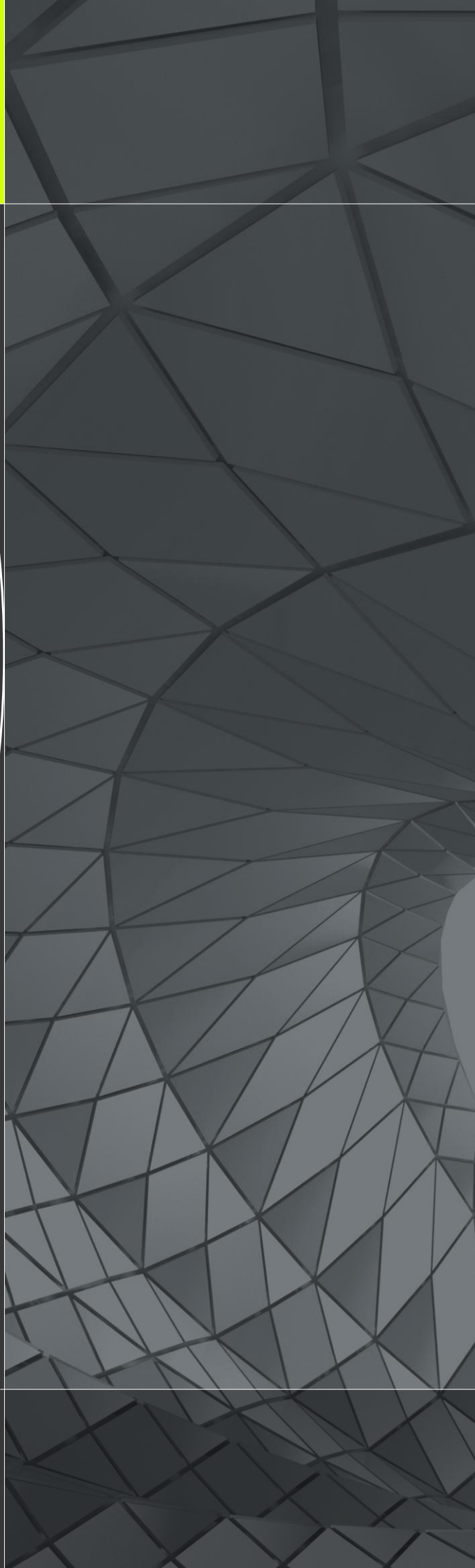
BCA
Business Council of Australia

Better targeting the Research and Development Tax Incentive – exposure draft

BCA Submission

September 2026



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This report addresses key issues highlighted by the BCA, including:

1. Executive summary

The Business Council of Australia (BCA) welcomes the opportunity to respond to the exposure draft legislation to amend the Research and Development Tax Incentive (RDTI). The BCA represents around 130 of Australia's largest companies and research institutions, which undertake and support research and development (R&D) across the economy, including advanced manufacturing, technology, health, energy, resources and financial services.

We are concerned by the limited consultation undertaken on the exposure draft and the 12 working days provided for stakeholders to respond. Given the significance and complexity of these reforms, a longer consultation period would have enabled businesses to more fully assess their impacts and provide considered feedback.

Increasing R&D investment is critical to lifting Australia's productivity, raising living standards and strengthening economic resilience. It drives new industries, improves productivity in established sectors and builds the capabilities Australia needs to respond to economic and global shocks. A strong R&D ecosystem is therefore central to a more productive, diversified and secure economy.

The BCA strongly supports the Government's objective of increasing business investment in R&D. At a time when Australian business R&D remains weak by international standards, the RDTI should provide a strong, simple and internationally competitive incentive to invest in Australia.

The BCA supports the proposed:

- increase in offset rates for eligible R&D activities
- reduction in the intensity threshold for the higher non-refundable offset from 2 per cent to 1.5 per cent
- increase in the turnover threshold for the refundable offset from $20 million to $50 million
- increase in the minimum expenditure threshold from $20,000 to $50,000
- increase in the maximum expenditure eligible for the premium offset from $150 million to $200 million.

The BCA considers this a positive step, but maintains that the threshold should be increased to at least $250 million and indexed, with a longer-term objective of removing it altogether.

However, the benefits of these reforms should not be offset by measures that arbitrarily restrict access to refundability or narrow the range of legitimate R&D expenditure supported by the scheme.

The BCA therefore does not support the proposed 10-year limit on access to the refundable offset, with a 15-year extension for eligible therapeutic goods R&D. Company age is a poor proxy for R&D impact and maturity, and long development cycles are not unique to therapeutic goods. The age restriction should be removed or replaced with an outcomes-based approach consistent with the Strategic Examination of R&D (SERD) final report, *Ambitious Australia*.

