



## **Submission to the Senate Economics Legislation Committee on the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019***

This collective submission is made by Research Australia, Medicines Australia, AusBiotech, MTAA, the BioMelbourne Network, AAMRI and LSQ. In short, we represent innovation in health. Our combined membership conducts most health-related research and development (R&D) activities in Australia with the objective of discovering and delivering new health outcomes and a better health system for Australian patients and the world. This membership includes universities, research institutes and small, medium and large companies.

**We are opposed to the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019 (the Bill)* and call on the Senate Committee to recommend the Senate reject the Bill.** The amendments are poorly designed and are based on the false assumption that the R&D Tax Incentive (R&DTI) does not lead to additionality and spillovers. A recent report commissioned by AusBiotech has demonstrated the significant additionality effects of the R&DTI for our sector.<sup>1</sup>

The Coronavirus has exposed Australia's reliance on one major export partner, China, for three of our major exports: minerals, tourism and higher education. Such a concentrated reliance on one export partner and a few exports is unparalleled in the developed world, and it is a situation we need to change dramatically by creating a more innovative and diverse economy that exports a range of goods and services to the world.<sup>2</sup> This means supporting

<sup>1</sup> AusBiotech and Evaluate, 2019, R&D Tax Incentive: Additionality and spillovers for the life sciences industry; <https://www.ausbiotech.org/documents/item/606>

<sup>2</sup> See for example, the *Atlas of Economic Complexity*, developed by Harvard University, which rates the complexity of Australia's economy as the 93<sup>rd</sup> most complex economy in the world, behind Morocco, Uganda and Senegal. 'Australia ranks as the 93<sup>rd</sup> most complex country in the Economic Complexity Index (ECI) ranking. Compared to a decade prior, Australia's economy has become less complex, worsening 22 positions in the ECI ranking. Australia's worsening complexity has been driven by a lack of diversification of exports... Australia is less complex than expected for its income level. As a result, its economy is projected to grow slowly.' Accessed on 26 February 2020 at <http://atlas.cid.harvard.edu/countries/14>

the companies in Australia, both small and large, that are engaging in research and development, creating new jobs and opportunities and diversifying our economy. These are the companies that utilise the R&DTI and which will be disadvantaged by the proposed changes.

The R&DTI provides an excellent mechanism for market forces to determine where and how R&D investment dollars should be invested. It has been highly effective at allocating scarce investment into areas where Australia and its research community have strengths, particularly in health and medical research and innovation. R&DTI is a more effective and predictable system for incentivising investment in small and large businesses than other mechanisms such as grant schemes, which are less predictable and tend to be targeted to deliver a specific policy outcome, rather than encouraging market led investment.

The current Bill initiates a new calculation of the refundable component that will result in a 2.5% lowering of the refundable component for most, if not all, life sciences companies. Under the Bill, the calculation will provide a 13.5% benefit to the applicable corporate tax rate. For the start-ups in our sector, that are 'pre-revenue' and not yet paying tax, this is a cut that directly reduces the amount of R&D they are able to undertake.

The Intensity Measure directed at large companies will reduce the R&DTI available to large companies which incur other expenditure in Australia. This includes expenditure on manufacturing in Australia, providing a perverse incentive for these companies to either reduce their manufacturing here (so their R&D expenditure has a higher weighting) or to move their R&D activity overseas.

These amendments are being proposed at a time when the Australian Government's support for Australian R&D through all programs, including through the R&D Tax Incentive, has fallen from 0.67% of GDP in 2011-12 to 0.48% of GDP in 2019-20.<sup>3</sup> While Australia's R&D is falling, the OECD is reporting an average real increase in Government expenditure on R&D of 2.1% in 2018.<sup>4</sup>

Most of the amendments in the current Bill were the subject of the Senate Committee Inquiry in 2018/19. In a bipartisan report, that Senate Committee rejected these amendments, saying they need to be reconsidered and the issues raised by the Committee needed to be addressed. These issues have not been addressed in the current Bill, and the modelling that has been provided is opaque and questionable. The Senate has been ignored and should reject the Bill for the same reasons it did last time.

**We call on the members of the Senate Economics Legislation Committee to recommend the Senate oppose the passage of the *Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019*.** Further arguments and evidence are provided in the separate submissions of several of this submission's signatories.

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<sup>3</sup> Australian Government, Science, Research and Innovation (SRI) Budget Tables, 2019-20, Australian Government investment in R&D by sector and sub-sector, and other analyses Table 6, Australian Government investment in R&D as a percentage of Gross Domestic Product <https://www.industry.gov.au/data-and-publications/science-research-and-innovation-sri-budget-tables>

<sup>4</sup> OECD, 2020, R&D Budget Trends, <http://www.oecd.org/sti/msti.htm>, accessed on 2 March 2020