

11 May 2018

## **AIIA 2018-19 Federal Budget paper: Impact on the ICT Industry**

### **Introduction**

On 8 May 2018, Treasurer Scott Morrison delivered his third Commonwealth Budget, and the last one before the Federal election in May 2019. Following this, the Australian Information Industry Association (AIIA), the nation's peak member body for the ICT industry, distributed a press release, advising of its broad support for the 2018-19 Australian Budget.

### **Summary:**

- \$2.4 billion investment in public research infrastructure;
- Skilled Migration – piloting new initiatives addressing the Temporary Skills Shortage visa;
- Digital Identity investments to pilot developments in selected areas;
- Creation of Customer Data right, to make access to government data securely available;
- R&D Tax measures provides less incentive for early stage research and development and Treasurer focuses on a 'crackdown'.

As the AIIA [noted](#), many of the Budget measures announced would support the ICT industry. Importantly, the Global Talent Scheme pilot and the new Temporary Skills Shortage visa recently announced by Home Affairs will allow employers to hire from abroad with contributions to be made to the Skilling Australians Fund, which aims to boost domestic skills shortages. Whilst these measures are in their infancy, this is recognition of the need for speed and flexibility to adapt to evolving technology skill requirements.

Equally, announcements are welcomed in:

- The development of the Digital Identity program:

- \$92.4 million expanding GovPass capability. This investment is one of the most critical to build our cyber resilience by moving to single identifiers.
- Pilot in high transaction areas including applications for tax file numbers, allocation of student identifiers and similar, where up to 500,000 users may generate 2.5 billion transactions and allow robust testing of the identifier framework.
- Creation of a national Customer Data Right, led by ACCC, with the Australian Information Commissioner and CSIRO/Data61 to create the platforms and management protocols that allow secure access to data for research and efficient delivery of services.

### **Research and Development Tax Incentive**

The R&D Tax Incentive (R&DTI) was one of the big-ticket items in the budget. The AIIA notes the following regarding businesses with under \$20 million in turnover:

- They represent more than half of all R&DTI claims and two thirds of all expenditure.
- They may claim a 13.5% benefit; currently the incentive allows for up to 16.5% for the startup cohort, so the new rules represent a potential 18% reduction.
- The Federal Government claims of \$2 billion 'cost' reflects an accounting allocation that arguably should be considered within the broader tax revenue pool, not R&D (see below).

Additionally, it appears that businesses with turnover above \$20 million will be largely worse off:

- Most companies will have their benefit cut by 53% to 4%, the lowest ever in Australia's 33-year history of R&D Tax and the lowest globally;
- Large corporates will have reduced incentive to develop new technology given the \$150 million cap puts a ceiling on the scale of major R&D investment programs.

The incentive levels, based on varying levels of R&D intensity are:

- 4 percentage points for R&D expenditure between 0 to 2% R&D intensity;
- 6.5 percentage points for R&D expenditure above 2% to 5% R&D intensity;
- 9 percentage points for R&D expenditure above 5% to 10% R&D intensity; and
- 12.5 percentage points for R&D expenditure above 10% R&D intensity.

The AIIA would recommend:

- A change in mindset and increase in the pool of funds available. While AIIA agrees that any 'abuse' of the system should not be tolerated, the R&DTI is a critical economic incentive for economic growth, rather than a budget cost to be managed.
- A recalibration of the accounting treatment on returns for businesses that turn over less than \$20 million. The current treatment of these businesses investing in R&D considers refunds in the current year of tax for operating losses to be an



- R&D expense, rather than a cost from the broader tax base. This misallocation blows out the purported \$2 billion saving for taxpayers over the next 4 years.
- Attracting more participants to undertake R&D by making initial investments in R&D more attractive – perhaps a policy to award 8.5% for first time investors in R&D, for first 3 years of claims, irrespective of intensity. Note that 8.5% is still not globally attractive, compared to countries such as New Zealand or Singapore, and we risk firms moving R&D activities off shore.
  - Removing the ‘cap’ of \$150 million for large firms – encourage true large-scale R&D.
  - Remove blended tier calculations – if Australia wants to grow its R&D, we should encourage businesses to ‘step up’ to the next tier. If the tiering is to occur, a simplified model with a base rate of at least 7.5% and higher rate of 10% for incremental investment could apply.

