CONSULTATION ON THE DRAFT TREASURY LAWS AMENDMENT (RESEARCH AND DEVELOPMENT INCENTIVE) BILL 2018 AND EXPLANATORY MATERIALS

SUBMISSION FROM THE UNIVERSITY OF NEWCASTLE

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INTRODUCTION

The University of Newcastle (UON) welcomes the opportunity to provide a submission in relation to the draft Treasury Laws Amendment (Research and Development Incentive) Bill 2018 and Explanatory Materials.

Universities provide a critical intellectual element in the development of innovation. University collaboration with industry provides opportunities for research excellence and innovation to be enhanced, commercialised and applied in real world situations. Accordingly, government support to encourage business to engage in research and development is essential to producing innovative solutions to global problems

University of Newcastle Research Profile

UON provides this submission as a research-intensive regional university that has strong partnerships with industry, government and our communities, and more than 37,000 students across campuses in Newcastle, the Central Coast, Sydney, Port Macquarie and Singapore.

UON stands among the top eight universities in the country for research quality (ERA 2015 number of 5 rankings), and the top 10 for both total HERDC income and industry-led research income. UON has the highest level of industry funding per academic in Australia.

We've established strong partnerships with government and industry to drive innovation across areas of national and global significance. Our flagship research institutes, the Newcastle Institute for Energy and Resources[1] (NIER) and the Hunter Medical Research Institute[2] (HMRI) deliver cross-disciplinary research translated into world-class innovation.

UON acts to ensure its research effort is translated into economic and social benefit. We have made a $10M investment in the Hunter Innovation Project (HIP) Innovation Hub Building, and with the support of the NSW Government's Boosting Business Innovation program, the development of an Integrated Innovation Network (I2N) across the Hunter regions, key to which is the Defence Security Aerospace 18 Hub (DSA18).

UON's research outputs and partnerships are a significant factor in our contribution to the regional economy, with current estimates of UON outputs and expenditure totalling an estimated net present value of $5.5 billion of flow-on economic benefit to the Hunter region over the ten years from 2013 to 2022.

Effective R&D incentives are necessary to support world-class research and innovation

UON provides this submission on the basis that:

- Australian research and development is essential to the economic and social wellbeing of Australia
- Government support to encourage business to engage in research and development is essential to producing innovative solutions to global problems

For higher education providers to continue to undertake research and produce high quality research outputs, it is essential that adequate incentives are provided to encourage industry to engage collaboratively in research and innovation.

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[1] https://www.newcastle.edu.au/research-and-innovation/centre/nier/about-us

[2] https://hmri.org.au/

RESPONSES IN RELATION TO THE DRAFT TREASURY LAWS AMENDMENT (RESEARCH AND DEVELOPMENT INCENTIVE) BILL 2018 AND EXPLANATORY MATERIALS

The purpose of the Research & Development (R&D) incentive is to encourage companies to engage in R&D in Australia by providing tax offsets for eligible R&D activities. The 2016 Review of the R&D Tax Incentive found that the current program falls short of meeting its objectives of encouraging additional R&D spending that in turn provides further benefit for Australia. Under the current system the Australian Government refunds about $3 billion of the nearly $17 billion that industry invests in research and development. Very few incentives are provided to promote engagement between industry and the University sector - an area that has the potential to provide additionality and spillovers.

Collaboration premium recommendations

The 2016 Review of the R&D Tax Incentive recommended that a collaboration premium of up to 20 percent for the non-refundable tax offset should be implemented to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations. The premium was also recommended to apply to the cost of employing new STEM PhD or equivalent graduates in their first three years of employment. This collaboration premium was recommended to be still available in the event that an R&D intensity threshold is introduced. The University of Newcastle notes that there have been no provisions relating to the collaboration premium included in the Draft Treasury Laws Amendment Bill 2018. This recommendation was key for publicly funded universities and would provide a strong incentive for industry to engage collaboratively with universities in research and innovation. It would also provide incentive for industry to engage in the development of work ready and engaged PhD graduates.

Impact and engagement

For Universities to continue to develop research and innovation that can be applied or translated to provide real-world benefit to Australia, it is imperative that University and industry collaboration is encouraged and rewarded. Through the Engagement and Impact (EI) Assessment Universities are assessed on the economic, environmental, social and other benefits that their research provides. The EI Assessment provides clarity to the Government and Australian public about how their investment in university research translates into tangible benefits beyond academia. The assessment also promotes greater support for translation of research impact so that it can provide broad reaching benefits. It is clear from the implementation of the EI Assessment that the Government recognises and seeks to further understand that impact of University research and development. The UON contends that the Draft Treasury Laws Amendment Bill 2018 should reflect this recognition and provide incentives to promote Industry and University collaboration.

Specific provisions

The University of Newcastle welcomes the increase to the cap on claimable, non-refundable R&D expenses for larger (> $20M) companies (from $100M to $150M). The increase in the threshold for non-refundable offsets (from $100-150M) for larger companies may improve their willingness to perform R&D in Australia. The lower rate for companies spending less on R&D is unlikely to significantly reduce incentives, and while the intensity threshold will reward R&D intensive companies, whether or not it will particularly incentivise them or improve willingness to work with Universities is not clear.

The University of Newcastle also welcomes the specific allocation of $248M for clinical trials. This mechanism will provide incentives for more clinical trials to be run in Australia. The allocation also reflects the large cost associated with clinical trials and the enormous potential Australia has in this area.

The University of Newcastle notes the introduction of a $4M cap on the refundable element of R&D expenses. From a university perspective this may have the effect of being a disincentive for larger R&D projects being run in collaboration with universities. The $4M cap will also affect the activities of businesses that are not generating revenue but which perform significant R&D activities.

The Draft Treasury Laws Amendment Bill 2018 introduces a R&D intensity test that is calculated as a percentage of the company's total spend. The scale is set such that the benefits are lower than the previous scheme for companies that spend less as a percentage on R&D, and higher for those that spend more. The new intensity test will result in a large decrease in claimable expenses for larger companies, therefore the actual recouping of costs will likely be from the offset not the refundable element. This may have the impact of disincentivising larger multinationals from undertaking R&D in Australia.

Recommendations
The Australian Government should:

1. Ensure the collaboration premium recommendations of the 2016 Review of the R&D Tax Incentive are included in the new Treasury Laws and are implemented in order to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations.
2. Ensure the Draft Treasury Laws Amendment Bill 2018 provides incentives to promote Industry and University collaboration.
3. Retain the increase to the cap on claimable, non-refundable R&D expenses for larger (> $20M) companies.
4. Retain the specific allocation of $248M for clinical trials.
5. Review the provisions relating to the $4M cap on the refundable element of R&D expenses to ensure it does not have the effect of being a disincentive for larger R&D projects.