

SUBMISSION

Submission to the Treasury

Submission on the Better targeting the Research and Development Tax Incentive – exposure draft

28 September 2026

The Australian Academy of Technological Sciences and Engineering (ATSE) is a Learned Academy of independent, non-political experts helping Australians understand and use technology to solve complex problems. Bringing together Australia's leading thinkers in applied science, technology and engineering, ATSE provides impartial, practical and evidence-based advice on how to achieve sustainable solutions and advance prosperity.

The Research and Development Tax Incentive (R&DTI), as Australia's largest mechanism supporting business investment in Research and Development (R&D), is a cornerstone of the innovation system. The R&DTI accounts for approximately 30% of all Australian Government R&D funding (DISR, 2025).

ATSE welcomes the Government's ambition, announced in the 2026-27 Federal Budget, to reform the R&DTI to stimulate additional business investment in R&D. Longstanding issues with the R&DTI include insufficient targeting and administrative complexity, with concerns that some supported activities would have occurred regardless of the incentive. The proposed changes go some way to rectifying these issues, but some elements of the reforms risk undermining the objective of stimulating the innovation ecosystem.

ATSE welcomes several elements of the package that will support growing, R&D-intensive businesses: the 4.5 percentage point increase in all offset rates, raising the turnover threshold for the refundable offset from \$20 million to \$50 million, which allows scaling companies to retain access as they grow, increasing the maximum expenditure threshold to \$200 million, reducing the intensity premium threshold to 1.5 per cent, and retaining the exemption from the minimum expenditure threshold for expenditure with research service providers and Cooperative Research Centres. ATSE's comments below focus on the companies that would be worse off under the package. These are older, pre-profit deep tech and life sciences companies and companies whose R&D relies on activities such as prototyping and trial manufacture. It also considers targeted adjustments to address these impacts.

ATSE has also provided a submission to the concurrent consultation on the Innovative Business Capital Gains Tax (CGT) Concession, provided here as an appendix. Together, these two reforms could support the national innovation system, but if improperly designed, they could harm an already fragile sector and inadvertently contribute to offshoring. ATSE makes the following recommendations to improve the R&DTI reforms:

Recommendation 1: Target the refundability limit more precisely: measure the ten-year period from first R&DTI registration only, extend the fifteen-year period to other long-horizon R&D, and remove the requirement for therapeutic goods entities to register within their first ten years.

Recommendation 2: Create a simplified set of administrative requirements for start-ups and small companies, as recommended by the Ambitious Australia report, in the next stage of the Government's response.

Recommendation 3: Create an incentive for collaborative R&D undertaken with universities, research institutes and government agencies, such as a collaboration premium, in the next stage of reforms.

Recommendation 4: Retain eligibility for activities integral to R&D, such as prototyping, trial manufacture and clinical trial supply, at least for companies with aggregated turnover below \$50 million, and issue guidance on the boundary of eligible R&D activities before the reforms commence.

Recommendation 5: Publish annual program data on the reforms by company age, size and sector, and commission an independent review of the R&DTI and Innovative Business CGT Concession reforms within three years of commencement.

Allowing for time horizons to support innovation

Limiting access to the refundable offset to the first ten years after an entity first carries on an enterprise or registers for the R&DTI (or 15 years for R&D related to therapeutic goods) does not reflect the time many R&D-intensive companies take to reach profitability. Companies beyond this period would retain the highest offset rate, but as a non-refundable offset, which has value only once the company is in tax profit. Unused offsets are carried forward subject to the loss recoupment rules, so venture-backed companies that raise new equity or are acquired may lose them altogether. For pre-profit deep tech and life sciences companies, the practical effect could be the loss of the incentive rather than its deferral.

There is no publicly available evidence supporting ten years as a suitable timeframe, and 15 years is more commonly associated with the translation of research outcomes in the life sciences sector. Product development in therapeutics can take well over a decade, with part of this being trials and regulatory approvals – activities that are critical to resulting in robustly tested, safe products. Long timeframes are also typical in the deep tech sector. DISR holds registration data that could show how many entities currently

receiving the refundable offset are more than ten years old, and in which sectors. ATSE recommends that this analysis be published, and that any limit be set using evidence on businesses that conduct R&D (whether currently accessing the R&DTI or not).

