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Dear representatives of the Government, the Opposition and the Independents,

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

Eclipse CS Pty Ltd is a 100% Australian owned and operated software development company, with the Eclipse Estimating & Cost Planning system as its flagship product. Eclipse is a modern, innovative, integrated, cloud ready, creative, cost effective and central database driven software application specifically designed for estimators, quantity surveyors, cost engineers, construction and engineering contractors, sub-contractors, suppliers and other professionals to manage the simplest or the most sophisticated measurement, pricing, analysis, reporting and cost intelligence objectives. At present, Eclipse has been used in a wide range of industry sectors, including:

- Building & Construction
- Mining
- Road & Highway & Railway
- Power & Electricity
- Tunnelling
- Water
- Public Sector

Australian mining giants such as BHP, FMG and ILUKA all have their cost plans developed in Eclipse. In recent times, Eclipse has also been successfully exported into the UK market and will expand into other European markets in the near future.

Investment in innovation is an important part of our corporate strategy. To date, we have invested almost \$5,000,000 in the R&D area since 2010.

The R&D Tax Incentive (and the Concession before it) has supported our R&D effort, allowing us to pursue innovation projects that we may not have otherwise pursued due to the inherent technical and commercial risks. Undertaking these R&D initiatives has allowed us to remain at the forefront of construction and allied industries. 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 are:

- **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 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 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.
- **Retrospectivity and impact on current R&D projects:** We have one project underway that involves 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 companies to plan for it.

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.

Sincerely,



John Hemmett

Managing Director

21 Jan 2020