

INQUIRY INTO TAX DEDUCTIBILITY

Submission to the House of
Representatives Standing Committee on
Economics

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**RESEARCH
AUSTRALIA**

AN ALLIANCE FOR DISCOVERIES IN HEALTH



ABOUT RESEARCH AUSTRALIA

Research Australia is an alliance of 160 members and supporters advocating for health and medical research in Australia. Research Australia's activities are funded by its members, donors and supporters from leading research organisations, academic institutions, philanthropy, community special interest groups, peak industry bodies, biotechnology and pharmaceutical companies, small businesses and corporate Australia. It reflects the views of its diverse membership and represents the interests of the broader community.

Research Australia's mission is to make health and medical research a higher priority for the nation. We have four goals that support this mission:

- A society that is well informed and values the benefits of health and medical research.
- Greater investment in health and medical research from all sources.
- Ensure Australia captures the benefits of health and medical research.
- Promote Australia's global position in health and medical research.

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INQUIRY INTO TAX DEDUCTIBILITY

SUBMISSION TO THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

INTRODUCTION

Research Australia is pleased to respond to the invitation from the House of Representatives Standing Committee on Economics to make a submission to the Inquiry into Tax Deductibility. While the Inquiry is considering the tax deductibility of all items for individuals and companies, Research Australia's comments are confined to two specific items: self education expenses and tax deductible donations.

The Committee has been tasked with identifying options to broaden the base of both personal and company income tax by removing or reducing existing tax deductions. The terms of reference indicate that the aim is a simpler tax system with lower tax rates. The Government's Tax Review has a similar goal. *'We want to have an open and constructive conversation with the community on how we can create a better tax system that delivers taxes that are lower, simpler, fairer.'*¹ Notably, unlike the Tax Review, the terms of reference provided to the Committee do not specifically refer to fairness. Research Australia's submission makes specific reference to the importance of fairness when considering the range of tax deductions available, and in particular the deductibility of self education expenses, which were the subject of a targeted inquiry in 2013.

While the primary purpose of the tax system is to raise the money required to fund the activities of government, an additional function of the tax system is to encourage individuals and companies to engage in particular behaviours (and to discourage others). For example, the tax system can be used to favour savings for retirement (superannuation concessions), investments in certain types of business capital (accelerated depreciation rates), or investments by individuals in their own education (self education expenses). A further example is the support provided by Governments to not for profit organisations that provide services to the community, which includes making donations to eligible not for profit organisations tax deductible.

Research Australia is of the view that these broader policy objectives of the tax system must be given due consideration in any examination of the tax deductions available to individuals and companies.

¹ The Australian Government The Treasury, *Re: Think Tax Discussion Paper March 2015*, Foreword

SELF EDUCATION EXPENSES

The twin objectives of a simpler tax system with a lower rate of tax can be met by removing some or all tax deductions. Notionally, eliminating tax deductions will lead to an increase in the rate of tax collected that can be returned to taxpayers as a lower rate of tax. Furthermore, making the tax system simpler should reduce the cost to government of collecting taxes, allowing rates to be even lower while simultaneously reducing the cost to individuals and companies of complying with their tax obligations.

If all individuals and all companies incurred the same costs in earning their income, this would be a reasonable approach. However this is not the case. The principle behind allowing tax deductions for income expenses is essentially one of fairness. Some people and companies incur greater expenses in earning their income than others, and the tax system accounts for this by allowing certain expenses to be claimed as a tax deduction.

The tax deductibility of self education expenses is an example. Research Australia represents the health and medical research sector, and there are a number of characteristics of this sector (and the research sector more generally) that make the deductibility of self education expenses particularly important to its workforce.

The health and medical research workforce

Health and medical researchers are highly qualified, with a research PhD the typical qualification. There are approximately 34,500 individuals in the Australian health and medical research workforce. If postgraduate students and administrative and managerial staff are excluded there are approximately 13,500 individuals employed as health and medical researchers. 87% of all health and medical researchers are employed in Government, Higher Education, and non- profit research organisations:

- 50% are employed in the higher education sector.
- 21% are employed in the private non-profit sector.
- 16% are employed in the private sector.
- 13% are Government employees.²

As is typical of other occupations that are largely employed in the not for profit sector, researchers are relatively poorly paid by comparison to the private sector workers with equivalent qualifications.

