



Submission by the Australian Academy of Science on the Review of the R&D Tax Incentive November 2016

The Australian Academy of Science welcomes the opportunity to comment on the Review of the Research and Development Tax Incentive (“the Review”) by Alan Finkel, Bill Ferris and John Fraser, released for consultation in October.

Since its establishment in 1954, the Academy of Science has promoted the concept that research is a fundamental driver of technological advance and economic and social development. The use and application of scientific knowledge, methods, expertise and techniques in industry and business settings—whether by industry-based researchers or through collaborative arrangements between businesses and academic researchers—leads directly to innovative responses to business challenges and associated increases in productivity. The direct and flow-on impact of global advances in the physical, mathematical and biological sciences over the past 30 years are worth an estimated \$330 billion a year to the Australian Economy and support over 1 million Australian jobs.¹ Science and research also deliver significant benefits in health, social welfare and the environment; many of these achieved through application and uptake by industry.

For these reasons, the Academy strongly supports the overarching objective of the R&D Tax Incentive: supporting industry to carry out R&D activities. The Academy further supports the goals of the Review: to identify opportunities to improve the effectiveness and the integrity of the Incentive, including sharpening its focus on encouraging R&D expenditure. The program aims of improving additionality (encouraging R&D activities that would not otherwise take place) and spillovers (R&D results that provide benefits beyond their initial setting) are of vital importance and are commended.

With respect to specific recommendations, the Academy supports **Recommendation 1** (to develop new guidance for the program that improves clarity and communication) and **Recommendation 6** (to investigate options to improve the administration of the program). Adopting these recommendations would help to reduce inefficiencies in the system, although specific changes should be implemented carefully after careful consideration and consultation.

The remaining recommendations relate to the policy settings of the Tax Incentive. The Academy offers particular support for **Recommendation 2** (a collaboration premium on the Tax Incentive to provide additional support for activities undertaken with publicly funded research organisations, and for employing new STEM PhD graduates). As observed in the consultation paper, most if not all government incentive schemes focused on academia-industry collaboration provide incentives for university and publicly-funded researchers to seek collaborations with industry; there is scope to provide strong, complementary incentives for industry and business to seek such collaborations in turn.

¹ “The importance of advanced physical, mathematical and biological sciences to the Australian economy”, Australian Academy of Science, 2016.

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The Academy also supports the policy principle that underpins **Recommendations 4** (introducing an intensity threshold) **and 5** (increasing the expenditure threshold), namely balancing the needs of companies that invest a substantial proportion of expenditure in R&D and those of large companies that undertake significant volumes of R&D at lower levels of intensity. While the Academy cannot comment directly on the appropriateness of the particular policy recommendations, it does note that the intensity threshold may have differential impacts on business R&D activity based on proximity of existing activity levels to the threshold.

The Academy does not have a position on **Recommendation 3** (a cap on the annual tax refund offered by the program); a budgetary consideration for government.

Thank you once again for the opportunity to comment on this important review.