

# Advisers bemoan 'complex' R&D tax changes

John Kehoe and Peter Roberts

Corporate advisers lashed the federal government's diluted changes to the research and development tax break, warning they will increase compliance costs and prevent many firms from receiving taxpayer support.

Submissions to Treasury on the second R&D draft laws closed yesterday, and business increased the pressure on the government to give further ground on the planned changes that have sparked a backlash from firms and their advisers.

But the government appears determined to stand by its plan, which aims to divert some of the \$1.4 billion in R&D tax breaks to smaller firms. "I have got an obligation to ensure there is value for money," Industry

Minister Kim Carr told *The Australian Financial Review*. "We have 100 firms in this country getting the overwhelming bulk of the benefits of \$1.4 billion worth of public support.

"We have got to change that because we have got to get more companies investing in R&D, in innovation, employing people in research and we have to have more PhDs in companies."

Senator Carr also hit back at tax advisers, who have heavily criticised the changes. "It doesn't surprise me that a small group of people are trying to say you are trying to take something off us, and particularly accountants who enjoy or do the bulk of the work and have engaged in the bulk of the claims that are made against the scheme," he said.

"I am not in the business of pandering to vested interests."

PricewaterhouseCoopers partner Sandra Mason said R&D that ended up being commercially successful would lose out under the [latest] legis-

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PwC's Sandra Mason

lition, which was revised after the first draft was widely condemned.

"There's too many hurdles for companies to get over to qualify, one of which is the dominant purpose test," she said. "We're going to have a lot of

complexity around what's dominant and what isn't and that's way too narrow a test for companies to meet.

Under the dominant purpose rules, "supporting" R&D will only be eligible if it is undertaken for the dominant purpose of supporting "core" R&D.

"For things like data gathering and feasibility studies, they will have to prove in relation to the production of goods and services, it's being done for the dominant purpose of supporting core R&D," Ms Mason said. "A lot of these activities have a dual purpose in a commercial setting."

Activities listed on a new exclusions list (including market research, market testing, market development and quality control) will find it much tougher to qualify for the tax breaks.

Treasury said the tighter test was designed to prevent firms from receiving public funding for normal operations. It also said one of the benefits of the changes would be that multinationals would qualify for R&D tax concessions, even where the intellectual property is owned overseas.

KPMG R&D partner David Gelb said the complex laws would increase compliance costs, place local firms at a disadvantage and deter multinationals from doing R&D here. Its submission also criticised the "highly impractical" dominant purpose test.

"Both the dominant purpose and production activity rules would place significant additional compliance burdens on taxpayers," Mr Gelb said. *Commercialisation grants, page 47*

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