The BCA also does not support removing supporting R&D activities from the scheme. Instead, these activities should be retained through a simplified deemed-rate approach, as recommended by *Ambitious Australia*, to reduce complexity while continuing to support legitimate R&D expenditure. In addition, the definition of R&D should be modernised to reflect the reality of innovation and ensure Australia is internationally competitive.

The Government has described these reforms as the first stage of its response to the *Ambitious Australia* report, with further reforms to be considered. The BCA considers the next stage should include stronger incentives for commercialisation and collaboration, including a production and commercialisation incentive, and measures to strengthen collaboration between industry and the research sector.

2. Key recommendations

Recommendation 1.

- Proceed with the proposed increases to RDTI offset rates, reduction of the intensity threshold to 1.5 per cent, increase in the refundable turnover threshold to $50 million and increase in the minimum expenditure threshold to $50,000.
- Increase the maximum expenditure eligible for a premium offset to $200 to $250 million and index it, with a longer-term objective of removing the threshold altogether.

Recommendation 2.

- Remove the proposed 10-year and 15-year age restrictions on access to the refundable RDTI.
- Instead, develop an outcomes-based test consistent with the *Ambitious Australia* approach, focused on indicators such as sustained growth and R&D investment rather than corporate age.

Recommendation 3.

- Retain eligibility for supporting R&D activities.
- Implement the *Ambitious Australia* recommendation for a deemed rate for supporting activities, developed in consultation with industry, to simplify claims, reduce compliance costs and provide greater certainty while maintaining appropriate integrity controls.
- Modernise the definition of eligible R&D to better reflect contemporary industry-led research and the full systematic experimental process, drawing on the OECD Frascati framework and developed in consultation with industry.

Recommendation 4.

- Introduce a production and commercialisation tax incentive that provides additional support where Australian R&D is subsequently commercialised and produced in Australia, building on the BCA's previous commercialisation proposal and Recommendation 7 of the *Ambitious Australia* report.

Recommendation 5.

- Introduce a Collaboration Premium of up to 20 per cent on the non-refundable R&D tax offset for eligible R&D undertaken in partnership with universities, public research organisations or startups.

3. Strengthening the R&D Tax Incentive

Business investment in R&D is critical to lifting Australia's productivity, competitiveness and economic resilience. This is increasingly urgent: labour productivity growth averaged just 0.3 per cent a year between 2015 and 2025, less than one quarter of its 60-year average of 1.6 per cent.[1] The 2026 Intergenerational Report reinforces the importance of lifting productivity as Australia confronts an ageing population, slower population growth and major technological and industrial change.[2]

R&D is a key driver of productivity, enabling businesses to develop and adopt new technologies, improve processes and create higher-value products and industries. Yet Australian business R&D intensity is just 0.9 per cent of GDP,[3] compared with an OECD average of 1.99 per cent.[4] Strengthening the incentives for businesses to undertake and commercialise R&D in Australia should therefore be a central part of the productivity agenda.

The BCA therefore welcomes several elements of the exposure draft that strengthen the incentive and better support businesses to invest and scale in Australia.

3.1 Increasing RDTI offset rates

The BCA supports the proposed increase in RDTI offset rates. The exposure draft increases the refundable offset from 18.5 to 23 percentage points above the corporate tax rate and increases the two non-refundable rates from 8.5 and 16.5 percentage points to 13 and 21 percentage points respectively.

Higher offset rates will strengthen the incentive for businesses to undertake R&D onshore and improve Australia's competitiveness as a destination for globally mobile R&D investment. This is particularly important given the high upfront costs, long time horizons and uncertain commercial returns associated with research and innovation.

The BCA supports these increases for eligible R&D expenditure. This support should not be read as support for narrowing the expenditure base through the proposed removal of supporting R&D activities, which is addressed separately in this submission.

3.2 Reducing the R&D intensity threshold

The BCA supports reducing the intensity threshold for the higher non-refundable offset from 2 per cent to 1.5 per cent of total expenditure.

The current intensity test can disadvantage businesses with substantial Australian operations and high operating costs, including manufacturers. A company can undertake significant R&D in Australia but fall below the current threshold because expenditure on production, materials, employees and other local activities increases its overall cost base. BCA members have also identified this as a structural disadvantage for firms maintaining significant operations onshore.

Reducing the threshold to 1.5 per cent will allow more R&D-intensive businesses, including those with substantial Australian operations, to access the higher incentive.

3.3 Increasing the refundable turnover threshold

The BCA supports increasing the aggregated turnover threshold for the refundable offset from $20 million to $50 million. This will allow growing businesses to retain access to the refundable offset for longer as they scale, rather than moving to the non-refundable offset once turnover exceeds $20 million.

