

SUBMISSION TO THE INQUIRY INTO THE TREASURY LAWS AMENDMENT (MAKING SURE MULTINATIONALS PAY THEIR FAIR SHARE OF TAX IN AUSTRALIA AND OTHER MEASURES) BILL 2018

6 November 2018

Universities Australia welcomes the opportunity to make a submission to the inquiry into the Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 (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. In this submission, our comments are confined to the proposed changes to the Research and Development Tax Incentive (RDTI).

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 that business investment in research and development (R&D) in Australia is in decline and that further changes to the Research and Development Tax Incentive may exacerbate this situation. Universities Australia recommends that any 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 cap on eligible expenditure to \$150 million
- capping the refundable portion of the incentive to \$4 million per annum
- changes to the rates of the scheme's tax offset to:
 - set the refundable offset at 13.5% above the claimant's corporate tax rate
 - link the rate of the non-refundable offset to the claimant's research and development (R&D) intensity, to make the offset progressively increase as the claimant's proportional expenditure on R&D. Companies with a relatively low R&D intensity would expect to see a significant fall in the value of the offset.

These changes will not affect universities, which are not-for-profit charities, 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.

The importance of business research and development

Research, development and innovation are critical to the prosperity of the Australian economy. Innovation is a key driver of productivity growth, and hence vital to the economic and social wellbeing of the community. Public and private sector R&D are both important to the national welfare. As explained by the Australian Council of Learned Academies:

“Private sector knowledge is a source of positive benefits (spill-overs) to productivity. This implies that innovative activity has broad benefits that diffuse throughout the economy. Public sector R&D expenditure by Australian Government research agencies ...and the universities have strong spill-over benefits and are important sources of gains in productivity.”¹

The world’s leading economies recognise the importance of R&D and invest accordingly. The intensity of Australia’s R&D effort, at 1.88 per cent of gross domestic product, lags behind our competitors and is well below the OECD average of 2.38 per cent.² In particular, business expenditure on R&D is set on an alarming trajectory. In relative terms, the intensity of Australian business expenditure on R&D as a proportion of gross domestic product has been in decline for almost a decade (see figure 1). Even more worryingly, Australia’s business R&D declined in nominal terms in 2015-16 - the first time this has occurred since OECD records began.³

