# Policy costing request—during the caretaker period for a general election

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| **Name of policy:** | Restoring Turnbull’s cuts to R&D Tax Credits |
| Person requesting costing: | Senator Di Natale |
| Parliamentary party:  | Australian Greens |
| Date of request to cost the policy: | 27 June 2016 |
| *Note: This policy costing request and the response to this request will be made publicly available.* |
| Has a costing of this policy been requested under Section 29 of the Charter of Budget Honesty (ie from the Treasury or the Department of Finance)? | No |
| Details of the public release of this policy (Date, by whom and a reference to that release): | <http://greens.org.au/sites/greens.org.au/files/20160519_Science%20and%20Research%20Initiative.pdf>  |
| **Description of policy** |
| Summary of policy (as applicable, please attach copies of relevant policy documents): | To reverse the government’s intended (but not legislated policy) to reduce the R&D tax credits by 1.5% in the Tax and Superannuation Laws Amendment (2015 measures No.3) Bill 2015. This policy is now supported by the Labor Party.The government’s stated policy is to reduce the rates of the tax offset available under the research and development tax incentive for the first $100 million of eligible expenditure by 1.5 percentage points. The higher (refundable) rate of the tax offset will be reduced from 45 per cent to 43.5 per cent and the lower (non-refundable) rates of the tax offset will be reduced from 40 per cent to 38.5 per cent. |
| What is the purpose or intention of the policy? | To stop any deterioration of private investment into R&D, and prevent the continuing decline in public and private investment under this government. |
| **What are the key assumptions that have been made in the policy, including:** |
| Is the policy part of a package?If yes, list the components and interactions with proposed or existing policies. | No |
| Where relevant, is funding for the policy to be demand driven or a capped amount? If a capped amount, are the costs of administering the policy to be included within the capped amount or additional to the capped amount? | Demand Driven |
| Will third parties (for instance the States/Territories) have a role in funding or delivering the policy?If yes, is the Australian Government contribution capped, with additional costs to be met by third parties, or is another funding formula envisaged? | No |
| Are there associated savings, offsets or expenses?If yes, please provide details. | No |
| Does the policy relate to a previous budget measure? If yes, which measure? | Yes, it would keep the existing legislated scheme in place |
| If the proposal would change an existing measure, are savings expected from the departmental costs of implementing the program? | No |
| Will the funding/program cost require indexation?If yes, list factors to be used. | N/A |
| **Expected impacts of the proposal** |
| If applicable, what are the estimated costs each year? If available, please provide details in the table below. Are these provided on an underlying cash balance or fiscal balance basis? |
| **Estimated financial implications (outturn prices)(a)** |
|  | 2016–17 | 2017–18 | 2018–19 | 2019–20 |
| Underlying cash balance ($m) | - | -170 | -180 | -240 |
| Fiscal balance ($m) | -90 | -180 | -190 | -240 |
| 1. 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 positive number in the underlying cash balance indicates an increase in revenue or a decrease in expenses or net capital investment in cash terms.
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| What assumptions have been made in deriving the expected financial impact in the party costing (please provide information on the data sources used to develop the policy)? | For the scheme to continue as it already is. |
| Has the policy been costed by a third party?If yes, can you provide a copy of this costing and its assumptions? | Yes, Treasury costed this policy for the government at a higher $800 million amount. |
| What is the expected community impact of the policy?How many people will be affected by the policy?What is the likely take up?What is the basis for these impact assessments/assumptions? | Difficult to quantify outside of expected higher rates of R&D investment by the private sector. |
| **Administration of policy:** |
| Who will administer the policy (for example, Australian Government entity, the States, non‑government organisation, etc)? | Australian Tax Office and the Department of Industry, Innovation and Science |
| Please specify whether any special administrative arrangements are proposed for the policy and whether these are expected to involve additional transactions/processing (by service delivery agencies). | N/A |
| Intended date of implementation: | 1 September 2016 |
| Intended duration of policy: | Ongoing |
| Are there transitional arrangements associated with policy implementation? |  |
| List major data sources utilised to develop policy (for example, ABS catalogue number 3201.0). |  |
| Are there any other assumptions that need to be considered? | The explanatory memorandum to the bill states the following financial benefit that would occur through the changes:

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| ***2015-16***  | ***2016-17***  | ***2017-18***  |
| $160m  | $200m  |  $190m  |

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| **NOTE:***Please note that:**The costing will be on the basis of information provided in this costing request.**The PBO is not bound to accept the assumptions provided by the requestor. If there is a material difference in the assumptions used by the PBO, the PBO will consult with the requestor in advance of the costing being completed.* |