

A graphic illustration of a human head silhouette filled with a brain-like pattern of green circles. The head is surrounded by a dense, colorful collage of various icons representing science, nature, technology, and human activity, all set against a dark green background.

A submission in response to the discussion paper

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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Table of Contents

Introduction.....	3
Characteristics of the health and medical research sector	4
Where Australian health and medical research is conducted	4
The health and medical research workforce	4
How health and medical research is funded	5
International collaboration.....	5
The product of research is knowledge	6
Personal contribution to the cost of research	6
Responsibility for career.....	6
Response to consultation questions	7
Conclusion	12

REFORM TO DEDUCTIONS FOR EDUCATION EXPENSES

A SUBMISSION IN RESPONSE TO THE DISCUSSION PAPER

INTRODUCTION

Research Australia recognises the importance of protecting the integrity of Australia's tax system. Indeed, Australian health and medical research is a significant beneficiary of support from Australian taxpayers. Research Australia also supports the principle that tax deductions are allowed for the costs incurred in producing income, and recognises that this principle needs to be administered carefully to avoid abuse.

The underlying assumption behind the discussion paper appears to be that deductions for education expenses are being abused, and the proposed solution is to cap self education expenses at \$2000 per year. The proposed cap would include items such as registration fees and travel expenses for conferences and seminars, and textbooks and professional journals.

Research Australia submits that imposing a cap of \$2000 on self education expenses will have a significant adverse effect on health and medical research in Australia. This is because many health and medical researchers meet the cost of a range of expenses associated with their work including paying subscriptions for journals, and the costs associated with attending conferences. In many cases, this exceeds \$2000. Furthermore, the discussion paper characterises journal subscriptions and conferences as self education. What the paper fails to recognise is that, in a knowledge intensive field like health and medical research, where the product is new knowledge, journal subscriptions and conferences contribute directly to the production of new knowledge and its application, as well as contributing indirectly through enhancing the skills of the individual participant.

Research Australia is opposed to a cap of \$2000 on self education expenses. While Research Australia accepts that the deduction for self education expenses may be subject to abuse by some individuals in some sectors of the economy, a \$2000 cap is too blunt a tool with which to address this abuse, and one which could have a significant adverse effect on Australian health and medical research and Australia's aspirations to a better educated workforce and a sophisticated manufacturing and services based economy.

While the focus of this submission is health and medical research, many of the comments and characteristics are applicable to the broader research community.

CHARACTERISTICS OF THE HEALTH AND MEDICAL RESEARCH SECTOR

An understanding of the Australian health and medical research sector and its workforce is essential to understand the significant adverse affect a \$2000 cap on self education expenses could have for the sector, and more broadly for Australia.¹

Where Australian health and medical research is conducted

The Australian health and medical research sector is predominantly conducted in the non-business sector.

The higher education sector is responsible for most Australian health and medical research, with expenditure on health and medical research in 2010 of nearly \$2.6 billion, representing about half of all health and medical research undertaken in Australia, and approximately one third of all research undertaken in higher education institutions.

A further 21% of health and medical research is conducted in the Private Non-Profit sector. This is predominantly undertaken by medical research institutes with charitable status, such as the Walter and Eliza Hall Institute and the Garvan Institute.

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.

As is typical of other occupations that are largely employed in the non 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.²

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.

¹Statistics on the levels of expenditure and employment in health and medical research are based on analysis of the most recent Australian Bureau of Statistics for Expenditure on Research and Development in the Business, Government, Higher Education and Private Not for Profit Sectors. (Catalogue numbers 8104.0, 8109.0, 8111.0)

² Kavallaris et al, *Perceptions in health and medical research careers: the Australian Society for Medical Research Workforce Survey*

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 employment.³

Analysis undertaken as part of the Strategic Review of Health and Medical Research commissioned by the Australian Government concluded that in 2010, 8,513 health and medical researchers were supported by the National Health and Medical Research Council's funding programs, all of which are fixed term grants.⁴ A further unknown number are supported by fixed term grants from the Australian Research Council, overseas grant programs, and philanthropic trusts.

One consequence of the predominance of fixed term contracts in the sector is that researchers are largely responsible for their own professional development in a knowledge intensive field that is evolving rapidly.

How health and medical research is funded

About one quarter of all health and medical research is funded by business. The remainder (approximately \$4.5 billion per year) is funded by State and Commonwealth governments, public donations and bequests, and income generated by non -profit research organisations. This funding is very restricted and competition for funding is fierce. One consequence is that individual research programs are regularly underfunded in an effort to fund as much research as possible. The McKeon Review referred to above found that NHMRC grants failed to cover the full cost of salaries of researchers in the programs it funds.⁵ It also found that the funding of the indirect costs of research is inadequate.⁶ In general, the funding available for indirect costs does not support attendance at conferences to disseminate research findings or to inform the design and conduct of research.