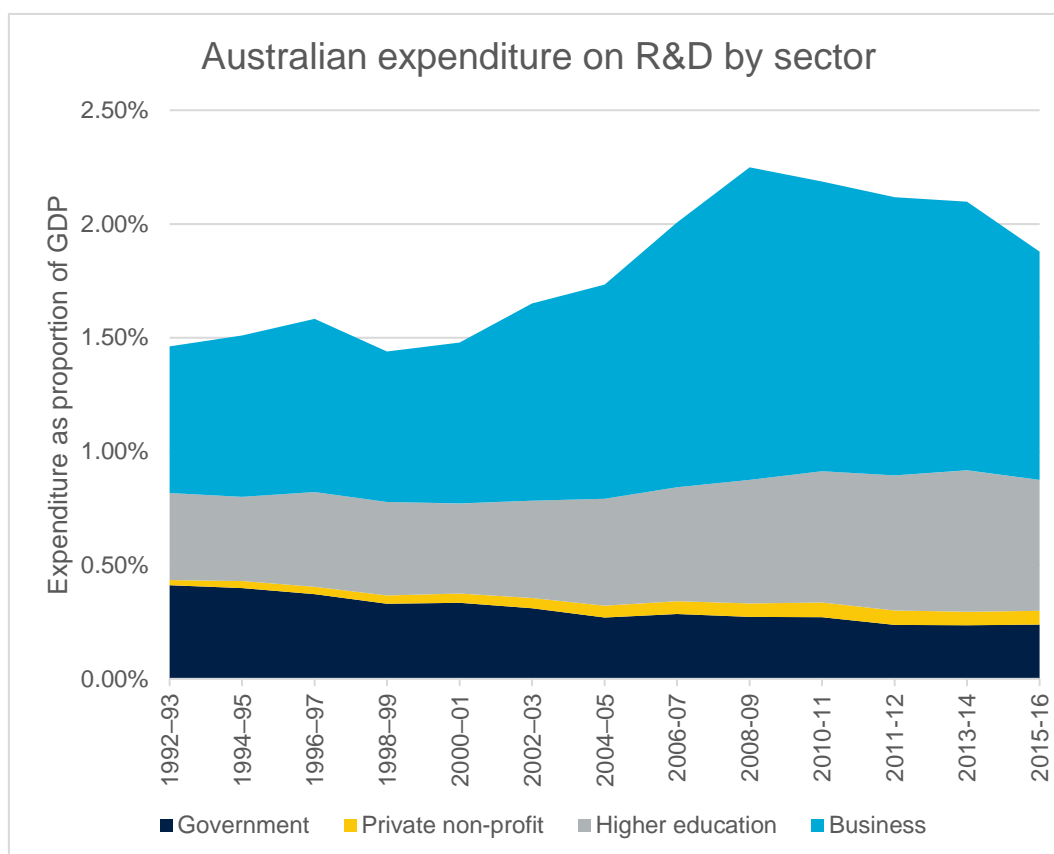


Figure 1: Australian expenditure on R&D by sector. Source: Australian Bureau of Statistics, *Research and Experimental Development, Businesses, Australia*, various releases.

¹ Bell, J, Frater, B, Butterfield, L, Cunningham, S, Dodgson, M, Fox, K, Spurling, T and Webster, E 2014, *The role of science, technology and research in lifting Australian productivity*, Australian Council of Learned Academies, Melbourne, p.134.

² Australian Bureau of Statistics 2017, *Research and Experimental Development, Businesses, Australia*; Organisation for Economic Cooperation and Development 2017, *Science, technology and industry scoreboard*, Paris, p.99

³ ABS 2017 op cit.; Organisation for Economic Cooperation and Development, *Main Science and Technology Indicators*, accessed 10 June 2018.

Reducing incentives to undertake business R&D in Australia

Universities have a strong interest in the success of business R&D, and the development of an innovative economy more generally. Innovative economies provide higher value jobs for their citizens and provide greater opportunity for knowledge-intensive economic activity, providing for greater social and economic wellbeing. Universities often conduct applied research in partnership with business, with industry providing a pathway for discoveries to be developed and commercialised. Just as universities provide the backbone of Australia's R&D capability, business R&D has a strong role in the innovation chain through developing products and services based on research, as well as finding and developing markets for them.

Universities Australia is concerned about any proposals that may reduce the amount of business R&D conducted in Australia. Several elements of the Bill including the cap on the refundable portion of the RDTI and reductions in the effective rate of the RDTI, through the inclusion of progressive research intensity thresholds, may reduce the incentive to conduct R&D in Australia.

Frequent changes to the RDTI undermine confidence

More broadly, Universities Australia also cautions against undermining confidence in the business innovation system through frequent changes to the RDTI. Australia's system of support for business innovation relies almost completely on the single pillar of the RDTI, with relatively small amounts of support also available through the Entrepreneurs' Program, as well as state and territory government programs. As the business innovation system is therefore reliant on a single program, any changes to that program can affect the confidence of business to invest in R&D in Australia. Universities Australia therefore urges caution in changing policy settings relating to the RDTI to ensure that research activities, capabilities and partnerships that take a long time to build, are not weakened through undermining confidence in the RDTI.

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. 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 is also concerned by the disconnect between government policy that encourages business and universities to work more closely together yet provides little support to businesses who wish to take advantage of Australia's world-leading university R&D capability. 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 notes that the introduction of a collaborative premium was recommended by the Review of the R&D Tax Incentive and we would encourage the adoption of this recommendation.

Universities Australia recommends that any savings recouped from changes to the RDTI be applied into direct incentives for R&D, and the introduction of a collaboration premium to the RDTI.