24th January 2014

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Email: economics.sen@aph.gov.au

Dear Committee,

Re: Tax Laws Amendment (Research and Development) Bill 2013

The University of New South Wales welcomes the opportunity to provide this submission to the Senate Economics Legislation Committee's inquiry into the *Tax Laws Amendment (Research and Development) Bill 2013*.

As one of Australia's largest research-intensive Universities, UNSW is well placed to comment on the proposed changes and the unintended consequences that they may have on other sectors, including the higher education sector.

The University of New South Wales does not support the *Tax Laws Amendment (Research and Development) Bill 2013*. The Government should support research and development (R&D) undertaken by all entities irrespective of size.

1. DECLARATION OF INTERESTS

This submission is being made on behalf of The University of New South Wales (UNSW). UNSW is a member of the ***Group of Eight***[1] research intensive Universities, a member of ***Universitas21***[2], an international network of research intensive Universities, and the ***Global Alliance of Technological Universities***[3] (Globaltech), as one of the world's top science and technology universities.

UNSW is a world leader in the areas of Biomedical Sciences, Water, Environment & Sustainability, Next Generation Materials & Technologies, Social Policy, Government & Health Policy, ICT, Informatics & Robotics, Business, Law & Economics. UNSW is a core or supporting participant in 11 Cooperative Research Centres, and is a national leader in the ARC Linkage Project Grant Scheme.

About 30% of UNSW's research effort is supported by Australian Industry who are R&D entities directly impacted by the proposed changes. UNSW, on average over the past 7 years, has received research income from Australian industry of about $20M *pa*, of which $6M comes from ten R&D entities with aggregated assessible income in excess of $20B *pa*.

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[1] See http://www.go8.edu.au/
[2] See http://www.universitas21.com/
[3] See http://www.globaltechalliance.org/aboutus.html

Professor Les Field AM | Vice President & Deputy Vice-Chancellor (Research)
THE UNIVERSITY OF NEW SOUTH WALES | UNSW SYDNEY NSW 2052 AUSTRALIA
T +61(2) 9385 2700 | F +61 (2) 9385 8008 | E l.field@unsw.edu.au ABN 57 195 873 179 | CRICOS Provider Code 00098G
SYDNEY | CANBERRA | AUSTRALIA

2. COMMENTS

UNSW makes the following points:

- There is no question that a strong research and development base underpins the national economy, drives innovation and international competitiveness. The statement contained in the explanatory memorandum that the amendment "*better targets the R&D tax incentive to businesses that are more likely to increase their R&D spending in response to government incentives, delivering a greater return for taxpayers*" is a knee-jerk, short-sighted response to the national budget position in an attempt to find $1.1B in short-term savings. **There is no evidence to suggest that the proposed changes will in any way achieve the stated aims of better targeting the Program to businsees that are more likely to increase R&D expenditure.** The *National Innovation Report* 2013 states that:

  > *"SMEs are lean innovators, accounting for a very small share of total investment in innovation, and are much less likely to generate new-to-world innovations. By contrast, large Australian businesses made up the majority or total investment in innovation, are much more likely to collaborate with the research sectors and generate new-to-the-world innovations."*[4]

  Further, there is no evidence that the stated savings of $1.1B will be achievable should large entities re-direct R&D funds to other activies should the tax incentive be removed.

- While UNSW recognises the difficult budgetry position of the Government, **it is difficult to see how the proposed changes are in the national interest**. The $1.1B identified savings should be found from alternative measures. During the recent global financial crisis, key governments around the world recognised the importance of a strong, innovation led recovery including our key trading partners of China and Korea.[5] The proposed changes are likely to increase the proportion of foreign R&D investment in Australia, and with that take valuable intellectual property off-shore.

- It is essential for Australia to maintain a strong University research sector. A strong university research sector relies on collaborative industry investment in R&D. Further, the research intensive Universities provide the research environment in which we train the future generation of skilled staff and build capacity to drive the emerging industry sectors like nanotechnology, advanced manufacturing, the biomedical and pharmaceutical industry, medical sciences and the treatment of disease, the IT and communication sector *etc*. **The removal of the R&D tax incentives for entities with aggregated assessible income in excess of $20B *pa* will have the unintended consequence of reducing univerisity/industry research, and creating incentives for any continued R&D expenditure by large entities to be directed off-shore**. UNSW would recommend that the R&D Tax incentives should be increased for all entities where the R&D is conducted at Australian Universities.

- **The significant drive in recent years by the former and current Government to increase university/industry cooperation and engagement is at direct odds with the proposed changes** and directly contradicts a number of Government policies and reports including the "*National Innovation Report"* released in December 2013 and the "*Policy to Boost the Competitiveness of Australian Manufacturing*"[6] made by the Government during the election campaign.

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[4] Page 9, Australian Innovation System Report 2013 - http://www.innovation.gov.au/Innovation/ReportsandStudies/Pages/InnovationPolicyReport.aspx
[5] See http://www.oecd.org/sti/sti-outlook-2012-chapter-1-innovation-in-the-crisis-and-beyond.pdf
[6] See http://www.nationals.org.au/Portals/0/2013/policy/0821x33-Manufacturing.pdf

- **The proposed amendments will disincentivise R&D expenditure by Australian companies who are most able to afford investment in Australia's innovation system**. This concern supported by other submissions to the Inquiry including that of Caltex who believe that availability of the tax incentive has a "*direct positive impact on the level of investment which industry participants are willing to commit to R&D*". As many Australian organisations close down their R&D and technolgy transfer arms, they rely more heavily on Australia's research intensive universities to provide the skilled graduates and work with industry to drive new industry knowledge, systems, technologies and processes, which in turn drives Australian innovation, economic development and international competiveness.

UNSW has read, and supports, a number of points made in other submissions to the Committee including *(i)* the negative impact of the proposed changes on Australia's international reputation and competitiveness, *(ii)* the lack of evidence that the proposed changes will stimulate R&D expenditure by smaller entities; *(iii)* the lack of appropriate consultation and consideration; *(iv)* lack of understanding of the flow-on value of large entity R&D investment.

UNSW would welcome the opportunity to further discuss the consequences of the proposed changes or to answer any questions the Committee might have.

Yours sincerely,

Professor Les Field
Vice-President & Deputy Vice-Chancellor (Research)