



Parliament of Australia
Parliamentary Budget Office

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Parliamentary Budget Officer

Senator Richard Di Natale
Leader of the Australian Greens
Parliament House
CANBERRA ACT 2600

Dear Senator Di Natale

Please find attached a response to your costing request, *Restoring Turnbull's cuts to R&D tax credits* (letter of 27 June 2016).

The response to this request will be released on the PBO website (www.pbo.gov.au).

If you have any queries about this costing, please contact Colin Brown on (02) 6277 9530.

Yours sincerely

Phil Bowen

28 June 2016



Policy costing—during the caretaker period for the 2016 general election

Name of proposal:	Restoring Turnbull's cuts to R&D tax credits
Summary of proposal:	<p>The proposal would reverse the Government's intended (but not legislated) policy to reduce the research and development (R&D) tax offsets by 1.5 per cent in <i>the Tax and Superannuation Laws Amendment (2015 Measures No. 3) Bill 2015</i>.</p> <p>The refundable tax offset would be increased from 43.5 per cent to 45 per cent and the non-refundable tax offset would be increased from 38.5 per cent to 40 per cent.</p> <p>The proposal would have effect from 1 July 2016.</p>
Person/party requesting costing:	Senator Di Natale, Australian Greens
Date of public release of policy:	19 May 2016 http://greens.org.au/sites/greens.org.au/files/20160519_Science%20and%20Research%20Initiative.pdf
Date costing request received:	27 June 2016
Date costing completed:	28 June 2016
Additional information received (including date):	On 28 June 2016, the office of Senator Di Natale advised that the start date of the policy would be 1 July 2016.
Expiry date for the costing:	Release of the next economic and fiscal outlook report

Costing overview

This proposal would be expected to decrease the fiscal balance by \$690 million and decrease the underlying cash balance by \$590 million over the 2016-17 Budget forward estimates period. The fiscal balance impact represents an increase in expenses of \$380 million and a decrease in revenue of \$310 million over this period.

A breakdown of the financial implications of this proposal is presented at [Attachment A](#).

This proposal would have ongoing financial impacts that extend beyond the 2016-17 Budget forward estimates period.

The proposal would not be expected to have any significant impact on departmental expenses, consistent with the 2014-15 Budget measure, *Research and Development tax incentive – reducing the rates of the refundable and non-refundable tax offsets*.

The underlying cash balance impact of this proposal differs from the fiscal balance impact because the refundable tax offset is treated as a budget expense, with the result that the fiscal balance impact accrues in the year that the eligible R&D occurs whereas the underlying cash balance impact occurs when the refundable offset amount is paid in subsequent years. The non-refundable tax offset is treated as a change in tax revenue and, under the tax liabilities method of accounting used for income tax, there is no material difference between the fiscal balance impact and the underlying cash balance impact.

This costing is considered to be of medium reliability as it is based on detailed data on R&D offsets claimed in 2013-14, adjusted to reflect the *2016 Pre-election Economic and Fiscal Outlook* parameters.

Table 1: Financial implications (outturn prices)^{(a)(b)}

Impact on (\$m)	2016–17	2017–18	2018–19	2019–20	Total
Fiscal balance	-90.0	-170.0	-190.0	-240.0	-690.0
Underlying cash balance	-	-170.0	-180.0	-240.0	-590.0

(a) A positive number indicates an increase in the relevant budget balance, a negative number a decrease.

(b) Figures may not sum to totals due to rounding.

Key assumptions

- No behavioural responses have been included in this costing because the 1.5 percentage point reductions in R&D tax offset rates represent relatively small changes to the offsets.
- R&D tax offset claims are assumed to grow in line with nominal gross domestic product.

Methodology

The financial implications of the proposal were estimated by subtracting the amounts claimed by taxpayers using micro-simulated data at the proposed R&D tax offset rates from the amounts that can be claimed by taxpayers under the R&D tax offset rates that underpin the *2016 Pre-election Economic and Fiscal Outlook*.

Estimates have been rounded to the nearest \$10 million.

Data sources

- The Treasury provided the costing model for the Budget 2014-15 measure *Research and Development tax incentive – reducing the rates of the refundable and non-refundable tax offsets*.
- Company R&D expenditure data for 2013-14 was provided by the Australian Taxation Office.
- 2016 Pre-election Economic and Fiscal Outlook parameters.

Attachment A: Restoring Turnbull's cuts to R&D tax credits—financial implications

The following tables provide a breakdown of the estimated financial impacts of the proposed changes to the R&D tax offsets over the forward estimates period on a fiscal balance and underlying cash basis.

Table A1: Restoring Turnbull's cuts to R&D tax credits —Fiscal balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Revenue – non-refundable tax offset	-	-80.0	-90.0	-140.0	-310.0
Expense – refundable tax offset	-90.0	-90.0	-100.0	-100.0	-380.0
Total	-90.0	-170.0	-190.0	-240.0	-690.0

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.

Table A2: Restoring Turnbull's cuts to R&D tax credits —Underlying cash balance^{(a)(b)}

(\$m)	2016–17	2017–18	2018–19	2019–20	Total to 2019–20
Receipts – non-refundable tax offset	-	-80.0	-90.0	-140.0	-310.0
Payments – refundable tax offset	-	-90.0	-90.0	-100.0	-280.0
Total	-	-170.0	-180.0	-240.0	-590.0

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in outlays or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in outlays or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

- Indicates nil.