### **Artificial Intelligence and Machine Learning**

The AIIA and business community welcomes Government commitment to advancing Australia’s capabilities within the fields of Artificial Intelligence and Machine Learning, as the economy pivots towards high technology. These initiatives include:

- Additional funding for a Cooperative Research Centres with Artificial Intelligence and Machine Learning PhD scholarships
  - This will ensure that subject matter expertise in these fields is developed onshore. Given the demand for expertise in these areas, Government must provide adequate capacity to study and hone these skills locally;
- The development of a technology roadmap
  - This provides Government with a baseline to track progress appropriately against international peers and global trends to maintain the momentum of innovation and competitive advantage.
- The creation of a standards framework
  - This will provide an agreed framework to govern how new technology is tested so that our economy’s technological capabilities can grow safely.
- Establishing a national Artificial Intelligence ethics framework
  - As AI continues to develop and augment human capabilities, the ethics surrounding its use continue to present policy challenges to Government. This is a global challenge, so Australia is not alone in building guidelines for how and when the technology may or may not be used to enable a safe and prosperous Australia. In doing so, we are ensuring that Artificial Intelligence technology does not undermine the market or Australian workers.



## **Entrepreneurial Facilitator Program for mature age workers**

The AIIA is pleased to see the Treasurer expanding the Entrepreneur Facilitator Program with the creation of a 'Skills and Training Incentive'. This provides mature age workers with the opportunity to update their skills. These workers will be supported in their efforts to transition their skills, while employers will receive wage subsidies of up to \$10,000 for each mature age worker they hire.

Australia has a rapidly aging population with a large proportion of baby boomers entering retirement now and throughout the next decade. This Budget measure assists older Australians to retrain and continue their contribution to the Australian economy, if they so choose.

Barriers to entry into the workforce should not be tied to age, but to skill. If a person can retrain and the Government supports this with a wage subsidy to the employer, our economy will benefit from an agile workforce. This measure ties into health and aging, into social service support and into retirement planning – it should be applauded.

## **Science Technology Education Mathematics (STEM)**

The Budget emphasises the importance of diversity in STEM careers. AIIA Chief Executive Officer CEO Rob Fitzpatrick applauds the Treasury for several measures in this regard, namely:

- Creating a Women in Science strategy;
- Creating a Women in STEM Ambassador (who will promote STEM at schools); and
- Producing a STEM Choices Resources Kit to address under-representation of girls in STEM.

Additionally, on training, the AIIA notes an allocation of \$89 million over four years for the Transition to Work Program. This additional funding boosts pre-employment capability for 15-21-year olds, at risk of long-term unemployment.

The AIIA is pleased with the emphasis on Women in STEM but believes more can be done to facilitate investment in training and education to ensure all Budget measures deliver on their promises for the economy. Gender diversity is important for the ICT sector, which is a predominantly male-dominated environment. A recent study by Morgan Stanley in the US concluded that a more diverse workforce delivered better returns and less volatility. Diversity is key to economic growth, and ICT leaders recognise that Australia must do more to hit these targets.

## **Small & Medium Enterprise (SME) Support Hubs Program**

Within the *Australian Technology and Science Growth Plan*, the budget specifically highlights investments in an SME Support Hubs Program. Additionally, the budget will double the current investment in Australia's supercomputing infrastructure, with \$70 million allocated over four years to replace and upgrade computing and data capability at Pawsey Supercomputing Centre in Perth.

The Government has taken a broad approach to ensuring economic improvements are realised now, and that the proposed tax relief for Australians from adopting a fairer tax



structure will boost the economy. The funding announcements for infrastructure spending that crisscross the Eastern states is welcomed and will ensure major economic activity and jobs growth.

### **In summary**

The AIIA is pleased to see the raft of measures and programs announced within the budget targeting investments in infrastructure, investments in training programs and additional funding for the Skilling Australians Fund. The AIIA notes the importance of the R&D Tax Incentive to Australian business and will continue to advocate to ensure the system is appropriately tailored for local businesses, and the Australian economy as a whole, to thrive.

### **About AIIA**

The Australian Information Industry Association (AIIA) is Australia's peak representative body and advocacy group for those in the digital ecosystem. Since 1978 AIIA has pursued activities to stimulate and grow the digital ecosystem, to create a favorable business environment for 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.

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