ATSE recognises the Government's concern that ongoing refunds to long-established, loss-making entities may deliver limited additional R&D. However, a blunt age limit will also capture companies whose R&D is genuinely long-horizon. A more targeted design would: measure the period from first R&DTI registration only, rather than the earlier of registration and first carrying on an enterprise, which disadvantages companies that trade before beginning R&D; extend the fifteen-year period beyond therapeutic goods to other long-horizon R&D, such as engineering biology, quantum technologies, advanced materials and space; and remove the requirement for therapeutic goods entities to have registered within their first ten years, which excludes companies that move into therapeutics later. Treasury should also confirm how the connected entity rules would apply to spinouts connected to older organisations, such as universities or corporate parents. The age tests in the R&DTI and the proposed Innovative Business CGT Concession also differ: ten years (or 15 for therapeutic goods) from the earlier of first carrying on an enterprise or first registering for the R&DTI, compared with 15 years from incorporation for the CGT concession, with different treatment of related entities. Aligning these tests would reduce complexity for companies and investors, and ATSE encourages Treasury to consider the two reforms together.

Recommendation 1: Target the refundability limit more precisely: measure the ten-year period from first R&DTI registration only, extend the fifteen-year period to other long-horizon R&D, and remove the requirement for therapeutic goods entities to register within their first ten years.

Supporting innovation in start-ups and small companies

Administrative simplification is required to empower start-ups to access the scheme. This was highlighted as an opportunity in the Ambitious Australia: Strategic Examination of Research and Development report (Denholm, Chubb, Wood & Cornick, 2026). The Ambitious Australia report also highlighted the extent to which businesses rely on specialist R&D tax consultants to navigate the scheme, representing an inefficient use of resources that could otherwise be directed towards R&D.

While the Ambitious Australia report proposed simplifying the R&DTI, and the explanatory memorandum for the R&DTI reforms recognises this, it is not being implemented as the Ambitious Australia report envisioned. Creating separate streams for start-ups and small companies, as proposed in the Ambitious Australia report based on the authors' extensive consultations with the sector, would be a more effective way to stimulate innovation investment in early-stage businesses. These streams would ideally be administratively simple enough that these companies do not need to spend large sums on consultants. By lowering barriers to access, the R&DTI would be better positioned to support the growth of innovative Australian companies. The explanatory materials describe this package as the first stage of the Government's response to the Ambitious Australia report. ATSE encourages the Government to commit to simplified streams for start-ups and small companies in the next stage.

ATSE notes that the minimum expenditure threshold will increase from \$20,000 to \$50,000, which will exclude the smallest start-ups from the scheme. ATSE welcomes the retention of the exemption for expenditure with research service providers and Cooperative Research Centres, which preserves an entry point for small companies that collaborate with research organisations. The impact of the higher threshold on early-stage companies should be included in the monitoring recommended below.

The R&DTI can also be designed to encourage particular types of R&D ATSE has [previously recommended](#) reforming the R&DTI to better target additionality, national priorities and collaboration (ATSE, 2025). The R&DTI could also create a premium to drive collaboration and strengthen the innovation sector. The 2016 Review of the R&D Tax Incentive recommended a collaboration premium for R&D undertaken with publicly funded research organisations (Ferris, Finkel & Fraser 2016). A premium rate for expenditure with universities, research institutes and government research agencies would strengthen research translation, and could be designed within the fiscal parameters of the next stage of reforms.

Recommendation 2: Create a simplified set of administrative requirements for start-ups and small companies, as recommended by the Ambitious Australia report, in the next stage of the Government's response.

Recommendation 3: Create an incentive for collaborative R&D undertaken with universities, research institutes and government agencies, such as a collaboration premium, in the next stage of reforms.

Defining eligible R&D activities to support innovation

The proposed removal of an incentive for supporting R&D activities highlights a lack of definitional clarity and the risk that innovation will be reduced under the changes.

Core R&D activities are defined in section 355-25 of the ITAA 1997, but the boundary between core and supporting activities is often unclear in practice, and many activities integral to R&D have been claimed as supporting activities. Guidance on eligible R&D activities should capture the full range of activities necessary to generate, test and validate new knowledge and technologies. Clearer guidance would also contribute to administrative simplicity.

The changes would exclude supporting R&D activities that enable R&D to happen, such as creating prototypes, analysing data, and validation activities. Removing the incentive for these activities could impact what R&D is conducted, particularly in smaller companies. A broader approach to eligibility, as set out below, would address this issue.

For example, it is unclear whether Phase III clinical trials, and the manufacture of product for clinical trials, would qualify as R&D activities under the new law. International evidence finds that process development and manufacturing account for 13-17% of total R&D expenditure for biopharmaceutical companies (Farid, Baron, Stamatis, Nie & Coffman 2020). Confirming that these activities remain eligible would support the sector's capacity for innovation. Defining these explicitly as core R&D would be beneficial to the sector's capacity for innovation. Clinical manufacturing is high-risk and a major cost for companies, often requires overseas facilities and is critical to advancing a new compound into the clinic.

