



Tax Insights

Consultation continues on Strategic Examination of Research and Development

The Research and Development Tax Incentive (R&D Tax Incentive or RDTI) is a cornerstone of Australia's innovation system. Since its introduction in 2011, it has attracted billions of dollars of local and foreign investment and helped businesses expand product offerings and generate additional revenue, with significant spillover benefits to the Australian economy. At a time when productivity is in the spotlight, the RDTI remains one of the most powerful levers to stimulate the economy and support businesses to seize the next wave of scientific and technological advances. However, regulatory complexity is placing an increasing administrative burden on innovators and threatens to strangle the very creativity and agility that the RDTI is intended to unleash.

The Strategic Examination of Research and Development being undertaken by the Australian Government highlights limitations of the RDTI as it currently stands, and the consultation process has given a voice to key stakeholders who engage with the RDTI. Key areas suggested for improvement include simplifying access and compliance, broadening eligibility, and embedding further incentives to encourage collaboration. Reducing the administrative burden, more targeted incentives—particularly those that foster genuine partnerships between industry and research institutes—and support for a more flexible RDTI program to support diverse and evolving research and development (R&D) activities are critical to unlocking Australia's full innovation potential.

On 27 August 2025, it was announced that the independent expert panel leading the Strategic Examination of Research and Development will be consulting on issues papers to inform the examination. The first paper presents a model for a more coordinated national approach to research, development and innovation (RD&I). A key focus of this model is overcoming the fragmentation in the current RD&I system and providing more targeted support to key priority areas (e.g. health, defence, agriculture, energy, and resources) to improve the scale and impact of RD&I outcomes. Subsequent issues papers will be released for consultation progressively.

Discussions around the proposed reforms are a welcome step towards making the RDTI more effective, particularly as part of a more coordinated model to drive enhanced collaboration and targeted investment aligned with national strategic priorities. Nonetheless, clear and decisive action is required to maximise the impact of RD&I across industry, academia and government to enable Australia to develop a resilient, coordinated, and globally competitive R&D system—one that delivers value for business, society, and future generations.

Strategic examination of R&D in Australia

A strategic examination of Australia's R&D system is currently underway as the Australian Government seeks to increase and improve the effectiveness of investment in R&D, including encouraging more effective collaboration across industry, academia and government. Recent findings from stakeholder consultation reveal the need for a more cohesive, dynamic, and efficient R&D system across the entire innovation pipeline from foundational discovery to commercialisation. The importance of increasing business sector investment in R&D is also highlighted with a focus on the RDTI program, which is vital for driving business R&D investment. Stakeholder feedback and industry trends further underscore the importance of a streamlined RDTI program to reduce barriers to current innovation challenges.

Consultation papers are being progressively released from 27 August 2025 on key issues identified as part of the examination to date and feedback is encouraged to inform potential reforms proposed to improve the Australian RD&I system.

R&D Tax Incentive (RDTI) in Australia: Overview and Strategic Reform Agenda

Overview of the RDTI and Its Role in Australia's R&D Ecosystem

The RDTI offers tax offsets to encourage business investment in R&D, promoting innovation across the business sector. For emerging businesses and start-ups, the refundable RDTI offers vital financial support that helps overcome early-stage funding barriers. For larger, more established businesses, including multinational groups, the RDTI offers additional support based on the R&D intensity of the business. Despite its benefits, stakeholder feedback indicates a consensus that the RDTI's current design and administration limits its effectiveness and requires targeted reforms to address administrative complexity, increase flexibility, and foster collaboration to ensure the program delivers maximum value across all business types and the full spectrum of R&D activities required to grow Australia's innovation capability.

Key Challenges in Australia's RDTI program

Stakeholder feedback obtained through the Strategic Examination of Research and Development highlights a series of persistent issues with the RDTI in its current form, including:

- **Administrative burden:** The RDTI is seen as administratively complex, with stringent documentation and substantiation requirements that deter resource-constrained businesses, particularly small-medium enterprises and startups.
- **Narrow eligibility:** The current definition of eligible R&D activities is seen by some as being too restrictive and lacking flexibility, particularly in defining how software R&D activities meet the eligibility criteria, thereby potentially excluding certain types of development.

- **Fragmented support for commercialisation:** The RDTI tends to favour early-stage research, with insufficient mechanisms to incentivise and support late-stage commercialisation.
- **Barriers to collaboration:** The program does not strongly incentivise partnerships between industry and research organisations, missing opportunities to foster cross-sector innovation.

Opportunities for Reform and Strategic Direction

Several reforms are proposed to enhance the effectiveness and uptake of RDTI in response to current challenges, including:

- A regional innovation tax incentive to stimulate greater engagement across regions and introducing a 20% collaboration premium, as part of a tiered incentive model that offers varied levels of tax offset rates based on sector and collaboration type.
- Higher RDTI offsets for industry-university partnerships to encourage collaborative efforts between businesses and research organisations, rewarding strategic partnerships.
- Removal or significant increase of the current threshold and cap to allow support for larger, more capital-intensive R&D projects.
- Alignment of the RDTI with national priorities and initiatives such as the National Reconstruction Fund, Future Made in Australia or key sectors crucial to Australia's economic resilience. Linking incentives to key initiatives and industries that support development of infrastructure and innovation precincts, as examples, could unlock further innovative R&D across both business and academia to ensure public investment delivers strategic value while fostering cross-sector collaboration.
- Operational improvements such as quarterly reporting and rebates, simplified claims and application processes (especially for smaller businesses), and the introduction of safe harbour expenditure measures to ease compliance to make the RDTI more accessible.
- Broadening eligibility criteria to reflect modern R&D practices—including non-traditional sectors and software-related activities—as a means to foster a more inclusive innovation ecosystem and better capture real-world innovation pathways.
- Expanding support for late-stage commercialisation—potentially through targeted grants or supplementary incentives—to help bridge the gap often described as the “valley of death” for new technologies.
- Calls for tax breaks for businesses that employ PhD students, concessional arrangements for open access to R&D information, and personal tax offsets for industry professionals undertaking PhDs.
- Other financial incentives suggested include income-contingent loans for R&D activities, a 50% tax break for superannuation funds investing in R&D, and an opt-in model (as in the UK) for individual superannuation members to invest in high-growth assets. Recommendations were also raised in support of patent box schemes across a range of sectors and introduction of a national innovation voucher scheme.

Concluding Remarks

The RDTI is a significant lever to incentivise business investment in R&D, if designed and administered effectively. The Strategic Examination of Research and Development has highlighted several limitations of the RDTI, and the consultation process has provided an avenue for constructive dialogue regarding reforms to maximise the potential of the program.

Issues papers are being progressively released from 27 August 2025 and based on the panel's initial conclusions, we can expect further consultation in respect of RD&I incentives, including the RDTI.

Recent administrative changes to the RDTI, including the release of a new, more detailed R&D application form, as well as the announcement of more formalised review processes, raise questions as to whether the feedback obtained through the Strategic Examination of Research and Development to date is being received by key decision makers. This highlights that although dialogue is welcome, clarity and decisiveness of response will be critical to achieve any real improvement in the effectiveness of the RDTI in maximising the value of investment in R&D to build Australia's innovation capability, address national strategic priorities and foster new industries.

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