



Australian Government



Australian  
**Small Business and  
Family Enterprise**  
Ombudsman

10 October 2025

Mr Dom English  
Head of Secretariat  
Strategic Examination of R&D  
Department of Industry, Science and Resources  
GPO Box 2013  
Canberra ACT 2601

via email to: [RDreview@industry.gov.au](mailto:RDreview@industry.gov.au)

Dear Mr English

### **Strategic Examination of R&D – Issues paper**

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to comment on the issues and potential solutions raised in the six issues papers published by the secretariat, aimed at strengthening Australia's research and development (R&D) system.

There are approximately 2.6 million small businesses in Australia, approximately 97 per cent of all businesses are small businesses. They collectively generate approximately \$600 billion in economic activity each year and employ 5.36 million people – 42 per cent of the private sector workforce.

According to the ATO's most recent R&D industry overview, approximately 6,000 small business claimed an estimated \$2 billion in R&D tax incentive expenditure in 2022-23<sup>1</sup>. However, while small businesses represented almost 50 per cent of claimants in this period the expenditure was less than 20 per cent by total value.

This data suggests Australian small businesses are active in R&D but have limited access to incentives compared to larger business. As the ASBFEO has previously advocated and is highlighted in a recent article in *Inside Small Business*, making R&D support more accessible for small business, including addressing barriers to achieving compliance, will improve the effectiveness of Australia's R&D system and provide a significant boost to the productivity and competitiveness of our economy.<sup>2</sup>

For this reason, the ASBFEO supports the work of the independent panel to develop recommendations to strengthen Australia's R&D system, and our primary focus is on:

- strengthening linkages between research and industry and addressing barriers to meaningful collaboration
- growing business investment in R&D

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<sup>1</sup> Australian Taxation Office, *R&D industry overview*, Australian Government, 25 September 2025.

<sup>2</sup> M Locket, *Small businesses could help solve Australia's productivity problem - if they could access R&D*, *Inside Small Business*, 28 July 2025.



- growing businesses that can value-add and compete in global supply chains.

In preparing our submission we reviewed all the issues and proposed solutions raised in the 6 issues papers. We do not have views on a number of the issues but consider that several of the proposed solutions in issues papers 3 and 6 could, if implemented, have a significant positive impact on Australian small businesses. Several of these align with measures the ASBFEO has been advocating for in [\*Energising Enterprise: 14 Steps to boost Australia's small and family businesses\*](#).

*Paper 3 — 'RD&I incentives: Incentivising breakthrough innovation and ambitious R&D'*

***Issue 1 — Lack of funding for proof-of-concepts***

Small businesses often lack the funds necessary to pursue proof of concept activities. The ASBFEO therefore strongly endorses measures that incentivise pre-seed activity by innovators. As an alternative to the grants or convertible notes proposed in the issues paper, we suggest the independent expert panel also explore using mechanisms within the tax system, for example:

- a tax discount/offset scheme similar to Singapore's Start-up Tax Exemption Scheme—which provides eligible new companies with tax exemptions for the first three years—to support business formation and reward risk-taking such as undertaking proof-of-concept activities
- a more generous and durable Instant Asset write-off (IAWO) scheme could be an effective and targeted mechanism for supporting such investment, particularly by small businesses.

***Issue 2 – Lack of entrepreneurial skills or networks***

In *Energising Enterprise*, we describe how small businesses are not shrink-wrap versions of big corporations and often lack the time and resources to devote to not only meeting the many regulatory requirements imposed on their business, but also to building its human capacity which can include entrepreneurial skills and networks.

We are therefore supportive of the proposal to establish a directory of 'help' for founders/startups to access 'just in time' skills to help avoid common pitfalls and increase their chance of business success. This should be part of a free, readily accessible and easily navigable central 'resource hub' of actionable information that is supported and powered by government but delivered by a 'near' government provider, which we advocate for in *Energising Enterprise*.

***Issue 6 – Limited number of RD&I active SMEs achieving high growth and transforming into large businesses***

In 2019, the previous Small Business and Family Enterprise Ombudsman, Kate Carnell AO, following a detailed investigation, drew attention to issues affecting small businesses with the then R&D Tax Incentive (R&DTI) such as:

- the impact of an audit being undertaken long after the funds have been reinvested back into the business
- the lack of comprehensive, current and small business friendly guidance material
- substantiation and record keeping requirements do not reflect commercial practicality.

The discussion on the R&DTI in the 'Strategic Examination of R&D: Discussion paper consultation findings and analysis' (July 2025) suggests that over five years later these issues are still pertinent. We therefore support the proposal to make the RDTI work better for small businesses through



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changes to reduce its regulatory complexity, including simplifying R&D definitions and assessment processes to reduce the reliance on consultants. Consistent with the DISR's analysis on p17, the ASBFEO has heard from small business stakeholders that the current definition is too complex and does not reflect modern realities of business R&D processes, and that this complexity encourages a reliance on third party consultants that are often of questionable value, as well as being a barrier to small business participation.

#### *Paper 6 – Government as an exemplar*

#### ***Issue 3 – Regulation and performance measurement***

The complexity of having many and different grants processes and regulatory requirements across all levels of government and jurisdictions creates enormous challenges for many small businesses and can have a chilling effect on entrepreneurship.

The ASBFEO has consistently advocated for reforms to achieve right-sized regulation, including in *Energising Enterprise* and submissions to the Economic Reform Roundtable and the Productivity Commission's Five Pillars of Productivity inquiries. We call for reforms that streamline regulatory obligations and reporting requirements, and for governments to adopt a right-sized approach to regulation that acknowledges that a uniform, one-size-fits-all approach regardless of risk can unfairly disadvantage smaller businesses to the benefit of large, entrenched enterprises.

We are therefore supportive of the 3 proposals aimed at streamlining and simplifying R&D application and management processes, and ask that specific consideration be given to the needs and capabilities of small business.

As alluded to earlier, ASBFEO has had a considerable interest in the small business experience when seeking to engage with and benefit from R&D tax incentives. This has included examining the seeming discordance between program design and promotional objectives, the role of 'advisers' and 'audit' processes that bring a different evaluation framework to the application process. We are more than happy to explore with you the insights gained over a number of years, reviews and inquiries if this would be helpful.

If you require any further information, please do not hesitate to contact the Advocacy team via email at [advocacy@asbfeo.gov.au](mailto:advocacy@asbfeo.gov.au).

Yours sincerely

**The Hon Bruce Billson**

Australian Small Business and Family Enterprise Ombudsman