Australian Innovation Research Group

INNOVATION INSIGHTS
MAY 2018

The Government's Budget offers few changes to meet the recommendations of the 2030 Plan

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PETER WILLIAMSON OFFERS SOME OF HIS PERSONAL VIEWS ON THE BUDGET IN THE CONTEXT OF RECENT MELBOURNE ROUND TABLE DISCUSSIONS ON ISA'S PROSPERITY THROUGH INNOVATION 2030 PLAN.

Late April the AIRG's regular Melbourne Monthly Round Table discussed Innovation and Science Australia's 2030 Plan and the meeting's collective views on whether or not our nation's political leaders were match-fit to take on the challenge of government becoming a catalyst to improved R&D and innovation commercialisation.

The Budget has now been released and, in line with manyviews expressed by AIRG Members, few of the 2030 Plan's thirty recommend-ations seem to be reflected to the extent recommended by ISA.

The Budget Context offers some reasons for optimism

- An unexpected tax windfall means a promised return to surplus a year earlier, and the deficits in the near term are smaller.
- Treasury's economic forecasts remain optimistic – real GDP growth of 3% and healthy rises in wages. The earlier return to surplus and debt reduction mean the coveted AAA-credit rating should be secure.
- The often-discussed personal tax breaks are included, albeit spread over seven years and the outstanding company tax cuts have been retained, albeit spread over 10 years.
- There is increased spending on health, aged care, national security and a further boost to infrastructure commitments.
- There's much discussion of increased support for innovation, however, there are significant changes that could affect those that access incentives.

There is a Budget commitment to increase support for publicly funded research initiatives

Many of our university and CSIRO colleagues will be pleased and many of our Corporate Members may see improved facilities here at home. There is a commitment to invest an additional $1.9 billion in Australia's National Research Infrastructure over the 12 years from 2017-18. This will include:

- more than $300 million into the space industry and the creation of an Australian Space Agency and $260 million to be invested in developing a world-leading core satellite infrastructure and technologies, including better GPS and satellite imagery.
- An investment of almost $30 million in artificial intelligence and machine learning, including funding of dedicated PhD scholarships and additional CRC funding for AI and ML capabilities.

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- Investment in Australia's supercomputer infrastructure doubling to $70 million.

Moreover, there is a commitment to a $1.3 billion National Health and Medical Industry Growth Plan. Somewhat aligned with one of the 2030 Plan's "ambitious national Missions" identified in the Culture and Ambition Imperative, this investment is intended to cement Australia's place as a world leader in health and medical research and technology development. The Government estimates that it will provide 28,000 newly skilled jobs, provide for a minimum of 130 new clinical trials, and add a 50 per cent increase in exports, new markets and global market leadership in biotechnology, medical devices and pharmaceuticals. The investments from the Growth Plan will include:

- Millions Minds Mental Health Research Fund.
- Rare cancers, rare diseases and unmet need clinical trials activity.
- A $125M Targeted Translation Research Accelerator.
- A $500M investment over ten years in the Australian Genomics Health Futures Mission.

As anticipated, there are significant changes to the R&D Tax Incentives

In our March 2018 Melbourne Round Table, our Guest Speaker foreshadowed expectations that regardless of the innovation-related rhetoric from the government, there was a real determination to reduce the payments being made under the R&D Tax Incentive.

Patrick Durkin in the Australian Financial Review commented that he expected that companies, including high-tech manufacturers, start-ups and venture capital firms will be up in arms after the federal government confirmed it would cut $2.4 billion from the research and development incentive for business over the forward estimates but does not follow the 2030 Plan recommendations to use this reduction to fund more direct support or deliver new funding for commercialisation. The changes will apply for income years starting on or after 1 July 2018.

As Durkin states, for companies with aggregated annual turnover below $20 million, the refundable R&D offset will be a premium of 13.5% above a claimant's company tax rate. Cash refunds from the refundable R&D tax offset will be capped at $4 million per annum, in line with the ISA's recommendation of a $4 million annual cap on the refundable component of the program. No lifetime cap will be implemented. R&D tax offsets that cannot be refunded will be carried forward as non refundable tax offsets to future income years.

Importantly for Australia's early stage life sciences sector, refundable R&D tax offsets from R&D expenditure on clinical trials will not count towards the cap.

For larger companies with aggregated annual turnover of $20 million or more, the Government will introduce an R&D premium that ties the rates of the non refundable R&D tax offset to the incremental intensity of R&D expenditure as a proportion of total expenditure for the year (4% for R&D expenditure between 0% to 2% R&D intensity, 6.5% for R&D expenditure above 2% to 5% R&D intensity, etc.). The R&D expenditure threshold — the maximum amount of R&D expenditure eligible for concessional R&D tax offsets, will be increased from $100 million to $150 million per annum.

Bill Ferris in recent talks to the Australian Institute of Company Directors expressed views that reductions to the RDTI would be well shifted to favour exporting innovators via mechanisms such as the EMDG. I could not find evidence that this has been budgeted for in any meaningful way; disappointing for all of our export focused SME's.

Despite many recommendations languishing, ISA will become a part of the compliance regime

The Government will also look to improve the integrity of the R&D program by implementing stronger compliance and administrative improvements. These improvements include increased resourcing for the ATO and Department of Industry, Innovation and Science, which will be used to undertake greater enforcement activity and provide improved program guidance to participants.

ISA will be given the same power as the Australian Tax Office to set precedent on claims for the research and development tax incentive.

This crackdown, while warranted, probably means that compliance for all innovative companies will become even more burdensome and some of the frustrations that AIRG Members have expressed with regulators being ill-informed about the innovation matters required to understand RDTI submissions may be exacerbated. I feel AIRG may have a role here, assisting the Government's regulators understand how compliance operations can be streamlined.

AIRG's next regular Melbourne Round Table is scheduled for 22nd May 2018 and I expect that we'll discuss the Budget and its implications for our innovation ecosystem at length in the opening session.

We are also intending to commence regular Round Tables in Sydney in June 2018. If you are interested to participate in our Sydney sessions, please let me know.

You can find out more about these and other member engagement activities online.