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Dear Business R&D Review,

**Re: Public consultation the R&D Tax Incentive Review report**

The Australian Technology Network of Universities (ATN) supports the central aims of the R&D Tax Incentive Review Report to improve the effectiveness and level of additionality in the R&D Tax Incentive, and to improve the integrity of the programme. In particular, the ATN is strongly supportive of the recommendation to introduce a collaboration premium of up to 20 per cent for R&D undertaken with publicly-funded research organisations, including the employment of PhD graduates for their first three years of employment [recommendation 2].

The R&D Tax Incentive is the largest single instrument available to Government to achieve meaningful change in supporting collaboration between research organisations and business. In and of itself, recommendation 2 is the most decisive of the policy changes that has the potential to significantly improve the levels of collaboration, and jump-start Australia's innovation culture. Incentivising the placement of PhD graduates into business will accelerate the closure of the gap between Australia's research and business sectors. However, to achieve the full effect of this policy measure, the ATN encourages the inclusion of graduates from **non-STEM** disciplines within the remit of the R&D tax collaborative premium, as it is not so much the *disciplinary nature* of what PhD graduates undertake that is of value, rather the research-trained way of identifying and addressing problems, collaborating, and finding solutions. This will be addressed further in addition to other aspects of the report, below.

**Key Points:**

- The ATN endorses the recommendations relating to improving the effectiveness and level of additionality from the R&D Tax Incentive (i.e. recommendations 2, 4, and 5), particularly the collaboration premium R&D taken in partnership with publicly-funded research organisations.
- The ATN encourages the Government to consider the inclusion of **non-STEM** PhD graduates within the remit of the R&D collaboration premium, as these graduates also make valuable contributions to research, development and innovation in business and industry.
- The ATN endorses the recommendations in the review report relating to the integrity of the program, specifically (i.e. recommendations 1, 3 and 6).

## Effectiveness and level of additionality

The ATN endorses the recommendations relating to improving the effectiveness and level of additionality from the R&D Tax Incentive (i.e. recommendations 2, 4, and 5), particularly the collaboration premium R&D taken in partnership with publicly-funded research organisations.

In order to sharpen the effectiveness of this proposed measure, it is suggested that the Government extend the coverage of the collaboration premium to include PhD graduates from **non-STEM** disciplines. While the ATN acknowledges there may be concerns around the sustainability of the incentive overall, there is a strong case for wider inclusion of PhD graduates outside of STEM disciplines. Higher Degree by Research (HDR) training imparts highly specialised skills in analysis and critical thinking which lend themselves to being applied to the adaptive style of problem solving required in an innovation and knowledge economy.

All HDR students - regardless of discipline - develop cognitive, technical and creative skills in problem solving, adaptability, lifelong learning and critical enquiry. In fact, the rigorous Australian Qualifications Framework (AQF) compels universities to ensure that they do so. In addition to these fundamental skills, PhD graduates from the humanities, arts and the social sciences (HASS) also make valuable contributions to innovation, as highlighted in a recent Senate inquiry into innovation,

“The social sciences contribute to innovation through research and practice in the areas such as market research and merchandising (involving social psychology, anthropology, and other disciplines concerning human behaviour), economics (the understanding of the behaviour and dynamics of trade and markets), finance (business case development, demand modelling, options analysis, risk analysis), and management – which is both a discipline and a practice. Management innovations have been critically important in the development of international and multi-divisional businesses.”<sup>1</sup>

Further, as there is a shift toward more inter- and multidisciplinary PhDs that are embedded into company contexts, it may be increasingly difficult to discern discipline status. Industry benefit extends well beyond the boundaries of traditional STEM disciplines. By focusing too heavily on STEM-related policies, there may be implications for pursuing inter- and multidisciplinary research. It should be noted that within other policy areas, the value and need for inter- and multidisciplinary research to address societal problems is well recognised. A tight focus on STEM disciplines may work to disincentivise these approaches in industry.