This chronic underfunding means that there are inadequate funds available for conferences, seminars and training. Responsibility for funding much of this activity invariably falls back on the individual researchers.

Reference is made at paragraph 41 of the discussion paper to the ability of researchers to seek funding for costs associated with conferences through the ARC and NHMRC grants. The experience of researchers is that more often than not, attendance for conferences is not eligible for funding. And even where it is eligible, the reality is that the amount of funds made available for this purpose through these grants is trivial compared to the size and scale of the need across the health and medical research sector for attendance at conferences.

International collaboration

An essential element of modern health and medical research is collaboration, and in many cases this collaboration occurs internationally. Australian health and medical research is a global enterprise. Areas of research are diverse and highly specialised. It is therefore quite common for a researcher to find that other researchers in their field are located overseas. 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 even more pronounced in Australia than countries like the UK and USA with significantly larger research populations.

The same phenomenon is true of Australian academics more generally, whose field of expertise can be so specific as to require international travel for collaboration and ongoing professional development to ensure their skills remain current. If Australian Government is to realise its aspiration to improve the international rankings of our universities, it cannot substantially restrict a key facilitator of self education without substantially increasing the universities' capacity to fund these opportunities.

³ Broadbent, Troup and Strachan Research Staff in Australian Universities: An Overview of Employment Characteristics

⁴ Department of Health and Ageing, *Strategic Review of Health and Medical Research, Final Report* Feb. 2013, p. 131

⁵ Ibid, p.136

⁶ Ibid, p. 158

The product of research is knowledge

The product of the health and medical research sector, like other fields of research, is knowledge. As a consequence, in many cases it is almost impossible to distinguish between the education of the researcher and the creation of the product. It is probably easiest to illustrate this with an example:

A researcher is investigating the treatment of bronchiectasis, a progressive and persistent form of lung disease common among children with cystic fibrosis. She attends a conference on cystic fibrosis at which another researcher reports a study that shows children with cystic fibrosis who have neutrophil elastase (NE) in their lungs at three months are 7 times more likely to develop bronchiectasis by 12 months, and 4 times more likely at three years of age. This information provides a new avenue of research for the researcher who returns to her laboratory and starts testing a drug that can inhibit NE as a possible treatment for bronchiectasis.⁷

In this example, the knowledge gained at the conference has increased the researcher's expertise in her area of employment and could therefore be categorised as 'education'. However the information obtained at the conference has also directly informed her research and becomes a product of her research. As such it could just as readily be categorised as a non-education work related expense. In reality, it is not really possible to distinguish the education component of the conference from the 'product' component. In either case there is a clear nexus between the attendance at the conference and individual's employment as a researcher.

Personal contribution to the cost of research

By and large, health and medical researchers are not motivated by the financial rewards of their employment. To a greater extent than most occupations, health and medical researchers are motivated by the desire to make new discoveries and to contribute to the body of human knowledge. (There are also other less noble non-financial motivations, such as the esteem of peers.)

It is not just a job but a vocation, and they make significant sacrifices for their work, including very long working hours, and many years of unpaid or poorly paid study. These sacrifices extend to paying personally for items like journal subscriptions, and attendance at seminars and conferences. In some instances the employer will meet the full cost of registration, travel and accommodation. 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 own 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.

Anecdotally at least, this level of personal funding of what could legitimately considered to be work 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. This willingness to personally subsidise the cost of their own research is a characteristic of the sector, and an important contribution to Australian health and medical research.

Responsibility for career

As noted previously, competition for funding is very competitive. Maintaining the currency of skills, publishing research, and attending and speaking at conferences and seminars are all important to a researcher's future success in securing further research funding. Consequently, researchers take individual responsibility for their own careers and continuing education, and this includes paying to attend conferences and seminars, and for other training activities.

⁷ The researcher attending the conference in this case is hypothetical; the actual research findings are real.

RESPONSE TO CONSULTATION QUESTIONS

1. In your industry or field, are there studies or courses that are compulsory and must be completed in order to meet licence requirements or other continuing professional development training?

- a) What is the average amount of the expense?*
- b) What is the highest amount of the expense?*
- c) What is the nature of these courses?*

Response:

1. There are not typically licence or CPD requirements for health and medical researchers per se. There is a significant proportion of researchers who are also health professionals, and they will typically have strict ongoing education requirements that must be met, through attendance at conferences, seminars etc. In these cases, the onus is on the individual to fund these activities.