Another option is to enable smaller companies to continue accessing the R&DTI for supporting because they are least able to absorb the loss of this support. This could apply to companies with aggregated turnover below \$50 million, consistent with the refundable offset threshold.

Recommendation 4: Retain eligibility for activities integral to R&D, such as prototyping, trial manufacture and clinical trial supply, at least for companies with aggregated turnover below \$50 million, and issue guidance on the boundary of eligible R&D activities before the reforms commence.

Monitoring impacts of the reforms

The reforms to the R&DTI and the CGT concession represent major changes to innovation policy settings. To determine whether these reforms are working, and whether they have had adverse, unforeseen impacts, ongoing monitoring is needed.

Existing measures such as Business R&D expenditure (BERD) levels and the Australian Innovation Statistics could provide a foundation for examining whether the reforms are working. Monitoring these indicators over time would help evaluate additionality. Another aspect to measure or consult businesses on would be compliance costs, including usage of R&DTI consultants – if administrative simplicity is achieved, the spend should be decreased. Monitoring both innovation outcomes and administrative impacts would provide greater confidence that the reforms are supporting the broader objectives of strengthening Australia's innovation system. As BERD data are published only every two years and with a lag, program data from DISR and the ATO – on the number, age, size and sector of claimants, and on refundable and non-refundable offsets claimed – should be published annually, including the effects of the higher minimum expenditure threshold and of removing supporting R&D activities. An independent review within three years of commencement would allow settings to be adjusted if the reforms are found to be reducing R&D among the affected groups.

Recommendation 5: Publish annual program data on the reforms by company age, size and sector, and commission an independent review of the R&DTI and Innovative Business CGT Concession reforms within three years of commencement.

ATSE thanks the Treasury for the opportunity to respond to the Better targeting the Research and Development Tax Incentive – exposure draft. For further information, please contact academypolicyteam@atse.org.au.

References

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Appendix: ATSE Submission on the Innovative Business CGT Concession – exposure draft legislation

The Capital Gains Tax (CGT) reforms announced in the 2026-27 Budget were designed to rebalance how labour and assets are taxed, encouraging investment in more productive economic activity. While these reforms did not target innovation-intensive businesses, the need for a carve-out was identified to avoid adverse outcomes for innovation and productivity growth. The proposed Innovative Business CGT Concession (IBCC) would preserve a 50 per cent CGT concession for equity invested directly in young, innovative Australian companies, supporting the private investment that carries research through development to commercialisation. This occurs in the context of constrained public funding for R&D and workforce development, making the tax system a more significant lever for stimulating private investment in R&D. ATSE has also provided a submission to the concurrent review of the R&D Tax Incentive, provided here as an appendix, noting the interactions between these two sets of reforms.

ATSE previously contributed a [submission](#) to the Senate inquiry into the CGT reforms, noting the short timeframe of that inquiry did not allow for a full examination of the issues (ATSE 2026). The submission highlighted the risk that the reforms would exacerbate the existing 'missing middle' in innovation finance, where innovative start-ups risk failure or moving offshore as they move towards commercialisation. The submission suggested that the changes would reduce innovative businesses' ability to attract initial investment, as early-stage investment would no longer offer such a high potential reward. The submission also noted that the changes would reduce start-ups' ability to attract top talent, as start-ups often partially pay early employees with equity to compensate for low wages. The Senate inquiry's final report cited ATSE's submission, alongside evidence from other stakeholders, in recognising the likely adverse impacts of the reforms on innovation.

ATSE welcomes the creation of a CGT concession for early-stage investors, founders and employee share scheme participants in innovative businesses. The question now is whether the proposed design is sufficient to support long-term innovation and productivity growth. Several aspects of the proposed design risk limiting its effectiveness in supporting the innovation system. This submission draws on the views of ATSE Fellows with experience in founding, investing in and scaling innovative companies. ATSE's recommendations are intended to be targeted and fiscally contained, consistent with the Government's objective of focusing the concession on genuine innovation start-ups. ATSE makes the following recommendations:

Recommendation 1: Measure the eligibility period from a company's first commercial sale rather than its incorporation or provide a longer period for companies that must complete lengthy regulatory pathways.

Recommendation 2: Allow new equity issued directly by small listed companies, below a defined size threshold, to qualify as IBCC assets.

Recommendation 3: Ensure the affiliate rule and the innovation test do not exclude university and research institute spinouts, including through a safe harbour for spinouts from publicly funded research organisations.

Recommendation 4: Support sectoral certainty by indexing or periodically reviewing the turnover cap.

