



**Private & Confidential**

Committee Secretary  
Senate Economics Legislation Committee  
Department of the Senate  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

**Sent by email:** [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

4 March 2020

Dear Sir/Madam

***Inquiry into the provisions of the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019***

PricewaterhouseCoopers (**PwC**) appreciates the opportunity to make a submission on the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 (the Bill)*. As a National R&D practice we have in excess of 30 years of experience working with both the Research and Development Tax Incentive (RDTI) program and the preceding R&D Tax Concession. We have drawn on this experience here to provide our perspective on the Bill.

As a statement of general principle, we remain strongly supportive of the RDTI. We consider the RDTI plays a vital role in stimulating additional R&D investment in Australia from companies of all sizes and across all sectors of the economy. In our view, R&D is a key driving force of productivity and economic growth. A study conducted for the Government by the Centre for International Economics (CIE) in 2016 concluded that the program stimulates considerable additional benefit. The CIE's conclusions on this point are also emphatically reinforced by the findings of Swinburne University.

Collectively, these comprehensive academic and analytical reports confirm that the R&D Tax Incentive is already a highly-effective program, that it does encourage significant additional R&D spending and spillovers in Australia, and that it has helped to nurture a stunning 13 to 14% increase in business R&D expenditure even in the short period since it has replaced the R&D Tax Concession.

We acknowledge the stated objective of better targeting the RDTI and understand the desire of the Government to gain a fiscal saving to the Budget of \$1.8 billion over the current forward estimates (as revised since 2018-2019 Budget announcement). That said, we do not consider the proposed changes to be made by the Bill achieve the stated objective and respectfully suggest that significant fiscal savings have already been delivered through a combination of a substantial decline in business

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expenditure on R&D, strict administration of the RDTI program from both AusIndustry and the Australian Taxation Office (ATO), as well as uncertainty for companies due to multiple proposals for changes to the R&D legislation since 2012.

The proposed reforms to the RDTI were first announced as part of the 2018-19 Budget and legislation to give effect to the changes was introduced to Parliament in *Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax In Australia And Other Measures) Bill 2018* (2018 Bill). The 2018 Bill was subsequently referred by the Senate to the Economics Legislation Committee (SELC) for inquiry and their report was issued in February 2019. Importantly the 2018 Bill was unanimously rejected by the SELC and expressed the view that the proposed changes be re-examined.

In this regard, the Bill introduced and now under consideration is largely the same as the 2018 Bill, despite the recommendations of the SELC. While a few minor amendments have been made to the 2018 Bill, we respectfully note that the recommendations of the SELC have largely been ignored.

Of particular concern is the proposed introduction of an intensity measure for non-refundable R&D tax offset claimants. We note the SELC expressed the view that the intensity measure “should be re-examined in order to ensure that Australian businesses are not unfairly disadvantaged”.

The revised intensity measure in the Bill will significantly disadvantage a large portion of existing non-refundable claimants, primarily caused by the broadening of the Tier 1 intensity range from 0-2% to 0-4%. In simple terms, for claimants that fall in to the Tier 1 intensity range the level of incentive support will be cut by almost 50% (ie down from 8.5% to 4.5%). At this level of support, we consider a large number of claimants will cease to claim the R&D tax offset and will therefore be “unfairly disadvantaged”.

We cannot identify any other regime worldwide that has a similar mechanism to limit access to the program unless a company reaches a specific level of intensity. In our view, the intensity measure should be scrapped.

Finally, we note that nearly every submission made to the SELC opposed the 2018 Bill. Given this Bill is substantially the same as the 2018 Bill, we anticipate a similar level of opposition will be submitted. We consider the Bill should be rejected in its entirety and alternative measures considered to achieve the stated objective.

Yours sincerely



**Richard Gregg**

Partner

National Leader, R&D and Government Incentives