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

...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 which I could claim a tax deduction. From July 1 2014 the max amount will be \$2000. There is the big problem.

1. a) and b) The cost can vary significantly. It is not uncommon for a conference registration to cost \$1000- 1500. Travel and accommodation costs can equal or exceed this, particularly if the conference is overseas.

1 c) In the case of research conferences, the content is usually new research and developments in research in a particular field. It is quite common for research to be discussed at a conference at an early or interim stage, long before the results of the research are published. (Much of health and medical research is in the public domain, and not subject to the same Intellectual Property restrictions that prevent early dissemination of research.)

Conferences also provide the opportunity to discuss the featured research (and other attendee's research) with presenters and other attendees. In specialised fields, where there is a relatively small number of people working in a particular area scattered around the world, these conferences provide a unique opportunity to interact with other researchers with the same research interests. These conferences provide opportunities to directly inform and advance the research of attendees, quite beyond any 'self education' value they might provide.

2. Is training undertaken in your industry predominantly held in Australia or overseas? Can you provide examples?

Response:

In the case of conferences and seminars, in specialised fields where there is a relatively small number of people working in a particular area scattered around the world, conferences are predominantly held overseas. They are likely to occur in a country or region where there is a significant number of researchers in that field. This is most likely to be North America or Europe- rarely Australia. In less specialised fields, or fields where there are a large number of Australian researchers, a conference may be national, and occur in Australia.

Other forms of training can occur in Australia or overseas. For example, a researcher may work in the laboratory of another research institute for a period of six months. The purpose of this placement is to enable collaboration on experiments with another research team in that laboratory, as well as the general exchange of ideas and knowledge, and the opportunity to learn new techniques. Such a placement would normally be supported by an arrangement between the participating institutes about the sharing of salary costs, overheads and laboratory costs, and travel and accommodation. Nonetheless, the individual researcher may be required to make a contribution to the overall costs in the form of paying for travel and meeting the full or partial cost of accommodation.

3. In employment relationships, are employees largely obliged to incur work-related education expenses themselves or are they employer provided? Do you anticipate this changing in response to this measure?

Response:

The health and medical research sector is large and diverse, and there are a range of different practices. Nonetheless some generalisations can be made.

As noted above, the majority of health and medical research is publicly funded, and funding is tight. The funding provided by employers to cover costs like conferences and seminars is often inadequate. The level of commitment of researchers to their work means that they will often attend additional conferences and seminars, and undertake additional training at their own expense.

Researchers are largely responsible for their own careers, and in a knowledge intensive, rapidly evolving area like health and medical research, maintaining the currency of a researcher's skills and knowledge is paramount.

The fixed term nature of the employment of many health and medical researchers means that their employer often has less of a commitment to the individual's ongoing education than would be the case if they were permanent employees.

The following is a response provided to Research Australia by a researcher that illustrates the above points.

At last year's ANZCA (Australian and New Zealand College of Anaesthetists) conference in Perth over 4 days, I was invited to give 2 talks and was funded for 2 days registration; I had to pay for travel, registration for another 2 days (as on those days there were many talks on pain & its treatment) and accommodation (total \$1503).

At an International conference in Cambridge (UK) on Pharmacogenomics to which I was invited to give a talk on my area of research, I had to pay \$1442 for travel and accommodation- The University contributed \$2000.

At our National Pharmacology conference in Sydney (4 days) where my PhD students were presenting and I had to chair a session, I paid \$766, The University paid \$1100 for travel and accommodation.

At an International conference on drug metabolism (Netherlands) that I presented our latest results on a pain medicine, I had to pay \$1470 and the University paid \$2000 .

Last year on conferences alone I paid personally \$7200.

4. *Are you aware of examples where education expense deductions can be claimed under the current arrangements, even where significant private benefits are enjoyed?*

Response:

The most obvious personal benefit is associated with travel to conferences, either in Australia or overseas, where the opportunity exists to also undertake a holiday/sightseeing either before or after the conference. Research Australia is not aware of other significant personal benefits.

5. *Are there any lessons for Australia in the experiences of other countries with restrictions on education expenses deductions?*

Response:

Reference is made in the discussion paper 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. The guidance recognises that attendance at the conference can be 'integral to the research process'. This is clearly relevant to the Australian experience, and reflects the point Research Australia has made above that the product of research is knowledge, and that attendance at a research conference directly increases that product.

6. *Should the \$250 no-claim threshold under section 82A of the ITAA 1936 be removed when the \$2,000 cap is introduced?*

Response:

Yes. Research Australia opposes a \$2000 cap. If such a cap is introduced, the \$250 no-claim threshold should be abolished to maximise the amount able to be claimed under the cap.