Recommendation 5: Protect investors from losing the concession because of a company's administrative failures.

Recommendation 6: Commit to an evaluation of the IBCC within five years of commencement, including its effects on capital raising and business expenditure on R&D.

Allowing for time horizons to support innovation

An unresolved issue in the draft legislation is that the proposed fifteen-year eligibility limit from incorporation would still exclude much of the capital that innovative start-ups need, particularly in the deep tech and biotechnology sectors. Because eligibility is tested when shares are issued, the limit does not affect early investors whose exit comes after fifteen years. Its effect is on later funding rounds: capital raised after a company's fifteenth year, often the larger rounds that fund late-stage clinical trials, manufacturing scale-up and market entry, would not qualify.

The proposed fifteen-year limit is an improvement compared to the initially proposed ten-year limit. However, many innovative businesses need significantly longer periods to progress from research and

development through to regulatory approvals, commercialisation and scale-up, and continue to need substantial new capital well beyond their fifteenth year. This aspect compares unfavourably to the equivalent UK regime, the Enterprise Investment Scheme, which measures eligibility from the company's first commercial sale rather than its date of incorporation, allowing seven years after first sale (or ten years for knowledge-intensive companies) (British Business Bank 2026). As another international comparison, the United States' qualified small business stock regime has no age limit, relying instead on a gross assets test at the timeshares are issued (Santolli, Allison & Benson 2025). Alternatively, start-ups may undertake activities such as discovery research, proof-of-concept development, and understanding market conditions before incorporating.

CASE STUDY: MCI CARBON

MCi Carbon is an Australian cleantech company founded in 2013. They aim to scale a mineral carbonation, a technology that turns industrial carbon dioxide emissions into useful materials. In 2026, its demonstration plant in New South Wales started production. MCi Carbon has attracted capital through numerous channels including from the Australian and New South Wales Government, Japanese corporations and a first customer in Europe. Thirteen years out from its founding, MCi Carbon has demonstrated its technology and is in the early stages of commercialisation, illustrating the extended timeframes seen in even successful deep tech companies.

For the biotechnology sector, activities such as clinical trials and regulatory approvals can take many years. While the average time from incorporation to an exit event or other commercial success event is not known, prominent examples of Australian companies demonstrate long timeframes. Telix Pharmaceuticals – considered an exceptional success story – took seven years between founding and first major regulatory approval, and close to ten years to become profitable. Viralytics took eighteen years to be acquired. 4DMedical took seven years from founding to ASX listing, and twelve years from founding to FDA clearance for its technology. These successes are not necessarily representative of the broader sector, where it can take decades, if ever, to reach profitability. Each of these companies also listed on the ASX well before a commercial success event, so under the proposed design the capital they raised after listing would not have qualified regardless of their age (see Recommendation 2).

Capping the timeframe to fifteen years would result in some innovative companies being arbitrarily excluded. More importantly, this would discourage investment in high-risk ideas that are less likely to achieve commercialisation within that period. The fifteen-year eligibility limit would also incentivise undesired behaviours such as delaying incorporation, or raising capital before the fifteen-year mark rather than when the company is ready, which at scale would undermine the innovation ecosystem.

ATSE recognises the Government's intention that the concession be limited to genuine start-ups. A more targeted approach would be to measure eligibility from a company's first commercial sale, consistent with the UK approach, or to provide a longer period for companies that must complete lengthy regulatory processes such as TGA or FDA approval. In either case, analysis of typical timeframes from founding to major capital raisings for innovative start-ups is required to develop a suitable limit. This dataset would need to consider all innovative businesses, not just those which have become exemplars in the sector.

Recommendation 1: Measure the eligibility period from a company's first commercial sale rather than its incorporation or provide a longer period for companies that must complete lengthy regulatory pathways.

Supporting the scale-up of innovative businesses

The proposed requirement that eligible companies remain unlisted would exclude a significant cohort of innovative Australian businesses. Unlike larger overseas markets such as the United States, where private finance is abundant, some Australian start-up companies list early to raise capital to develop their technology.

The proposed changes may result in an unintended consequence of founders taking their companies overseas to more favourable policy settings. In an ideal innovation ecosystem, capital would be available at

each stage of growth, with listing being a real opportunity for early investors to exit, rather than listing early being sought in the absence of sufficient venture capital. As a result of current settings, there are many small biotech companies listed on the ASX that should still be able to access the concession. Restricting the concession to unlisted companies risks disadvantaging innovative businesses that have listed primarily to overcome funding constraints rather than because they have reached commercial maturity. ATSE notes that the transitional rules allow companies listed before 11 September 2026 to register for existing investments. However, new equity issued by these and future small listed companies would not qualify. The UK Enterprise Investment Scheme treats companies quoted on the Alternative Investment Market (AIM) as eligible, and the US qualified small business stock regime applies a gross assets test rather than excluding listed companies. Because the IBCC already requires equity to be issued directly by the company, allowing small listed companies to qualify would support new capital raisings such as placements without extending the concession to secondary market trading.

