



Regional Universities Network Submission on the Report of the Review of the R&D Tax Incentive

The Regional Universities Network (RUN) welcomes the opportunity to comment on the Research and Development (R&D) Tax Incentive Review. The report's recommendations, if implemented, would improve the effectiveness and integrity of existing R&D Incentives. In particular, they would help to encourage greater collaboration between firms and publicly funded research organisations, including universities, and complement other recent Government initiatives, such as the National Innovation and Science Agenda.

This submission supports the general thrust of the report and proposes several further enhancements. RUN urges the Government to ensure that it is responsive to the interests of small-medium enterprises (SMEs), as the cornerstone of Australian industry, particularly in regional Australia, and that it encourages SMEs to increase their innovation activity by collaborating with publicly funded research organisations.

Background

Regional Universities Network

RUN's six universities (CQUniversity, Federation University Australia, Southern Cross University, University of New England, University of the Southern Queensland, University of the Sunshine Coast), all headquartered in regional Australia, perform a growing share of Australia's highly ranked research. The quality of our research is nationally recognised, with key disciplines ranked at the highest international standards in the Excellence in Research for Australia (ERA) assessment, including:

- Agriculture, land and farm management; animal production; crop and pasture production; forestry sciences; geochemistry; geology; oceanography; environmental science and management; soil science; ecology; and zoology;
- Human movement and sports science; nursing; complementary and alternative medicine; other medical and health sciences; psychology and cognitive science; and
- Mathematical sciences including applied mathematics; and materials engineering.

RUN universities recognise the importance of translating research outputs to benefit Australians. Much of our research is performed in close partnership with the users of the research, including regional Australian industries and communities.

Regional Australia's contribution to economic development

Regional Australia plays a vital role in economic growth, national prosperity and productivity and accounts for around 40 per cent of our total economic output.¹ It has been the dominant source of economic growth in mining, agriculture and manufacturing industries since 2001, and has punched above its weight in terms of contributing to growth in industries like healthcare and construction.² Regional Australia exerts a stabilising effect on our overall economic performance - in the aftermath of the Global Financial Crisis, regional Australia accounted for half of Australia's national economic growth.³

Around a third of people employed in Australia are regionally-based. The largest employers are 'Social services' and 'Other services' which each account for more than 30 percent of all employment, followed by high value services at around 10 percent.⁴ Small to medium enterprises (SMEs) and government employ a larger share of the workforce in regional Australia than in metropolitan areas.

Efforts to build upon the productive capacity of our regions and their connectivity to the national economy will be crucial in preserving our living standards in the future.

Comments on the recommendations of the R&D Tax Incentive Review

RUN's position on the relevant recommendations of the Review of the R&D Tax Incentive follow:

Recommendation 2: Introduce a collaboration premium of up to 20 percent for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations. The premium would also apply to the cost of employment new STEM PhD or equivalent graduates in their first three years of employment. If an R&D intensity threshold is introduced (see Recommendation 4), companies falling below the threshold should still be able to access both elements of the collaboration premium (Section 4.2, pg 35).

RUN strongly supports the introduction of a premium for R&D expenditure that is incurred on projects undertaken with publicly funded research organisations, and for the cost of employment associated with recent PhD graduates. These arrangements should lead to marked improvements in Australia's share of innovation-active businesses collaborating with publicly research organisations, and in the return on our public investment in R&D.

RUN urges the Government to consider strengthening the arrangements, as proposed, by either reducing the generosity of the non-refundable component where there is no collaboration (e.g., see recommendation 4), or by introducing a collaboration premium of greater than 20 percent. The former approach could achieve savings while the latter would incur additional outlays.

With respect to applying the collaboration premium to recent PhD graduates, RUN recommends that the period of support be extended from the first three years of employment following graduation to a period of five years or longer. This would harmonise the provisions with those for ARC's Industrial Transformation Training Centres and the Cooperative Research Centres programme which are the Commonwealth Government's leading industry-engaged research training mechanisms. These programmes recognise that longevity of support is required to achieve significant outcomes. Extending the duration of the collaboration premium will provide coverage for the costs associated with employing recent PhD graduates,

¹ Regional Australia Institute, 2015, *The economic contribution of regions to Australia's prosperity*

² Ditto

³ Ditto

⁴ Ditto

post-doctoral fellows working on industry engaged projects and, in some cases, postdoctoral fellows being appointed to industry positions.

The report recommends that the collaboration premium be applied with respect to the employment of recent PhD graduates in STEM disciplines. Research training fosters the development of skills to push the boundaries of existing knowledge in ways that are both rigorous and ethical. The acquisition of these skills is not restricted to PhD graduates in STEM disciplines alone. As much innovation and adoption of new ideas draws on a deep understanding of social, creative and economic issues, as well as a cross-disciplinary approach, RUN urges the Government to extend the collaboration premium to recent PhD graduates in relevant humanities and social sciences disciplines. This would align Australia's approach with the arrangements in a number of other countries.

Recommendation 3: Introduce a cap in the order of \$2 million on the annual cash refund payable under the R&D Tax Incentive, with the remaining offsets to be treated as a non-refundable tax offset carried forward for use against future taxable income (Section 4.3, pg 37).

RUN supports this recommendation. While the \$2 million limit on cash refunds is not high, particularly for firms in some sectors, any remaining offsets may attract beneficial treatment as a non-refundable tax offset carried forward against future taxable income.

Recommendation 4: Introduce an intensity threshold in the order of 1 to 2 percent for recipients of the non-refundable component of the R&D Tax Incentive, such that only R&D expenditure in excess of the threshold attracts a benefit (Section 4.4, pg 39).

Recommendation 5: If an intensity threshold is introduced, increase the expenditure threshold to \$200 million so that large R&D-intensive companies retain an incentive to increase R&D in Australia (Section 4.4, pg 41).

RUN supports these recommendations as they help strengthen the integrity, additionality and effectiveness of the existing R&D Tax Incentive.

Recommendation 6: That the Government investigate options for improving the administration of the R&D Tax Incentive (eg adopting single application process; developing a single programme database; reviewing the two-agency delivery model; and streamlining review and findings processes) and additional resourcing that may be required to implement such enhancements. To improve transparency, the Government should also publish the names of companies claiming the R&D Tax Incentive and the amounts of R&D expenditure claimed (Sections 5.1-5.5, pg 45).

RUN supports the recommendation.