Science & Technology AUSTRALIA

Research & Development Tax Incentive Amendments

26 July 18

To the Australian Treasury,

Thank you for the opportunity to respond to provide feedback regarding the Research & Development Tax Incentive Amendments.

Science & Technology Australia (STA) is the peak representative body for more than 70,000+ scientists and technologists in Australia through our member organisations, including associations and societies, research institutes, and research strategy bodies such as councils of deans. Our mission is to connect science and technology with governments, business, and the community, to enhance the role, reputation and impact of science.

Since the review of the Research and Development Tax Incentive (R&DTI) was undertaken in 2016, STA has considered the implementation of its recommendations as a priority, the importance of which was emphasised by Innovation and Science Australia in their 2030 Strategic Plan.

Private investment in research, both in-house and in partnership with academia or public research agencies, is essential in the creation of an innovative and agile economy. Unfortunately, the level of business investment in Australian research has been limited and is dropping? A more targeted R&DTI will ensure that business investment in research increases, while also encouraging and empowering small and medium enterprises to undertake research.

STA broadly supports the amendments to the R&DTI outlined in the legislation however we are disappointed that the legislation does not include a provision for a collaboration premium as recommended in the Review of the R&DTI. Specific details regarding our feedback are enclosed.

Kind regards,

Professor Emma Johnston
President
Science & Technology Australia

Kylie Walker
CEO
Science & Technology Australia

Introduction

The importance of the Research & Development Tax Incentive (R&DTI) in encouraging business investment in research and development has been thoroughly outlined in the 2016 Review of the R&D Tax Incentive[1] and Australia 2030: Prosperity through Innovations[2]. These improvements outlined in the R&D Tax Incentive Review, would ensure that the R&DTI served its intended purpose as a key mechanism to increase the participation of business in research.

During the consultation process as part of the 2016 Review, it became clear that the R&DTI in its current form does not achieve its intended goals. The 2016 Review outlined six recommendations that were developed to better target the R&DTI and more effectively encourage business investment in research. These recommendations were positively received in the sector including by Science & Technology Australia (STA)[3].

The proposed changes to the *Research & Development Tax Incentive Bill* go some of the way to address the recommendations and these measures are welcomed by the sector. However, there are still concerns the R&DTI Bill does not make the most of the opportunities available to further encourage businesses to invest in research.

Support for the R&D Tax Incentive

The announcement of changes to the Research & Development Tax Incentive was welcomed by most organisations within the sector including STA[4].

The legislative response to the recommendations outlined in the R&DTI Review could have been more comprehensive, however the changes outlined are still welcomed as a positive step.

Calculation of R&D Intensity – total expenditure

STA supports the method outlined for the calculation of the R&D intensity of a business. It is important that any calculation of R&D intensity is clear and consistent to ensure compliance. The current outlined calculation for research intensity is an effective way to encourage business investment in research as a proportion of other expenditure.

Clinical Trials exemption under the $4 million refund cap

The exemption for clinical trials under the $4 million refund cap is a useful measure to ensure that small-medium enterprises are able to participate in research that requires clinical trials. STA initially expressed concerns about the R&DTI Review proposal to apply a $2 million cap to refund payable. By increasing the cap to $4 million and exempting clinical trials from this cap, STA is satisfied that these concerns have been met.

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[1] "Review of the R&D Tax Incentive" B Ferris, A Finkel & J Fraser, 2016
[2] "Australia 2030: Prosperity through Innovation" Innovation and Science Australia, 2018
[3] "Response to the review of the R&D tac incentive consultation" Science & Technology Australia, 2016
[4] "STEM a winner in this year's budget" Science & Technology Australia, 2018

STA agrees with the current definition of clinical trial that has been provided and supports the flexibility to have Innovation and Science Australia decide on projects that fall under the definition of clinical trial. Given the expansion of the role of Innovation and Science Australia, STA would encourage a consideration for opportunities for a similar cross-over between the National Health & Research Medical Council and Innovation and Science Australia.

STA recommends that the chair of the NHMRC be given an advisory role on the Innovation and Science Australia Board to ensure changes in clinical trials and research practices are rapidly adapted.

Incentivising collaboration

STA is concerned that the decision to not include an incentive to encourage collaboration between publicly funded research institutions and industry is a missed opportunity.

To an extent there is some incentive for businesses to collaborate with researchers in public institutions under the R&DTI in its current and proposed form, however a targeted collaboration premium would encourage stronger collaborations.

For example, small and medium enterprise are not always capable of maintaining research staff and so must reach out beyond their internal team. Large enterprises on the other hand, do not have a similar built-in incentive to collaborate.

The R&DTI in its current and proposed form provides little incentive for these enterprises to reach out and undertake collaborative research. Collaboration with Australian research institutes and universities should be incentivised as cross-sector collaboration results in $10.6 billion in revenue[5] for businesses as well as provide the basis for disruptive innovation[6].

The review of the R&DTI recommended a "collaboration premium of 20% for the non-refundable tax-offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations". We fully support this recommendation.

The refocus and improved targeting of the R&DTI will provide a saving of $2.4 billion[7]. It is STA's strong preference that these savings are re-invested to the benefit and growth of Australian research and development, and such a collaboration premium would be a wise and beneficial use of these funds. Alternatively, this investment could contribute towards the establishment of a non-medical Research Future Fund for translational research similar to the successful Medical Research Future Fund.

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[5] "Uni to Business: Tap into our talent and expertise" Universities Australia, 2018
[6] "R&D Tax Incentives: Evidence on design, incidence and impacts", Appelt, S. *et Al.* OECD Science, Technology and Industry Policy Papers, No 32, 2016
[7] "Budget Paper No .2" Australian Treasury, 2018