7. *How should this be prioritised?*

Response:

The removal of the no-claim threshold should be contemporaneous with the introduction of the cap.

8. *What types of assets that relate to an education activity are placed into a low-value pool or similar small business pool?*

Response:

Research Australia makes no response to this question.

9. *What are the advantages/disadvantages of the 'reasonable estimation' method proposed above?*

Response:

Research Australia makes no response to this question.

10. *Is the use of low-value pools under these circumstances appropriate?*

Response:

Research Australia makes no response to this question.

11. *Are there any unintended consequences from the legislative approach proposed for these reforms?*

Response:

Yes. It will damage Australian health and medical research.

It is currently unknown what proportion of the education expenses of health and medical researchers is met by the individuals themselves, although there is anecdotal evidence that this proportion is high relative to other occupations. It is reasonable to assume however, that the proposed \$2000 cap on self education expenses will lead to a reduction in the number of conferences and seminars attended by Australian health and medical researchers. Over time, this change will reduce the overall effectiveness of Australian health and medical research :

- It will delay/impede the dissemination of new knowledge.
- It will reduce the level of collaboration between researchers.
- It will reduce the skill levels of Australian health and medical researchers.
- It will reduce the international profile of Australian health and medical research, with a concomitant reduction in the volume of overseas research funding attracted to Australia, and a reduction in the number of world class overseas researchers who are attracted to Australia.
- By discouraging researchers from contributing to the costs of conferences, it will reduce the overall investment in Australian health and medical research.

12. *What practical aspects of the proposed reforms need further consideration?*

Response:

If self education expenses are to be capped, consideration must be given to the capacity for a tax deduction to be claimed for attendance at conferences and seminars on the basis that the attendance furthers the individual's research, and is therefore a work related expense.

Any specific ban or cap on individuals claiming expenses associated with conferences and seminars as a work related expense must be avoided, and/or must make an allowance for the deduction to be claimed where the attendance furthers the individual's research, and is therefore a work related expense.

13. *Are there any interactions with other areas of the tax law that need to be addressed?*

Response:

Research Australia makes no response to this question.

14. *Do you consider that further amendments will be required to the tax law outside of those already mentioned in the discussion paper?*

Response:

Research Australia makes no response to this question.

15. *Are there alternative approaches that you would like to see considered? How would they work in practice and are there any precedents in Australia or other jurisdictions?*

Response:

If a cap is imposed on self education expenses, the expenses associated with seminars and conferences that are research related must be exempted from the cap and be eligible to be claimed as a tax deduction in recognition that such conferences are integral to the research process and are a legitimate expense incurred in the creation of knowledge.

As a practical consideration, it may be necessary/desirable to create a process that enables a conference organiser to seek a ruling from the ATO that a specific conference, seminar or other event is tax deductible for researchers engaged in a specific type or types of research.

Research Australia does not favour this alternative approach.

CONCLUSION

Research Australia is opposed to the proposed cap on self education expenses. Research Australia supports the principle that tax deductions are allowed for the costs incurred in producing income. The imposition of a cap of \$2000 on self education expenses is an arbitrary and discriminatory breach of this principle. The justification for the cap appears to be a belief that the deduction is being abused. If this is a legitimate concern, a more appropriate alternative to a cap is to better define the circumstances in which the deduction is, and is not, eligible, and to then enforce adherence to the law through the normal compliance procedures of audits etc.

Conferences and seminars, while commonly regarded as educational in nature, have another role in knowledge intensive, rapidly evolving enterprises such as health and medical research. Through a range of different mechanisms (dissemination of information, collaboration, scientific debate) these activities directly enhance and further the creation of knowledge, which is the purpose of research. As such they are a legitimate cost of work related expenses, and any measure which would prohibit a researcher from claiming a deduction for such an expense must be avoided.

The exact extent to which health and medical researchers fund their own self education is unknown. The potential to diminish health and medical research is real but also unquantifiable. Before any action is taken to remove researchers' entitlement to claim a tax deduction for self education expenses, conferences and seminars, Treasury should undertake research and modelling using ATO data to determine the potential effects on health and medical research, and to identify measures which would mitigate those effects.

Health and medical research is a public good, and is largely publicly funded. When a researcher pays to attend a conference or seminar, he or she is directly contributing to this public good. Any tax deduction the individual claims is also supporting this public good. Depending on the individual's highest marginal tax rate, the tax deduction in effect leverages a 1 to 1 or 2 to 1 investment in health and medical research by the individual. This should be encouraged, not banned.

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