Australian Chamber of Commerce and Industry

Research & Development Tax Incentive Amendments

Submission to the Treasury
July 26, 2018

Stable R&D policy settings required

The Australian Chamber of Commerce and Industry (Australian Chamber) welcomes the opportunity to comment on the proposed Research and Development tax incentive amendments (R&D tax amendments).

The R&D tax concession was first introduced in 1985 with the aim of encouraging Australian industry to undertake R&D activities. Since then the R&D tax provisions have undergone a number of significant changes. The constantly changing R&D landscape creates additional administrative and compliance costs for Australian businesses. Consistency in R&D tax policy settings provides investment certainty to businesses.

While the Australian Chamber supports greater integrity and fiscal affordability of government programs, caution is required when determining which area will be subject to increasing or changing requirements. Strong investment in R&D has been shown to lead to productivity gains. Productivity gains then leads to greater profitability, providing businesses with increased resources to invest in such things like R&D.[1]

As such, the Australian Chamber would like to see more stability and support for R&D moving forward. The R&D tax amendments proposed in the Budget 2018-19 go further than increasing the integrity measures surrounding the R&D tax incentive – it reduces the amount of government funds supporting Australian R&D activity.

The Australian Chamber called for greater provision for R&D to lift investment and innovation in our Pre-budget submission for 2018-19.[2] We are concerned that the targeting of R&D tax incentives in the Budget 2018-19 may dis-incentivise legitimate R&D activity. It is important that policy settings support R&D, and therefore productivity growth, rather than stifle it.

The Australian Chamber notes that multi-factor productivity (MFP) grew just 0.8% (annual average) from 2011-12 to 2016-17. While this is an improvement on weak outcomes experienced in the aftermath of the GFC, it is still markedly weaker than the experience from 2000-2005 when annual MFP growth rates averaged 1.5%.[3] Productivity growth is a key ingredient in driving wage growth and living standards.

[1] Pietro Moncada-Paternò-Castello, 'A Review of Corporate R&D Intensity Decomposition', iCite Working Paper 2016, International Centre for Innovation Technology and Education

[2] https://www.australianchamber.com.au/publications/pre-budget-submission-15-december-2017/

[3] ABS, Cat No 5260.0.55.002 - Estimates of Industry Multifactor Productivity, 2016-17

Calculation of R&D Intensity – total expenditure

The Australian Chamber is concerned about the use of 'total expenditure' as the denominator in the equation. There are many input costs, such as electricity, which have substantially increased recently and had a significant impact on business expenses. This may unfairly skew the 'intensity' of a business' R&D towards the lower end of the spectrum, particularly if unexpected business expenses arise during an income year. Businesses will be penalised for unexpected expenditure, and may begin to question the value of the R&D tax incentive.

We strongly recommend against aggregating expenditure across a broader economic group. The issues outlined above will be amplified. Aggregation would be particularly problematic where businesses invest in standalone businesses, or participate in joint ventures, which have a focus on R&D and innovation specifically. We also recommend isolating business subsidiaries that are dedicated to R&D in the calculation of the intensity threshold.

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About the Australian Chamber

The Australian Chamber of Commerce and Industry speaks on behalf of Australian Businesses at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

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