A survey of health and medical researchers (predominantly at universities and research institutes) by the Australian Society of Medical Researchers (ASMR) conducted in 2006 found 54% of respondents' salaries were in the range of \$50,000–\$99,000 a year and 26% earned less than \$50 000 a year. Of respondents holding a PhD or equivalent, 22% earned \$100,000 or more.³

Health and medical researchers also have relatively low levels of permanent ongoing employment, with a large proportion of early and mid career researchers on fixed term contracts. The same ASMR survey referred to above found that only 16% of respondents were not reliant on grants for their ongoing employment. Not surprisingly, lack of security was the key factor adversely affecting their careers. Another survey of university employees found that only 15% of research- focused staff were in continuing

² Research Australia analysis of Australasian Bureau of Statistics reports on R&D for higher education, business government and private not for profit sectors, using R&D expenditure on the SEO of Health to extrapolate workforce numbers.

³ Kavallaris et al, *Perceptions in health and medical research careers: the Australian Society for Medical Research Workforce Survey*

employment.⁴ The National Health and Medical Research Council's (NHMRC) estimated that in 2014, 10,000 health and medical researchers were either fully or partly supported by the NHMRC's funding programs, all of which are fixed term grants.⁵ A further unknown number are supported by fixed term grants from the Australian Research Council, overseas grant programs, and philanthropic trusts.

In a knowledge intensive field that is rapidly evolving, maintaining the currency of skills, publishing research, and attending conferences and seminars are all essential to a researcher's career. One consequence of the predominance of fixed term contracts in the sector is that researchers are largely responsible for their own professional development and continuing education, and this includes paying to attend conferences and seminars, and for other training activities.

In some instances the employer will meet the full cost of registration, travel and accommodation for a specific number of education activities- perhaps one or two per year. In other cases the employer will provide a fixed annual amount, with any additional expense met by the individual. Or the employer may recognise the time taken to attend the conference as paid work, but leave the cost of attending the conference or seminar to the individual.

Even in circumstances where the researcher has control over the budget for their research project and/or research team, he or she may opt to meet the cost of a conference or seminar from their own income so that the research budget is available to meet other costs.

Adding to the expense is the fact that health and medical research is both a global and specialised enterprise. It is therefore quite common for a researcher to find that other researchers in their field are located overseas, and many opportunities for professional development and further education involve overseas travel, increasing the cost. As Australia's health and medical research population is only a small proportion of the world's total health and medical research population, this phenomenon is more pronounced in Australia than in countries like the UK and USA with significantly larger research workforces.

Anecdotally at least, this level of personal funding of expenses occurs to a greater degree in health and medical research than in the broader workforce. Where the researcher is able to claim the expense as a tax deduction, he or she is still making a significant contribution from their own after tax income to the cost of the activity, whether this is a conference, a seminar, or journal subscription.

The following is a response provided by a clinical researcher in response to a request from Research Australia in 2013 for case studies:

...well many of us are both academic researchers and health professionals. To maintain our registration we need to accumulate a number of CME points and that is done via national conferences which often cost over \$2000 (registration, travel & accommodation). As a Uni academic if we want to present our work at an international conference and learn the latest & network that costs about \$5K minimum. Now our Uni has no funds for travel so I have to pay that out of my own personal expenses for which I could claim a tax deduction.

Self education expenses is provided here as an example of a deduction that is disproportionately (and legitimately) used by some taxpayers more than others. Research Australia submits that a decision to remove the deductibility of self education expenses to fund a lower overall tax rate would disproportionately and unfairly disadvantage some particular individual taxpayers.

⁴ Broadbent, Troup and Strachan Research Staff in Australian Universities: An Overview of Employment Characteristics

⁵ National Health and Medical Research Council, *Address by Prof Anne Kelso AO to the NHMRC/ARC Research Administrators Seminar, 17 November 2015* slide 18
www.nhmrc.gov.au/_files_nhmrc/file/media/events/2015/anne_kelso_rao_seminar_17_november_2015.pdf

Australia's future depends on lifelong learning

It is increasingly recognised by the Australian Government that Australia's future is dependent on a highly educated and productive workforce, and that the rapid rate of technological change means that Australians need a lifelong approach to learning if we are to prosper in the 21st century. In this context, it makes sense for the Government to provide incentives for individuals to invest in their own ongoing education. Providing a tax deduction for self education expenses encourages individuals to take responsibility for their own ongoing education while assisting them to meet the cost of doing so. Removing the deductibility of self education expenses to fund a lower tax rate would remove this incentive for continuing education.

