

SUBMISSION TO THE INQUIRY INTO THE TREASURY LAWS AMENDMENT (RESEARCH AND DEVELOPMENT TAX INCENTIVE) BILL 2019

6 March 2020

Universities Australia welcomes the opportunity to make a submission to the inquiry into the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 (the Bill). Universities Australia is the peak body for Australia's 39 comprehensive universities, which educate more than a million students and undertake research for the national benefit.

EXECUTIVE SUMMARY

Research, development and innovation are critical to the Australian economy and vital to the economic and social wellbeing of the community. Universities Australia is extremely concerned about the level and rate of decline of business investment in research and development (R&D) in Australia and commends efforts by the Government to arrest this downward trend.

To ensure that the decline is reversed, Universities Australia recommends that savings from amendments to the RDTI be used to invest in improving Australia's research, development and innovation system through targeted, direct incentives and the introduction of a collaboration premium to the RDTI.

PROPOSED CHANGES TO THE RESEARCH AND DEVELOPMENT TAX INCENTIVE

The Bill proposes several changes to the RDTI:

- increasing the R&D expenditure threshold from \$100 million to \$150 million and making the threshold a permanent feature of the law;
- linking the R&D tax offset for refundable R&D tax offset claimants to claimants' corporate tax rates plus a 13.5 percentage point premium;
- capping the refundability of the R&D tax offset at \$4 million per annum (however, offset amounts that relate to expenditure on clinical trials do not count towards the cap); and
- increasing the targeting of the incentive to larger R&D entities with high levels of R&D intensity, reducing the benefits provided to certain entities undertaking R&D activities and increasing the benefit to others.

These changes will not directly affect universities, which are not-for-profit organisations established for the purpose of advancing education. However, universities have a keen interest in a vibrant and well-functioning R&D capability across the economy, supported by appropriate policy settings. In that context, Universities Australia makes the following observations related to the policy intent of the Bill.

DECLINING NATIONAL R&D INVESTMENT AND THE CHANGING R&D FUNDING LANDSCAPE

Universities are concerned at the decline in Australia's R&D effort.

At 1.79 per cent of GDP, Australia lags behind our competitors and is now well below the OECD average of 2.37 per cent in 2017.¹ Australia's investment has been in decline for over a decade, from 2.25 per cent of GDP in 2008, and there is no sign of stabilisation.² This contrasts with a small but steady increase in the OECD average over the same period, from 2.28 per cent to 2.37 percent.³

The decline has been driven primarily by business reducing its expenditure, but Government expenditure on R&D (GOVERD) has also fallen.

Business expenditure on R&D as a share of GDP (BERD) declined by 31 per cent from a peak of 1.37 per cent in 2008 to 0.94 per cent in 2017-18.⁴ Government expenditure has declined by a similar percentage.

As business and government spending declines, universities are carrying an ever-greater share of Australia's R&D effort. In 2008 universities accounted for 24 per cent of Gross Expenditure on R&D (GERD). By 2017-18 this had increased to 34 per cent. Twenty years ago, 55 per cent of university expenditure on R&D was supported by dedicated research grants from the Australian Government. By 2016 this had dropped to 35 per cent. The result of this has been an increase in the risk profile of R&D funding in the sector as a result of greater dependence on more volatile funding sources.

INVEST SAVINGS IN DEVELOPING AUSTRALIA'S RESEARCH, DEVELOPMENT AND INNOVATION CAPACITY

Universities Australia notes that the Bill's proposals are expected to lessen the tax expenditure on the RDTI, resulting in additional revenue being returned to the Budget. Should the Government proceed with the proposed changes to the RDTI, Universities Australia recommends that any recouped savings should be directed to targeted, direct incentives for research and innovation.

Australia's reliance on an indirect tax incentive as its dominant method to encourage business innovation is out of step with practice amongst our competitors. In the recently released publication by Innovation and Science Australia on stimulating business investment in innovation, a key recommendation was the use of more direct measures.⁵

Providing direct support would have the dual benefit of making government support for innovation accessible to a wider range of businesses and organisations, including small business, as well as ensuring better targeting and integrity of the scheme. Universities Australia commends the Government on seeking policy levers to increase industry investment in research and development. UA encourages the Government to increase the options available to business to support their R&D efforts and stimulate further business investment in R&D.

Industry-university collaboration is a longstanding policy objective of the Government. It also potentially couples with other policy objectives such as improving the resilience of Australia to bushfires, and the recently announced approach by the Prime Minister to meet the challenges of climate change through investments in technology.

¹ OECD, Main Science and Technology Indicators database (2020).

² *Ibid.*

³ *Ibid.*

⁴ OECD, Main Science and Technology Indicators database (2020) and ABS Cat. No. 8104.0 (2019).

⁵ Innovation and Science Australia, *Stimulating business investment in innovation*, p. 7.

Work by EY, commissioned by Universities Australia, shows that in 2018-19, every dollar invested by business in university/business collaboration returns on average \$4.47. This equated to a direct benefit to business of \$12.8 billion, a resulting contribution to GDP of \$26.5 billion in 2018-19. It also resulted in an estimated 38,500 full time equivalent jobs.⁶

COLLABORATION PREMIUM

In the second reading of the Bill, the Treasurer stated that the measures contained in the Bill respond to the findings of the 'three F's' Review of the RDTI.⁷ UA encourages the Government to accept Recommendation Two of the Review and introduce a premium rate to the RDTI for businesses that collaborate with universities and publicly funded research agencies. The introduction of a premium rate to the RDTI for businesses that collaborate with universities and publicly funded research agencies would encourage business to access expertise and resources inside these institutions, which would have the effect of significantly increasing the spillovers associated with both public-sector and business R&D.

Universities Australia recommends:

- (1) that any savings recouped from changes to the RDTI be applied into direct incentives for R&D; and
- (2) the introduction of a collaboration premium to the RDTI.

⁶ <https://www.universitiesaustralia.edu.au/project/clever-collaborations/>

⁷ The Review of the R&D Tax Incentive (2016), chaired by former Treasury Secretary John Fraser; then Chair of Innovation Australia, Bill Ferris; and Australia's Chief Scientist, Alan Finkel.