This is particularly important for scale-ups, where cash flow remains critical as businesses increase investment, expand their workforce and commercialise new products and technologies. Raising the turnover threshold will

[1] Productivity Commission, *Growth mindset: how to boost Australia's productivity, 5 productivity inquiries*, 2025, Canberra
[2] Australian Government, Intergenerational Report, September 2026
[3] ABS BERD statistics
[4] OECD Gross domestic spending on R&D, 2025

provide greater continuity of support through this growth phase and better incentivise innovative businesses to scale in Australia.

3.4 Updating the expenditure thresholds

The BCA supports increasing the minimum expenditure threshold from $20,000 to $50,000. This provides a reasonable means of focusing the RDTI on R&D activity undertaken at greater scale. The exposure draft appropriately retains the existing exception for eligible expenditure through Research Service Providers and Cooperative Research Centres below the minimum threshold.

The BCA also welcomes the increase in the maximum expenditure eligible for the premium RDTI rate from $150 million to $200 million. This will strengthen the incentive for businesses undertaking R&D at scale and improve Australia's competitiveness as a destination for large R&D investments.

However, the BCA continues to support removing the expenditure ceiling altogether. Large-scale R&D investment is globally mobile, and the threshold weakens the incentive to undertake additional R&D in Australia once it is reached. At a minimum, the threshold should be increased to $250 million and indexed.[5]

Recommendation 1.

- Proceed with the proposed increases to RDTI offset rates, reduction of the intensity threshold to 1.5 per cent, increase in the refundable turnover threshold to $50 million and increase in the minimum expenditure threshold to $50,000.
- Increase the maximum expenditure eligible for a premium offset to $200 to $250 million and index it, with a longer-term objective of removing the threshold altogether.

[5] BCA Submission to the Strategic Examination of R&D. June 2025

4. Avoiding unintended disincentives to R&D investment

The BCA supports efforts to improve the effectiveness, integrity and value of the RDTI. However, better targeting should strengthen the incentive for businesses to undertake additional R&D in Australia, not arbitrarily restrict access or exclude legitimate expenditure that is integral to the research and development process.

Two elements of the exposure draft risk working against the Government's broader objective of lifting business R&D: restricting access to the refundable offset according to company age, and removing eligibility for supporting R&D activities. Both measures depart materially from the approach recommended by the Strategic Examination of R&D (SERD)[6] and should be reconsidered.

4.1 Restrictions on refundability according to company age

The exposure draft limits access to the refundable RDTI to businesses within the first 10 years of the earlier of commencing an enterprise or first registering for the RDTI. Qualifying therapeutic goods R&D may retain access for up to 15 years. Businesses outside these periods that remain below the $50 million turnover threshold can continue to access the highest offset rate, but on a non-refundable basis.

The BCA does not support using company age to determine access to refundability. Age is a poor proxy for R&D impact and commercial maturity or the need for cash-flow support. A company may commence a significant new R&D program more than 10 years after establishment yet be ineligible for the refundable offset from the outset.

Nor do businesses scale to a fixed timetable. Members have highlighted that Australian businesses can remain at similar stages of development well into the 7–12 year period, depending on market conditions and access to capital. Funding at this stage often comes from a mix of revenue, RDTI support, debt and equity. Removing refundability at an arbitrary 10-year point could disrupt this funding mix just as a business is seeking to commercialise and scale.

This is particularly relevant to university spinouts and technology ventures that may be incorporated early to secure intellectual property, undertake validation or raise capital, but remain pre-revenue or loss-making for years. In these cases, company age can bear little relationship to commercial maturity or financial capacity.

The BCA is also concerned that the age test applies by reference to connected entities and affiliates. This could create unintended consequences for university and corporate spinouts, restructures and newly established R&D vehicles by effectively attributing the age of an established related entity to a new venture.

The 15-year extension for therapeutic goods highlights a broader weakness in the approach. Long development and commercialisation cycles are not unique to therapeutic goods. Deep technology, advanced manufacturing, clean energy, quantum, defence and other capital-intensive technologies can also require long periods before generating sustainable revenue.

SERD proposed a different approach, linking ongoing access to refundable support to business growth and outcomes, including an on- and off-ramp based on revenue growth, rather than company age. This better reflects the reality that businesses reach commercial maturity at different stages and that withdrawing refundability during a critical growth phase can hinder scaling.

[6] *Ambitious Australia*, Strategic Examination of R&D Final Report, December 2024

Recommendation 2.

- Remove the proposed 10-year and 15-year age restrictions on access to the refundable RDTI.
- Instead, develop an outcomes-based test consistent with the *Ambitious Australia* approach, focused on indicators such as sustained growth and R&D investment rather than corporate age.

4.2 Retain supporting R&D activities

The BCA does not support removing supporting R&D activities from the RDTI.

Under the exposure draft, the distinction between core and supporting R&D activities would be removed, leaving only activities that independently satisfy the experimental R&D test eligible. An activity would not qualify merely because it is directly related to, or supports, another eligible R&D activity.