Recommendation 2: Allow new equity issued directly by small listed companies, below a defined size threshold, to qualify as IBCC assets.

Providing certainty for the innovation sector

The proposed Innovative Business CGT Concession seeks to encourage investment in innovation, which would otherwise be dampened by the broader CGT reforms. Certainty for the sector is imperative to improve investment conditions and reduce inefficiencies. The proposed concession should be considered primarily through the lens of its effect on Australia's innovation ecosystem rather than its impact on early-stage investors. By reducing attractiveness to early-stage investors, their capital may flow elsewhere, including offshore. Simultaneously, founders may also take their valuable ideas offshore to attract that capital.

CASE STUDY: CELLESTIS

Cellestis was an Australian biotechnology company that developed the QuantiFERON diagnostic test for tuberculosis, a leading, guideline-endorsed test for tuberculosis infection. The company was co-founded by ATSE Fellow Dr Anthony Radford AO FTSE in 2000. They listed on the ASX in 2001. Following this, they raised another \$2.5 million in 2003, and then another \$15 million, before being acquired by Qiagen in 2011. Under an IBCC framework that excluded publicly listed companies, the \$17.5 million Cellestis raised after listing would not have qualified, although its pre-IPO investors would have retained eligibility. Cellestis listed early to raise the capital it needed to develop its technology.

This is particularly significant in the context of the Ambitious Australia: Strategic Examination of Research and Development (SERD) report. A long-standing challenge for Australian governments has been the difficulty of progressing promising research through to successful commercialisation. Tax settings should support this transition, particularly where private capital is being deployed to bridge the gap between research and market adoption.

The exposure draft requires companies to satisfy an innovation test, with the detailed criteria to be specified in a separate legislative instrument. It is important for the innovation test to be fit-for-purpose for the pathways through which innovation commonly occurs, including university and research institute spinouts. A particular risk arises from the affiliate rule, which excludes a company that acts in accordance with the directions or wishes of a company incorporated for 15 or more years. Universities, CSIRO and medical research institutes are long-established bodies corporate, and early-stage spinouts in which they hold a controlling interest could be excluded on this basis. The legislation or a safe harbour should make clear that a controlling interest held by a publicly funded research organisation does not, by itself, disqualify a spinout. A further consideration for the innovation test is administrative simplicity, to avoid the inefficiencies seen in the R&D Tax Incentive where companies often pay consultants to assist them in accessing the scheme. ATSE also notes that a broader review of the Early Stage Innovation Companies (ESIC) framework would

support the reforms to the Innovative Business CGT concession and R&D Tax Incentive to better encourage private investment at the earliest stages of commercialisation.

The exposure draft also applies a cap of \$50 million aggregated turnover. To future-proof the legislation and provide greater certainty for businesses and investors, Treasury could consider indexing or periodically reviewing the cap.

Under the exposure draft, if an IBCC company does not lodge its annual report on time, its registration is automatically suspended and, if the failure is not remedied within the income year, cancelled. This permanently disqualifies investors' equity from the concession. Investors, including employees holding shares through employee share schemes, have no control over a company's administrative compliance, and the risk of losing the concession in this way will be priced into investment decisions. ATSE suggests that investors be notified of any suspension, and that cancellation for administrative failure should not disqualify equity issued before the failure.

Recommendation 3: Ensure the affiliate rule and the innovation test do not exclude university and research institute spinouts, including through a safe harbour for spinouts from publicly funded research organisations.

Recommendation 4: Support sectoral certainty by indexing or periodically reviewing the turnover cap.

Recommendation 5: Protect investors from losing the concession because of a company's administrative failures.

Evaluating the concession's impacts on innovation

The concession should also be evaluated. ATSE recommends that the Government commit to a review of the IBCC within five years of commencement. The review should draw on registration and annual reporting data on the age of companies at each capital raising, the amount and source of capital raised, and effects on business expenditure on R&D. This would provide the evidence base for adjusting the eligibility period, turnover cap and listing restriction over time.

Recommendation 6: Commit to an evaluation of the IBCC within five years of commencement, including its effects on capital raising and business expenditure on R&D.

ATSE thanks the Treasury for the opportunity to respond to the Innovative Business CGT Concession – exposure draft legislation. For further information, please contact academypolicyteam@atse.org.au.