R&D...The reforms are consistent with the recommendations of the 2008 review of the National Innovation system and the Government's policy response, *Powering Ideas* – its 10 year innovation agenda.⁴

1 Dr Craig Emerson MP, Minister for Small Business, Independent Contractors and the Service Economy, Second Reading Speech, *House of Representatives Hansard*, 13 May 2010, p. 1.

2 Second Reading Speech, *House of Representatives Hansard*, 13 May 2010, pp 1-2.

3 Second Reading Speech, *House of Representatives Hansard*, 13 May 2010, p. 2.

4 The Treasury and Department of Innovation, Industry, Science and Research, *Joint Submission*, 20 May 2010, p. 3.

1.6 The Government announced these changes in the 2009-10 federal budget when additional funding of \$38 million over four years was committed to the responsible government agencies to support the measure's implementation.⁵

1.7 The Government has also announced that introduction of the new tax incentive is intended to be revenue neutral.⁶ This report assesses the bill on this basis rather than asking whether the total amount spent on tax incentives for R&D should be raised or lowered.

Conduct of the inquiry

1.8 On 13 May 2010 the Tax Laws Amendment (Research and Development) Bill 2010 and a related act, the Income Tax Rates Amendment (Research and Development) Bill 2010, were introduced into the House of Representatives. That same day the Senate referred the bills to the Economics Legislation Committee for inquiry, resolving that the due date for reporting would be 15 June 2010.

1.9 In recommending that the Senate refer the bills for inquiry, the Selection of Bills Committee noted industry's concern with the proposed definitions of 'core' and 'supporting' research and development activities which the bill seeks to introduce.⁷

1.10 The committee advertised the inquiry in *The Australian* and on its website. A large numbers of stakeholders were also invited to make submissions.

1.11 The committee received 31 submissions (listed in Appendix 1) which are available for viewing on the committee's website [http://www.aph.gov.au/Senate/committee/economics ctte/research and development tax credits 10/submissions.htm](http://www.aph.gov.au/Senate/committee/economics_ctte/research_and_development_tax_credits_10/submissions.htm) and held public hearings in Canberra and Sydney on 20 and 21 May 2010. (A list of stakeholders who appeared before the committee is set out in Appendix 2).

1.12 The committee thanks all those submitters and witnesses for their contribution and participation in the inquiry process.

Structure of the report

1.13 This report is divided into the following chapters:

- Chapter 2 provides a summary of the changes that stand to be introduced by the bill. It also sets out an overview of the consultation process and studies that preceded the proposed changes;

5 Second Reading Speech, *House of Representatives Hansard*, 13 May 2010, p. 2.

6 Second Reading Speech, *House of Representatives Hansard*, 13 May 2010, p. 2.

7 Senate Selection of Bills Committee, *Report No. 7 of 2010*, 13 May 2010, Appendix 7.

- Chapter 3 explores the role of innovation and productivity in the economy, looking particularly at the role of R&D in the innovation process;
- Chapter 4 considers how R&D assistance can be most effectively provided by consideration of the issues of 'spillover' and 'additionality';
- Chapter 5 examines the key changes to the R&D tax framework that will be introduced by the bill; it is these changes that have received the most attention throughout the course of the inquiry;
- Chapter 6 considers the complexity of the proposed changes and addresses the request of some stakeholders to delay the bill's passage. This chapter also discusses the minor matters of transitional measures and drafting comments;
- Chapter 7 explores the expanded role of the Innovation Australia Board and the Australian Taxation Office under the changes; and
- Chapter 8 provides an overview of the impact of the changes on R&D activities in Australia, the budget and the broader economy.

