

RESPONSE TO THE

# Review of the R&D Tax Incentive

OCTOBER 2016

# THE AUSTRALIAN ACADEMY OF TECHNOLOGY AND ENGINEERING (ATSE)<sup>1</sup> RESPONSE TO THE REVIEW OF THE R&D TAX INCENTIVE

ATSE generally supports the outcomes of the review of the R&D Tax Incentive (the Review). The reviewers have produced a clear and considered analysis of the scheme, along with a sensible set of recommendations for how it can be strengthened and improved. It is vital that this investment of almost \$3 billion be maximised to provide an effective incentive for collaboration and innovation.

## Collaboration

The Review has recommended (Recommendation 2) a premium rate to the Incentive for businesses that collaborate with publicly funded research organisations – universities and research agencies. This recommendation mirrors international evidence gathered by ATSE, which shows a number of high performing innovation countries that offer premium rates for collaboration in their tax incentive schemes. The panel's recommendations were based on the finding that the current Incentive does not encourage collaborative R&D, citing evidence that collaboration more than triples the likelihood of business productivity growth. Introducing a premium rate for collaboration will complement other measures in the National Innovation and Science Agenda (NISA) aimed at boosting engagement between industry and research, such as the introduction of metrics to measure and incentivise collaborative behaviours by researchers and universities.

Significantly, the Review recommends that this premium rate be available to businesses that employ recent PhD graduates, echoing a finding from the Australian Council of Learned Academies (ACOLA) review of research training that the value of higher degree graduates be made more evident to Australian industry. Consistent with the ACOLA review, the Government should consider extending this provision to recent research Masters degree graduates.

It is worth noting that one of the objectives of the original R&D tax concession, when introduced in 1985, was to improve linkages between business and public sector research organisations. Given that the Incentive represents such a significant amount of public money being directed to private businesses, it is important to ensure that this tax expenditure derives an additional benefit to the nation through improved collaboration. The proposed collaboration premium provides an elegant way to do this without penalising businesses that are unable to participate in collaborative partnerships.

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<sup>1</sup> ATSE advocates for a future in which technological sciences, engineering and innovation contribute significantly to Australia's social, economic and environmental wellbeing. The Academy is empowered in its mission by some 800 Fellows drawn from industry, academia, research institutes and government, who represent the brightest and the best in technological sciences and engineering in Australia. The Academy provides robust, independent and trusted evidence-based advice on technological issues of national importance. ATSE fosters national and international collaboration and encourages technology transfer for economic, social and environmental benefit.

## Definition of research and development

ATSE maintains that the definition of eligible activities and expenses under the legislation does need further refinement, to ensure that the Incentive targets additional R&D activities with the potential for spillovers. The Academy also recognises that the scheme needs a continued period of operation to properly identify further areas of improvement. On this basis, ATSE considers that the new guidance proposed in Recommendation 1, provided it is robust and enforceable, should be sufficient to give certainty to the businesses and organisations participating in the scheme. Testing this approach over the next two years should be sufficient to identify whether further refinement is necessary.

## Stability and consistency

Stability through consistency will be the key to the success of the Incentive. As highlighted in ACOLA's Securing Australia's Future report 09 "*Translating research for economic and social benefit: country comparisons*", which assessed international experience, it is apparent that a commitment to a stable and consistent approach to R&D and collaboration incentives is important. This can be achieved with an effective and coherent set of policies with long term bipartisan support along with a range of other measures. Of critical importance is the principle that the Incentive remain largely stable for an extended period, so while the Academy supports these efforts to improve and adjust the scheme, its fundamental basis must remain the same to provide policy certainty to businesses.

The SAF09 also report found that "most leading practice countries have well-resourced and coordinated innovation strategies, which provide a reference point to guide the selection of policy and program options"<sup>2</sup>. Further to the National Innovation and Science Agenda, an approach that is supported by an agency established to oversee this, such as Innovation and Science Australia (ISA), would help achieve this objective. ISA should be given responsibility for monitoring the performance of the Incentive and recommending to Government, after a sufficient operational period, adjustments that may be valuable. The Incentive should also operate in the context of the broader innovation strategy currently being developed by ISA

## Summary

It is difficult for the Academy to come to a considered position on the other recommendations of the Review – such as the introduction of an intensity test, a cap on the refundable element, or the lifting of the expenditure cap – without the benefit of the modelling or evidence considered by the Review panel. ATSE strongly encourages the Government to release this information with its response to the Review.

The recommendations of the Review, along with initiatives such as research engagement measures, have the potential to significantly improve our innovation performance. The Government needs to ensure it is working to encourage the best from all the parties involved in the innovation system, allowing each to use their strengths to cooperate effectively. If this can be achieved, it could open the way for a new and exciting era where Australia's high quality research is successfully translated to drive the high tech industries that create high value jobs and export opportunities.

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<sup>2</sup> ACOLA, *Translating research for economic and social benefit: country comparisons*, 2015