IRU response: Panel's report on the Research & Development Tax Incentive Review

The Innovative Research Universities (IRU) supports the Panel's report and recommendations on the review of the Research & Development Tax Incentive. Given the proportion of the Government's investment in this incentive (around a third of the Government's investment in science, research and innovation), it is of concern that the Panel concludes the programme is failing to meet its stated objectives of additionality and spillovers.

For this reason, IRU urges the government to act on the Recommendations of the Panel so that the Australian economy can start reaping the expected benefits.

As the IRU argued in its submission to the Review, the Research and Development Tax Incentive has operated as a stand-alone incentive largely decoupled from the government's parallel investment into Australian research. The Review is an opportunity to tie together the major elements of Government support for research and development, the essential underpinning for innovation.

In supporting the Report's recommendations the IRU emphasises the following key points.

1. Collaboration premium

IRU fully supports the Panel's recommendation (Recommendation 2) to introduce a "collaboration premium of up to 20% for the non-refundable tax offset to provide additional support for the collaborative element of R&D expenditures undertaken with publicly-funded research organisations".

As argued by the Panel, the current modest levels of collaboration between research institutions and industry represent a lost opportunity. The collaboration premium would fit with the broader initiatives that this Government has undertaken to incentivize collaboration (such as the reworking of the Research Block Grants) and making this strand of government investment more complementary to the Government's broader research and innovation investment. IRU members are already putting systems in place to enhance their work with industry partners and to maximize the opportunities from the government's broader focus on greater collaboration.

IRU strongly supports the second part of Recommendation 2 which foresees that the 20% premium would apply "to the cost of employing new STEM PhD or equivalent graduates in their first three years of employment". This is a sensible recommendation.

The Panel's report does not recommend a change to the range of eligible activities meaning that R&D in social sciences and humanities will still not be considered as an 'eligible' activity. Even though the Panel's report specifies that R&D in social sciences and humanities is commonly excluded across international jurisdictions, a blanket exclusion remains narrow-minded. The test should be the relevance of the research to the business of the company. When research in social sciences, arts and humanities meets the standard tests of being a core Research and Development activity directly relevant to the business' future development, it should be considered as eligible.

2. Ensuring benefits are reaped across Australia

One key marker of success of these changes to the R&D Tax Incentive is the extent to which the resulting benefits will be spread across Australia rather than solely in key inner-city clusters.

As the Industry, Innovation and Science Minister Mr Greg Hunt has argued, geographical clusters of researchers, innovators and research users greatly enhance innovation. The challenge is to develop clusters across Australia because of the scale of the country and low population density. One way of addressing this challenge is by providing specific government support for industry take up of research through supporting clusters of researchers and end users in regional clusters. As Mr Hunt argues, innovative businesses are much more likely at present to collaborate with a competitor than with a research institution. By being rewarded for collaborating with research institutions (and especially when they are located in outer metro, regional or remote Australia), clusters are more likely to sprout and thrive.

3. Improving the administration of the R&D Tax Incentive

As the IRU argued in its submission, the current administrative process does not encourage companies to become research active, with businesses spending too much money paying consultants to enable them to benefit from the incentive.

Recommendation 6, which outlines ways in which the Government could investigate options for improving the administration of the R& D Tax Incentive, goes in the right direction. IRU also supports the recommendation that tax secrecy provisions should be adjusted to allow publication of the names of companies claiming the incentives and the amounts of R&D that they have claimed. This will increase visibility of the programme, stimulating rival companies to consider investing in research outcomes to improve their outcomes.

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