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Senate Standing Committee on Economics
Committee Office
Department of the Senate
Parliament House, Canberra ACT 2600

www.aph.gov.au/senate

ATTENTION: Ms Taryn Morton

AI GROUP: RESPONSES TO QUESTIONS ON NOTICE

Inquiry into the Treasury Laws Amendment (Research and Development Tax Incentive) Bill 2019, Public Hearing on 29 June 2020

Dear Taryn,

Our responses to the questions we took on notice from Senator Carr are sent out below.

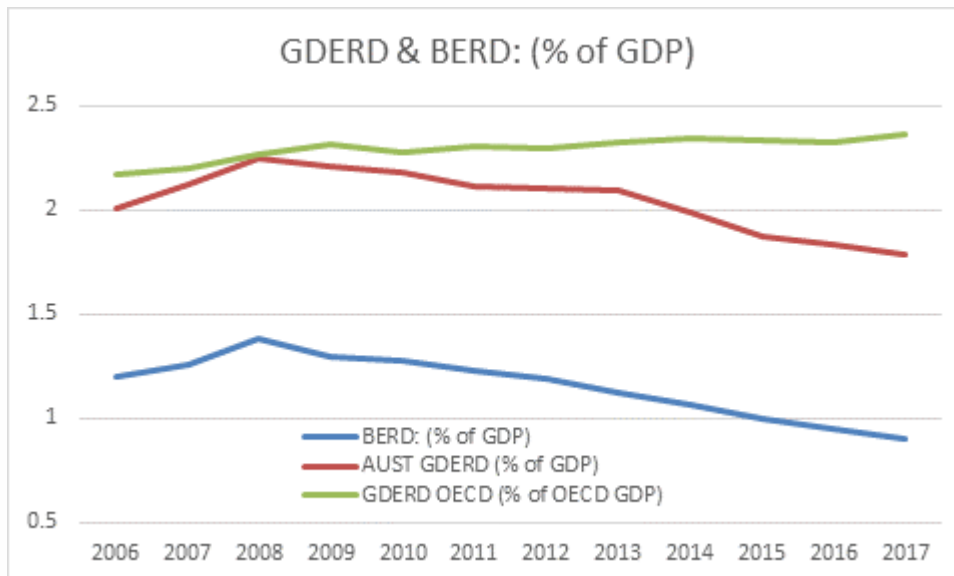
1. In relation to Manufacturing Australia's assertion that the marginal rate of R&D Tax Incentive for manufacturers has reduced by 55 per cent since 2016:
 - We understand that MA stated that the combined effect of two successive changes to the R&DTI was a 55% reduction in the rate of incentive – the changes being a 2016 reduction in the claimable rate from 40% to 38.5% for entities with turnover above \$20m, and the presently proposed reduction which would cut the rate for most of those entities from 38.5% to 34.5%.
 - We agree that for many innovation-active Australian businesses this will have amounted to a reduction of 5.5 percentage points in the marginal rate of incentive. Describing this as a “55% reduction” is accurate, though open to confusion between percentage points of rate and proportion of the pre-2016 level of incentive beyond the company tax rate.
 - We note that the 2016 reduction was originally intended to preserve the value of the incentive relative to the underlying

company tax rate, which was proposed to be reduced by the same amount. In the end the company tax cut did not proceed in that form, but the R&D Tax Incentive change did – and became a net cut in the incentive. This was a perverse outcome.

2. In relation to Senator Carr's request for assistance on the proposition that there has been a 32 per cent reduction in BERD (business expenditure on research and development) since 2015-16, according to the SRI Tables (Science, Research and Innovation):
 - As phrased, Senator Carr's point may conflate two data sets that have shown different trends.
 - With respect to SRI data, the 2019-20 SRI tables state that expected public investment in extramural R&D by the business enterprise sector was expected to be \$2,402.88 million in 2018-19, down from \$3,084.86 million in 2015-16. This is a reduction of around 22%. The bulk of the reduction was accounted for by reductions in the expected R&DTI claims.
 - With respect to BERD data, according to the most recent figures from the Australian Bureau of Statistics, BERD increased by 5% in current price terms and increased by 4% in chain volume terms from 2015-16 to 2017-18. BERD as a proportion of Gross Domestic Product (GDP) decreased from 1.0% in 2015-16 to 0.9% in 2017-18.
 - Overall, then, public support for business innovation has significantly reduced from 2015-16 to 2018-19 in absolute dollar terms. Private investment in R&D has increased in dollar terms, and fallen as a share of the economy, from 2015-16 to 2017-18.
 - Taking a slightly longer-term view, we present below a chart that records data on Australian and OECD Gross Domestic Expenditure on R&D (GDERD) and Australian Business Expenditure on R&D as a share of GDP from 2006 to 2017 (which is the latest data available from the ABS).

It shows that Australian BERD and GDERD as a share of GDP peaked in 2008 but both have since declined. The fall in Australian GDERD as a share of GDP correlates extremely closely with the fall in Australian BERD as a share of GDP since 2008. We include the OECD GDERD data as a point of comparison. It shows that, across the OECD GDERD, did not fall as share of total OECD GDP over the post-GFC years.

TABLE 1: GDERD IN AUSTRALIA AND THE OECD AND BERD IN AUSTRALIA 2006 to 2017



Sources:

OECD Database (see <https://data.oecd.org/rd/gross-domestic-spending-on-r-d.htm>); and
ABS 8104.0 - Research and Experimental Development, Businesses, Australia, 2017-18.
Note: The ABS has reduced the frequency of publication of R&D data and for the few years for which no data is available the above Chart interpolates between the nearest available data points.

3. In relation to Senator Carr's request for information about the advice businesses have received about claims for the 2019-20 year, we are informed that both the ATO and AusIndustry have advised businesses to apply on the basis of the existing legislation. We are also informed that businesses have been advised that if the current Bill is passed, that they will need to amend their tax returns. This information reinforces our concerns that the bill is proposing a retrospective change to the R&DTI.

Yours sincerely,

Peter Burn
Head of Influence and Policy