Overseas examples- the United Kingdom

The terms of reference seek comparisons to other jurisdictions, and reference is made specifically to the United Kingdom. While the UK generally does not allow an income tax deduction for education expenses, it has made an exception for circumstances where education is part of the duties of the individual. The specific example given in HMRC's guidance material is a researcher.⁶

TAX DEDUCTIBILITY OF DONATIONS

While the terms of reference for the Committee's Inquiry specifically refer to the deductibility of expenditure incurred in earning income, for the sake of completeness it seems appropriate to make some brief comments about the tax deductibility of donations.

Donations to deductible gift recipients (DGRs) are tax deductible to both individual and corporate taxpayers. Different categories of Deductible Gift Recipients meet different eligibility criteria but they are essentially not for profit organisations that undertake activities which are considered to be a public good. Donations to such organisations are deductible not because the donations are an expense incurred in earning income but because the Government is keen to encourage individuals and corporations to provide financial support for the activities of these organisations. As such, the deductibility of donations is another example of a tax deduction being used to encourage a particular behaviour.

Many DGRs undertake activities in areas where governments already provide or fund services, including education and research, health, and welfare services. In 2011-12, these areas accounted for two thirds of not for profit entities by income, and governments were responsible for directly providing a little over half of their income.⁷ Removing the tax deductibility of donations to DGRs could be used to lower the individuals and corporate tax rates but would be likely to reduce the level of donations made by taxpayers. Such an action would not only restrict the ability of not for profit organisations to provide services but would also place pressure on the Commonwealth Government to provide additional funding to these organisations to address the shortfall. This is an adverse consequence that is not ameliorated by the simple arithmetic of lowering the tax rate to compensate for the removal of the tax deduction.

⁶ The Australian Government, May 2013, The Treasury, Reform to Deductions for Education Expenses, Discussion Paper, referred to at paragraph 26; Her Majesty's Revenue and Customs, EIM 32535, EIM32545 at <http://www.hmrc.gov.uk/manuals/eimanual>

⁷ Australian Bureau of Statistics, Cat. No. 52560DO001_201213 *Australian National Accounts: Non-Profit Institutions Satellite Account, 2012-13*, Table 8

CONCLUSION

Research Australia urges the Committee to give due consideration to the issue of fairness between taxpayers when considering removing tax deductions for expenses incurred in earning income. In this submission Research Australia has sought to demonstrate that the cost of continuing education can be significantly greater for some taxpayers, and the value of the deduction for self education expenses to these taxpayers is therefore greater than for the general population. Researchers would be disproportionately affected by the removal of this tax deduction, and any 'across the board' reduction in the tax rate based on the average value of the deduction to taxpayers would be insufficient to offset the loss of this tax deduction. In these circumstances, the removal or limiting of this tax deduction would be unfair and discriminatory.

Research Australia also urges the Committee to consider the circumstances in which tax deductions are used to encourage and/or support certain expenditures the Government considers to be beneficial to the broader community. Research Australia submits that the deduction for self education expenses is an example of such a measure as it seeks to encourage lifelong learning by Australian workers, which is essential to Australia's economic future. The tax deductibility of donations is another example, supporting the provision of services to the community which are considered to be in the public interest.

In removing some existing tax deductions, there is a risk of unintended consequences that cannot be addressed by a reduction in the tax rate. In relation to the examples given above, a lower tax rate to compensate for the removal of these measures will not address the cost to the community of individuals' reduced investment in their ongoing education. Nor will it address the reduction in the availability of education, health and welfare services to the broader community and the subsequent pressure on governments to address this shortfall with further government funding. The risk of unintended consequences needs to be included in the evaluation of any tax deductions for replacement by a lower tax rate.

Research Australia would be pleased to provide the Committee with further information and/or elaboration on any part of this submission.

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