



AIIA SUBMISSION ON THE TREASURY LAWS AMENDMENT (RESEARCH AND DEVELOPMENT INCENTIVE) BILL 2019 [PROVISIONS]

AIIA Response

March 2020

About the AIIA

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. We are a not-for-profit organisation to benefit members, and AIIA membership fees are tax deductible.

Since 1978, the AIIA has pursued activities to stimulate and grow the digital ecosystem, to create a favourable business environment for our members and to contribute to Australia's economic prosperity.

We do this by delivering outstanding member value by:

- providing a strong voice of influence
- building a sense of community through events and education
- enabling a network for collaboration and inspiration; and
- developing compelling content and relevant and interesting information.

We represent a larger number of technology organisations in Australia, including:

- Global corporations such as Apple, Adobe, Avanade, EMC, Deloitte, Gartner, Google, IBM, Infosys, Intel, Lenovo, Microsoft and Oracle
- Multinational companies including Optus and Telstra
- National organisations including Data#3, ASG and Technology One; and
- a large number of small and medium businesses, start-ups, universities and digital incubators.

Some 92% of AIIA members are small and medium Australian businesses and 8% of AIIA members are large Australian companies and multinational corporations.

The AIIA has six State and Territory Councils, including the SA State Council. Membership of the SA Council is representative of the wider AIIA profile and includes both large multinationals, small to medium businesses and start-ups.

AIIA's Policy Priorities and the R&D Tax Incentive Scheme

The AIIA appreciates the opportunity to comment on the draft Treasury Laws Amendment (Research and Development Incentive) Bill 2019 [Provisions] (the Bill).

The AIIA is committed to working with our members and ensuring that Australia continues to foster further development of its ICT capacity. To this end, AIIA is committed to ensuring that Australia has an internationally competitive R&D tax system, and that any related reforms incentivise innovation and entrepreneurship within the Australian ICT marketplace.

According to the 2019 Digital Australia's Digital Pulse Report, Australia currently ranks number 12 out of the 16 countries surveyed on business expenditure on research and development in ICT¹. In the same year, Australia was placed 22nd in the world (50.32) in the Global Innovation Index conducted by World Intellectual Property Organisation (WIPO), dropping two positions in comparison to the 2018 international innovation rankings². Nevertheless, research and development (R&D) expenditure by Australian businesses in ICT related has increased over the past decade, reaching \$6.6 billion in FY15/16. Such an investment is indicative of the high degree of importance that Australian companies affix to R&D activities, and these should be encouraged rather than being undermined or deterred.

The AIIA is concerned that the proposed amendment to the Research and Development Tax Incentive (RDTI) scheme, which has provided tangible incentives to Australian companies to pursue R&D activities, is being unduly diluted. Such an action will compel Australian-based ICT companies to either outsource R&D activities to overseas markets, adversely affecting Australian employment opportunities, or abandon R&D activities in their entirety.

The Bill in its current format fails to address the concerns outlined in the recommendations arising from the Senate Economics Legislation Committee report on the Bill. In February 2019, the Committee reviewed the proposals and concluded that further examination and analysis was required, reflecting concerns that the proposed changes would have significant negative impacts on Australia economic interests. This reappraisal has yet to take place, and as such the broader concerns of both the Senate Economics Legislation Committee and Australian ICT sector have not been addressed in this proposed draft.

Whilst the aim of the Bill is intended to target larger multinationals, those who will be most affected by the proposed regime will be Australian enterprises, who represent a majority applicants for the RDTI scheme. At present, 80% of claimants are Australian companies with an annual income of less than \$20 million.

To this effect, the AIIA submits the following recommendations:

- That the current thresholds be raised in line with the new tax rates for SMEs
- That the rate for large business are in line with the current tax rate of 38.5%
- That the rate for SMEs remain unlinked and at the current tax rate of 43.5%

¹ <https://www.acs.org.au/insightsandpublications/reports-publications/digital-pulse-2019.html>

² <https://www.wipo.int/publications/en/details.jsp?id=4330>

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- That the RTDI scheme incorporates a renewed focus on high-risk applicants, which includes better targeting
- That the Bill not be retrospective to commence on 1 July 2019

The AIIA is supportive of any measures which are conducive to making the RDTI scheme more effective. However, we do not believe that the Bill in its current form will be conducive in achieving this goal. Instead, such provisions will create the risk of significant unintended consequences by reducing Australia's ability to undertake more ambitious R&D projects and make us less competitive against those international competitors who provide more generous R&D incentives.

The AIIA would welcome further opportunities to engage further on this issue with you directly on this issue and work towards a solution that is conducive to the interests of both the Government and the Australian ICT sector.

Kind Regards,

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