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# MJ&A update

## R&D Tax Concession

WINTER 2003

### R&D Tax Rebate Deemed Huge Success

One of the recently introduced value-adds to the R&D Tax Concession is the R&D Tax Rebate, which encourages companies in tax loss to maximise benefits to their business by claiming the R&D Tax Concession up-front as an offset to tax payable. The rebate is valued at 37.5 cents in the dollar and is available to companies with a group turnover of less than \$5 million and grouped R&D expenditure of up to \$1 million. AusIndustry has indicated that approximately 800 registrants have opted for the rebate for the 2001/02 financial year. More than 500 of these claims have already been processed, with the ATO indicating a turnaround time of 6 days.

Since the end of the 2001/2002 financial year, MJ&A has been involved in the preparation of a substantial number of rebate claims and our clients have found the program to be a significant boost to cash flow, enabling them to take a longer view in strategic planning of future R&D endeavours. Reaction to the process of claiming the R&D concession as a tax offset has been overwhelmingly positive, leading to many requests for MJ&A to assist in submitting claims for the 2002/03 year as soon as possible after the 30 June year end.

The ATO's National Innovation Segment recently undertook risk assessment visits of a representative number of companies who elected to make rebate claims. Around 80 companies were visited, with the emphasis on how the basis of the claim was calculated. The error rate amongst rebate claims is apparently quite high - around 40%. The intended outcome of these visits is an assessment as to whether companies fall into a low, medium or high risk category, in terms of any future formal audit program. The ATO expects that any errors brought to light during those visits will be the subject of a self-amendment by the company claiming the offset. Once the results of the risk assessment program have been analysed, the ATO will move to determine whether there is a need to commence formal audits of rebate claims.

Eligible companies must opt to receive the rebate in their tax return and must be registered for the R&D Tax Concession at the time of lodging their return.

For further information, contact Kris Gale on (02) 9810 7211 or [krisg@mjassoc.com.au](mailto:krisg@mjassoc.com.au)

## R&D Start

### Resumption of the R&D Start Program

Following an 8 month suspension ending in November 2002, the Federal Government's competitive grants and loans program, R&D Start, has recommenced.

One of the small number of IT-focused companies to receive a grant offer since funding resumed is Distra Pty Ltd. Distra was assisted in its application for an R&D Core Start grant by the MJ&A R&D Start team. Distra was awarded a \$950,000 grant to develop the Distra e-Switch, a highly innovative new transactional switch designed for the banking and finance industry. The company is delighted by this result as it will provide a major contribution to the high cost of R&D investment required to develop this technology for international financial markets.

The key features of R&D Start remain the same. However, to ensure there are no further interruptions, AusIndustry has announced some changes to the management of the program. The most significant change is that the allocation of successful grants and loans will be made on condition of the availability of funds as determined by regular financial health checks of the program. Other changes to the program include:

- Small grant and loan applications (under \$250,000) will be decided by a Small Grants Committee appointed by the Industry Research and Development Board (the IR&D Board).
- The general conditions of the grant contract now include a schedule of payments that can only be varied by mutual agreement between the IR&D Board and the recipient company.

MJ&A is currently assisting a number of clients with the preparation of their grant and loan applications. The final funding meeting for the 2002/03 financial year is scheduled for June 2003. The Federal Government has restated its commitment to the R&D Start program until 2006. Applications can be submitted anytime throughout the year and are considered at regular IR&D Board meetings which take place every 6-8 weeks.

For further information, contact Dr Jane Drummond on (02) 9810 7211 or [jane@mjassoc.com.au](mailto:jane@mjassoc.com.au)

## Innovation Services

### Innovation HealthCheck

Australian companies continue to struggle with the effective management of innovation within their organisations. Poor innovation performance is typically reflected by a failure to generate and capture sufficient creative ideas for new products and services, a reluctance to import external sources of innovation and a declining R&D investment in real terms with diminished returns from that investment. MJ&A is assisting our clients, particularly those in mature industries, to take stock of their innovation performance using a low cost diagnostic tool, the *Innovation HealthCheck*.

To launch this new product, MJ&A recently entertained senior representatives from Transfield, James Hardie, SingTel Optus and Australian Technology Park Innovations at a breakfast briefing in Sydney's Merchant Court Hotel.

Discussion of our *Innovation HealthCheck* methodology and the approach to innovation management taken by large companies in Europe and North America generated lively debate on issues currently facing our guests that included:

- How do we promote a non-threatening innovation culture to encourage creativity and contribution to innovation initiatives?
- How do we evaluate ideas using meaningful criteria that support business strategy and have a good chance of successful commercialisation?
- How can we get our customers to recognise and acknowledge our creative solutions?

These themes are familiar to MJ&A - they (and others) can be quickly identified with our *Innovation HealthCheck* diagnostic and shortcomings addressed through application of our ROSS (Resources, Organisation, Systems and Strategy) suite of tools for designing and implementing an improved Innovation Management System and culture.

