



**Atlassian's Submission to the Senate Economics Legislation Committee
Review of the Treasury Laws Amendment (Research and Development Tax
Incentive) Bill 2019**

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

26 June 2020

Dear Sir/Madam,

We appreciate the opportunity to share our concerns and recommendations as part of the Committee's review of this proposed Bill and the associated amendments to the Research and Development Tax Incentive ("RDTI").

Over the past 17 years, Atlassian has grown from a Sydney-based startup into a global software company. From that lens, we deeply appreciate the importance of government support for innovation and R&D to the technology sector and, in particular, to fledgling companies looking to make a mark. As such, we consider it an important part of our role in the Australian technology landscape to highlight concerns that impact the sector at large and the startup community in particular.

Today, research and development — including software R&D — sits at the core of Australian innovation and is vital to its future in a global knowledge economy. And the RDTI is the most significant program available to Australian companies to incentivise innovation. Even before the COVID-19 pandemic, many technology companies were reliant on the RDTI to support them at the critical early stages of their businesses. In this continually evolving COVID crisis, the incentive is more important than ever to the economic recovery and revival of the tech sector.

We appreciate that the intention of the Bill is to ensure that the RDTI better achieves its objectives of generating additional R&D activities while accomplishing certain cost savings. While these may have been sound goals at the outset, we cannot support the Bill as it is currently



drafted because it would reduce support for R&D at a critical juncture when Government should be seeking to stimulate such spending and supporting nascent companies.

In particular:

- We are concerned that the Bill would effectively reduce the tax offset rate for smaller entities (under \$20M in annual revenue) from 43.5% to 38.5% in FY21 and cap the refundable amount to \$4M. These reductions to RDTI are offered at a time when Australia is falling in the global rankings for innovation and R&D support (*see* Deloitte submission 33, Appendix 3) and many SMEs are struggling to survive and retain staff in the midst of the COVID downturn.
- The Bill also fails to address concerns raised by the tech industry that software development efforts are increasingly questioned under the program. On this point, we note in particular the submission made by StartupAUS (No. 19) to the Committee. In sum, the process for identifying RDTI eligible activities include a strong emphasis on a research-led definition of “new knowledge,” putting in question claims for product-related software development that is at the core of R&D efforts for the tech industry. Smaller concerns are most vulnerable on this issue as they often lack resources to navigate the process and can be devastated by any resulting claw-backs.

But perhaps most glaringly, the Bill before the Committee was introduced long before the COVID-19 pandemic swept the globe and therefore fails to contemplate the current economic context. Even the thoughtful submissions made by industry prior to the 6 March 2020 initial deadline were put forth before the economic impact of COVID was truly appreciated. As just one data point, Gartner’s most recent prediction (from May 2020) puts tech spending in Australia at -6% for 2020 and the enterprise software sector at -3.6% for the year (flipping from a nearly 12% growth in 2019).

Rather than cut back on the RDTI at this important juncture, we believe that there are several immediate, interim measures which the Government can and should take to stimulate the growth of the innovation economy, including the tech and startup sectors, as we seek to recover from the COVID pandemic. These include: (1) instituting a temporary moratorium on claw-backs; (2) paying quarterly refunds in advance of the tax cycle; and (3) providing a one-time stimulus to eligible small entities using the RDTI as a vehicle.

In the medium term, we propose that the RDTI scheme address the technology sector's concerns around qualifying software development activity and that the level of R&D support be increased with reference to the higher tax incentives available in other OECD countries.

While we appreciate that these investments will come at an expense, we propose them with the firm belief that the innovation economy, including the tech economy (reported to account for over 6% of national GDP), will drive the future of Australia’s prosperity. We note with encouragement recent COVID-responsive stimulus efforts by Government across several important sectors. An improvement to the RDTI would be a timely first step for a stimulus targeted at the innovation and technology sectors of the economy.



We thank you for the opportunity to be heard and look forward to working with the Government to ensure that the RDTI continues to stimulate Australian innovation and a thriving tech and startup ecosystem.

Yours sincerely

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