Science & Technology AUSTRALIA

Inquiry into the Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 [Provisions]

5 November 18

To the Senate Standing Committee on Economics,

Thank you for the opportunity to provide feedback regarding Treasury Laws Amendment (Making Sure Multinationals Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 [Provisions].

Science & Technology Australia (STA) is the peak representative body for more than 70,000+ scientists and technologists in Australia through our member organisations, including associations and societies, research institutes, and research strategy bodies such as councils of deans. Our mission is to connect science and technology with governments, business, and the community, to enhance the role, reputation and impact of science.

Since the review of the Research and Development Tax Incentive (R&DTI) was undertaken in 2016, STA has considered the implementation of its recommendations a priority, the importance of which was emphasised by Innovation and Science Australia in their 2030 Strategic Plan.

Private investment in research, both in-house and in partnership with academia or public research agencies, is essential for the creation of an innovative and agile economy. Unfortunately, the level of business investment in Australian research has been limited and is dropping. While this legislation will result in a more targeted R&DTI, there is nothing in this legislation that will enhance collaborative or translational research.

STA recommends that:

1. Schedule 1 of the act be amended to include a 20% collaboration premium as outlined in the Research & Development Tax Incentive Review; and
2. The government commits that savings made from the Research & Development Tax Incentive changes be directed to a non-medical Research Translation Future Fund

Kind regards,

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President
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Introduction

The legislation in question contains a number of tax measures, however this submission will only focus on Schedule 1-3 of the bill as they relate to changes to the Research & Development Tax Incentive (R&DTI).

Since the initial review of the Research & Development Tax Incentive[1] was completed in 2016, STA has supported the recommendations that were outlined[2]. These recommendations were given further weight following the release of the Innovation and Science Australia 2030 Plan[3].

While the government's response, and the proposed legislation, takes some of the recommendations into account – it has failed to consider the importance of incentivising collaborative research, and the value of direct funding for translational research. The implementation of this legislation is anticipated to result in a $2.4 billion savings for the federal government[4]. This saving is achieved through a tightening of the definitions of what qualifies as business investment in research.

With a net savings of $2.4 billion from this legislation, STA considers it prudent to stipulate that these savings are used to achieve the following goals:

1. Incentivise collaboration between business and research institutes; and
2. Directly invest in translation research through a non-medical Research Translation Future Fund

Encouraging increased investment of business in research

Business investment in research

One of the enduring challenges for research investment in Australia is creating an economic atmosphere that incentivises business to invest more in research. Australian business investment in R&D equates to 0.9% of GDP, whereas other OECD nations such as South Korea have business investment as high as 3.3% of GDP[5]. Investment in research through the R&DTI fell $250 million from 2015-16 to 2016-17, according to the latest departmental Research and Innovation tables[6]. STA anticipates this investment will fall even further under the current R&DTI structure.

Incentivising collaboration

One of the key recommendations from the initial review into the R&DTI was to provide a 20% collaboration premium for collaborative research between business and publicly funded research institutes, such as CSIRO and universities.

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[1] "Review of the R&D Tax Incentive" B Ferris, A Finkel & J Fraser, 2016
[2] "Response to the review of the R&D tac incentive consultation" Science & Technology Australia, 2016
[3] "Australia 2030: Prosperity through Innovation" Innovation and Science Australia, 2018
[4] "Budget Paper No .2" Australian Treasury, 2018
[5] "Business doesn't spend enough of R&D" Financial Review, 2018
[6] "Science, Research and Innovation Budget Tables" Department of Industry, Innovation and Science, 2018

Australian business is dominated by small and medium enterprises. These small and medium enterprises do not always have the resources available to undertake research and development in their industry. A targeted research collaboration incentive for these enterprises would provide them with an incentive and a catalyst to undertake research that they previously would not have been able to afford.

Beyond providing access to research for small and medium enterprises, collaborative research also provides significant gains. According to Universities Australia, cross-sector collaboration results in $10.6 billion in revenue for business as well as providing beneficially disruptive innovation[7].

The advantages of cross-sector collaboration and the projected $2.4 billion in savings from tightening the R&DTI provide the right conditions to introduce a 20% collaboration premium through reinvesting projected savings into business-led innovation.

Research Future Fund

To complement the collaboration incentive described above, STA recommends the establishment of a non-medical Research Translation Future Fund. This Fund would complement the Australian Research Council's work by supporting translational research, much in the same way the Medical Research Future Fund complements the work of the National Health and Medical Research Council.

The R&DTI makes up for approximately one-third of government investment in research and yet, as discussed above, the OECD numbers show that it has failed to inspire the level of investment by business seen in other nations. While STA stands by the importance of the R&DTI, we also recognise the need for more direct government investment for business-research collaborations.

In countries like the UK and Japan where business investment is high, the government provides direct investment into business led research around 43% in the UK[8]). It is through this co-investment that some of the greatest technological advances in robotics and electronics have been achieved.

To encourage more business investment in research, STA proposes direct investment in business R&D by using some of the savings from the R&DTI to establish a Research Translation Future Fund

Direct investment in collaborative translational research, provided alongside the R&DTI, would go a long way to improving the incentives for business to invest more in Australian research. Direct investment in business research also has benefits beyond the research itself as every $1 invested in business research by government results in a total $1.70 being spent in tandem with business[9].

[7] "Uni to Business: Tap into our talent and expertise" Universities Australia, 2018
[8] "Business doesn't spend enough of R&D" Financial Review, 2018
[9] "The Impact of Public R&D Expenditure on Business R&D" OECD, 2000

The implementation of this Fund could be smoothed by piggybacking on existing initiatives such as the Medical Research Future Fund and applying best-practice lessons from numerous other examples from nations that are considered world leaders in innovation. In Germany 100% of government investment in business research is through direct funding, in the US 72% is direct, and 49% is direct in South Korea[10]. The success of these countries' research sectors and the resulting innovation shows how the establishment of a mechanism for direct investment like a Research Future Fund will be a wise move.

[10] "Business doesn't spend enough of R&D" Financial Review, 2018