For further information on Innovation HealthCheck, ROSS and future briefing dates, contact Dr Robin Stanley on (02) 9810 7211 or [robin@mjassoc.com.au](mailto:robin@mjassoc.com.au)



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## R&D Tax Concession

### R&D Tax Concession Administration Consultative Group

The Tax Concession Administration Consultative Group is a forum that has been provided by the Federal Government for companies and advisers to discuss matters relating to the administration of the R&D Tax Concession Program. It also provides the opportunity to suggest improvements and to obtain first hand information on government initiatives and proposed amendments to legislation and guidelines. The Group includes representatives from the IR&D Board, AusIndustry, the ATO, the Department of Industry, Tourism and Resources and the Treasury.

MJ&A attended the last Sydney meeting for the group, which was held on March 12, 2003. During this meeting, attendees were presented with the new 2003 Application for Registration of R&D Activities, the IR&D Board's new "Plain English Guideline" on the definition of R&D and some of the proposed changes to the Board's Guideline on Overseas R&D.

The new Application for Registration is to be amended with a view to reduce the amount of supporting documentation that has to be lodged. The new Application involves replacing the existing "Schedule 2" Technical Descriptions with a "Part 2" section which simply requires information on project title, start and finish date, project expenditure, and a list of activities conducted.

The "Plain English Guideline" to the definition of R&D is an attempt by the IR&D Board to give claimants some insight into its current position on the definition of R&D. The most notable aspect of this guideline is the movement away from referring to "core" and "supporting" activities, replacing these with the labels of Systematic, Investigative and Experimental (SIE) activities and Directly Related activities.

There is also a proposal on the table to amend the Guidelines on Overseas R&D. Under the current Guidelines, companies can claim up to 10% of a total project's costs on Overseas R&D. This 10% rule applies even if the Overseas R&D component is greater than the 10% of the total project cost. The proposed amendment, however, would allow a company to claim Overseas R&D only where it comprised 10% or less of the total project expenditure. A further proposed change is targeted at removing the reference to "normal commercial terms" when discussing why the R&D cannot be undertaken in Australia and replacing it with the concept of the cost being "prohibitive in terms of both time and money".

For further information, contact Andrew Hills on (02) 9810 7211 or [andrew@mjassoc.com.au](mailto:andrew@mjassoc.com.au)

## Innovation Services

### KCA Commercialisation Fair & Forum

MJ&A joined other prominent members of the commercialisation community exhibiting at the inaugural Commercialisation Forum and Fair of Ideas held at Darling Harbour on 26-28 March, 2003. New technologies and spin-off companies from Australia's public sector research institutions were showcased, and the \$100,000 Peter Doherty Prize awarded to student research with the most outstanding commercialisation opportunity. The winner was Welding Technologies Innovations with its industrial welding fault detection system.

In addition to promoting our expanding range of services, MJ&A highlighted case studies of how we have partnered with clients to deliver successful commercial outcomes for their technology. For example, when the founders of Minomics Pty Ltd sought to commercialise a high throughput protein analysis technology, they approached MJ&A.

With assistance from the COMET program, MJ&A facilitated market research in Australia, Europe and North America to determine the market opportunity and the competitive advantage of Minomics' technology over bioinformatics services offered by competitors in the public and private sectors.

We demonstrated how an industrial scale analytical operation could achieve a turnover of \$85million within 5 years through contract research and licensing of proprietary databases to the pharmaceutical and healthcare industries. As a direct result of the strategic business plan prepared by MJ&A, Minomics has secured equity investment from two international companies and is in the process of starting business in a dedicated laboratory facility.

Congratulations to Knowledge Commercialisation Australia (KCA) for organising this important initiative for innovation and commercialisation in Australia.

For more information on the results of the Fair and Forum, contact Jonathon Jones on (02) 9810 7211 or [jonathon@mjassoc.com.au](mailto:jonathon@mjassoc.com.au)

### BioLink

MJ&A's Innovation Services Division has recently provided assistance to the NSW Department of State and Regional Development and Dr. Jonathan Izant to prepare a business case for BioLink. This

unique partnership is directed at establishing a professional commercialisation resource for medical research institutes within New South Wales - to transform life science research into biotechnology industry growth. As part of the BioFirst strategy, the NSW Government has announced a commitment to contribute \$2.6M over 4 years to the resources already provided by the BioLink research participants.

This project represents another example of MJ&A's participation in the life science research sector where we provide advice and assistance with the commercialisation process.

For further information, contact Dr Robin Stanley on (02) 9810 7211 or [robin@mjassoc.com.au](mailto:robin@mjassoc.com.au)

## Highlights

### AusIndustry Key Application Dates

Companies wishing to make an application for registration for the R&D Tax Concession for the income year ending on 30 September 2002 need to do so by 31 July 2003.

Companies wishing to make an application for registration for the R&D Tax Concession for the income year ending on 31 December 2002 need to do so by 31 October 2003.

### MJ&A People

MJ&A is delighted to welcome Alexander O'Han and Prue Sherry as new members of the team. MJ&A recently said goodbye to Joanne Fullam, Consultant, and Anne Skelly, Administration Assistant. We wish them all the best for the future.

### Have You Moved?

If your company contact details change, please let us know so we can keep you up to date with the latest in innovation and Government R&D assistance programs. Please contact Jenine David on (02) 9810 7211 or [jenine@mjassoc.com.au](mailto:jenine@mjassoc.com.au)

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