Another benefit of incentivising the employment of PhD trained graduates in business is that it will increase the mindset and culture of research in business. PhD graduates who assume leadership positions in business will also possess the ‘know-how’ to reach back into universities for future collaboration and sourcing of R&D, facilitating closer links between the business and research sectors. It is important to note that not all PhDs will be suitable for business leadership, just as not one collective of disciplines are pre-deposed to success in business.

On recommendation 4, to “introduce an intensity threshold in the order of 1 to 2 per cent for recipients of the non-refundable component of the R&D Tax Incentive, such that only R&D expenditure in excess

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<sup>1</sup> Green, R (2015) Senate Economics References Committee Inquiry into Australia’s Innovation System – Issues Paper, p.6

of the threshold attracts a benefit”, the ATN supports this crucial measure to better target additional R&D, proportionate to a firm’s ability to support different levels of R&D.

### Integrity of the program

The ATN endorses the recommendations in the review report relating to the integrity of the program, specifically:

- **Retain the current definition of eligible activities and expenses under the law, but develop new guidance, including plain English summaries, case studies and public rulings, to give greater clarity to the scope of eligible activities and expenses [Recommendation 1]**

While the ATN acknowledges the review panel’s decision to retain the current definition of eligible R&D activities (noting it has only been in place for 5 years), we would encourage an evaluation of eligible R&D activities at a later date to ensure that “business as usual” activity is not claimed within scope of eligible activities. Other recommendations within the overall package of proposed measures, such as incentives to collaborate with research institutions, may naturally push businesses away from “business as usual” activity. Nevertheless, the ATN supports the development of new guidance to give greater clarity to eligible activities and expenses.

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

The ATN supports better targeted assistance for SMEs and start-ups to free up capital to invest in critical R&D. Considerations around business size are important, noting that the sought after ‘additionality’ is most likely to come from companies with turnover less than \$20 million, given that 97 per cent of Australia’s industry structure comprised of micro and small businesses. As noted in the Universities Australia submission, special consideration could be made for sectors such as biotechnology where R&D activities at SMEs may easily exceed the \$2 million cap. The ATN also supports the Universities Australia assertion that the changes to the R&D tax incentive will work best in conjunction with other direct measures (e.g. grants) to support SMEs to engage with the innovation system.

- **Support streamlining of administrative roles and responsibilities for the R&D Tax Incentive [recommendation 6]**

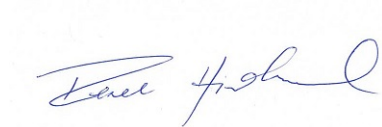
The ATN supports the Review Panel’s recommendation to improve the transparency of the program by publishing the names of companies claiming the incentive and the amounts claimed. This will allow for greater accountability on the claiming businesses and also allow other organisations to benchmark R&D investment.

The proposed changes to the R&D tax incentive are a positive step in improving the R&D culture of business and provide incentives to close the gap between the R&D activities of business, and those in Australia’s publicly funded research organisations. The recommendations align well to the mix of innovation policies and programs set out in NISA, and send a positive signal that Government are willing to support meaningful change across multiple sectors to improve collaboration between research organisations and business, and ultimately, innovation outcomes. To enable this, the ATN

would welcome commitment to a period of stability once the new rules for the tax incentive are in place so that business can plan with confidence and universities can commit to partnering with business.

Please do not hesitate to contact the ATN Directorate on (08) 8302 9135 or via e-mail at [renee.hindmarsh@atn.edu.au](mailto:renee.hindmarsh@atn.edu.au) to discuss any elements of the submission further.

Yours sincerely



Renee Hindmarsh  
ATN Executive Director

## Appendix 1

### Report Recommendations

1. Retain the current definition of eligible activities and expenses under the law, but develop new guidance, including plain English summaries, case studies and public rulings, to give greater clarity to the scope of eligible activities and expenses.
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 employing 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.
3. Introduce a cap in the order of \$2 million on the annual cash refund payable under the R&D Tax Incentive, with remaining offsets to be treated as a non-refundable tax offset carried forward for use against future taxable income.
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.
5. If an R&D 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.
6. That the Government investigate options for improving the administration of the R&D Tax Incentive (e.g. adopting a single application process; developing a single programme database; reviewing the two-agency delivery model; and streamlining compliance 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.