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Under construction: help needed

The Federal Government's National Innovation Review (NIR) kicked off with a series of stakeholder meetings held around Australia in March. Ably guided by Dr Terry Cutler, the Review Panel confirmed that a specific working group had been established to look at the impact of taxation policy on innovation with a specific focus on the R&D Tax Concession.

Submissions are due by April 30, so I urge you to take the opportunity to have an impact on the design and delivery of Australia's flagship innovation program. Australian innovators, assemble! (Go to www.innovation.gov.au/innovationreview now. Go on! Okay, as soon as you finish this article.)

The review is welcome news as the concession has gone through its share of travails since the previous government cut the rate from 150% to 125% in 1996. Beyond the savage rate cut, the concession has added a lot of extra baggage in the last 10 years – feedstock offsets, planning requirements, offsets, incremental features – with a lot of attendant confusion.

Despite this, we have a program that has grown its user base to around 6,000 companies and has proven instrumental in supporting the reported growth in Business Expenditure on Research & Development (BERD) in recent times.

So when Senator Kim Carr, Minister for Innovation, Industry, Science and Research, suggests that we look at the program from first principles, I think it is reasonable to assume that the baby is safe, even if some of the bathwater is heading back to the national water table.

What principles, then, might one use in preparing a submission to the NIR Panel?

Last year, the Productivity Commission (PC) proposed some principles for reviewing government support programs for R&D – spillover and additionality.

These seem fair enough (though you will see I diverge from the PC's conclusions below) and I would add the following – size of benefit, simplicity and long-term stability.

I have the following brief observations to add regarding these factors.

1. *Size Of Benefit:* The Innovation Summit working group spent 12 months on this issue 8 years ago. The overwhelming consensus was that the 125% tax saving (7.5 cent in the dollar at current tax rates) is not enough. Lifting the rate to 150% (benefit of 15 cent) would get the concession back into company planning processes and budgets as the saving would be regarded as being significant.
2. *Simplicity:* The current legislation is too complicated. The incremental calculations are a minefield of the first order. Trust me. It doesn't keep advisers in a job. Complexity erodes user confidence in a program. Let's get the concession back to a simple and effective format that you can plan for knowing that you are entitled to receive the support if you do the R&D.

3. *Long-Term Stability:* Since it began, the one thing the program has held on to is an unchanged definition of R&D. There is massive cultural awareness and understanding of this definition. In returning to a simpler program, it is imperative that the current definition be retained.
4. *Spillover:* The PC contended that the highest rates of spillover pertain to radical innovations in proposing an incremental-only R&D Tax Concession. I see no evidence to support this. Companies are best at innovating, not inventing. Trying to attach them to a program with a scientific, as opposed to an industrial, emphasis is a mistake. Every time a skilled process engineer changes jobs, you get spillover just as effectively as with a scientist.
5. *Additionality:* This is where I have the biggest issue with the PC. It contended that the R&D Tax Concession should

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be about funding work that otherwise wouldn't be done. In other words, it should target the marginal projects that were declined on the usual considerations of risk and return. So the PC says that the basic concession should be denied to companies as they would have done those projects anyway and the benefits should be confined to the increase in R&D as measured at the end of each tax year.

While having the incentive getting the marginal project over the line is a good thing, surely the issue is about the depth and quality at which you can carry out R&D on the projects that you were going to do – the non-marginal projects. Only by having a certain, effective rate of benefit known at the planning stage can companies take the R&D Tax Concession into account in their R&D activities. Project managers crave this. We need to get the program out of the hands of the end-of-year tax accountants and on to the project approval templates of the technical managers. Incremental programs don't get this done.

I hope that these preliminary thoughts inspire you into action. I'm happy if you simply want to shoot them down. The issue at stake is our innovation future. We should all be able to handle a bit of rough and tumble.

I look forward to reading your NIR submission. Remember, head to www.innovation.gov.au/innovationreview. Go now! Australia needs your help.