This change risks excluding expenditure that is integral to genuine R&D but is not itself experimental. The current regime already contains safeguards: supporting activities must be directly related to core R&D, with a higher dominant-purpose test applying to certain activities. Removing supporting activities could also make complex university-industry collaborations less attractive where specialist facilities, research services and technical expertise are integral to the R&D program.

A narrower expenditure base would also dilute the benefit of the higher offset rates proposed in the exposure draft. For businesses with significant supporting expenditure, a higher rate applied to a smaller base may deliver a much smaller benefit than the headline changes suggest.

Removing supporting activities would also create implementation uncertainty, particularly for industrial and engineering R&D undertaken in operating environments. Where design, testing, prototype modification, instrumentation, operation and evaluation form part of an integrated R&D process, businesses will need clear guidance on what remains eligible and how associated expenditure should be apportioned. Without this clarity, the reform risks replacing one source of complexity with another.

SERD recommended a different approach: retaining supporting activities through a deemed rate for supporting R&D expenditure to reduce ambiguity, record-keeping and administrative burden. The BCA considers this a more proportionate way to address complexity and integrity concerns while continuing to support genuine R&D.

4.2.1.1 Modernising the R&D Definition

The proposed removal of supporting activities reinforces the need to modernise Australia's definition of eligible R&D. The BCA has previously raised concerns that the current definition is too narrow and poorly aligned with contemporary industry-led innovation, particularly in sectors such as software, engineering, mining and manufacturing. Some large investors report that only around half of their R&D expenditure qualifies under the current framework.

Modern R&D rarely occurs as a single, isolated experiment. A systematic experimental process can include hypothesis development, experimental design, prototyping, trial preparation and execution, clinical or field manufacturing, and physical product design. Where these activities form part of generating new knowledge or resolving technical uncertainty, the definition should recognise the full experimental process rather than individual activities in isolation.

This matters because businesses make investment decisions around complete R&D programs. Artificially separating integrated activities for tax purposes increases complexity and can weaken the case for locating the overall program in Australia. If supporting activities are removed without modernising the underlying definition, Australia risks excluding legitimate experimental activity and making competing jurisdictions more attractive for integrated R&D investment.

The BCA has previously recommended aligning the RDTI definition more closely with the broader OECD Frascati framework, which better reflects how contemporary R&D is undertaken.[7]

Recommendation 3.

- Retain eligibility for supporting R&D activities.
- Implement the *Ambitious Australia* recommendation for a deemed rate for supporting activities, developed in consultation with industry, to simplify claims, reduce compliance costs and provide greater certainty while maintaining appropriate integrity controls.
- Modernise the definition of eligible R&D to better reflect contemporary industry-led research and the full systematic experimental process, drawing on the OECD Frascati framework and developed in consultation with industry.

[7] BCA Submission to the Strategic Examination of R&D, June 2025

5. Other opportunities to strengthen R&D investment

Reforming the RDTI is an important first step but should form part of a broader package to lift business R&D investment and capture more of the economic value generated by Australian innovation. The Government has described these reforms as the first stage of its response to the *Ambitious Australia* report. The next stage should include complementary incentives to encourage Australian-developed R&D to be commercialised and produced onshore, and to deepen collaboration between industry and Australia's research institutions.

5.1 Incentivise Australian commercialisation and production

Australia captures the greatest economic return from R&D when discoveries made here are also commercialised and scaled here. Too often, Australian R&D creates valuable intellectual property and technology, but subsequent commercialisation and production occurs offshore, taking investment, jobs and economic value with it.

The BCA has previously recommended an Australian Innovation Commercialisation Incentive, applying a concessional tax rate to income derived from eligible intellectual property developed through Australian R&D.[8] This would strengthen the commercial case for businesses to retain IP and scale Australian-developed innovation onshore. SERD subsequently recommended a production tax credit or subsidy for advanced manufacturing resulting from Australian RD&I.[9]

While different in design, both proposals recognise the need to extend incentives beyond the research stage and encourage businesses to commercialise and produce more Australian-developed innovation locally.

Recommendation 4.

- Introduce a production and commercialisation tax incentive that provides additional support where Australian R&D is subsequently commercialised and produced in Australia, building on the BCA's previous commercialisation proposal and Recommendation 7 of the *Ambitious Australia* report.

5.2 Incentivise industry-research collaboration

Australia has world-class research capability, but stronger links between industry and the research sector are needed to translate more of that research into commercial outcomes. BCA members have consistently identified universities as an important source of specialist expertise, talent and infrastructure, particularly for complex and long-term R&D.

The BCA has previously proposed a Collaboration Premium, providing an uplift of up to 20 per cent on the non-refundable R&D tax offset for eligible projects undertaken with universities, public research organisations or startups. This would provide a direct incentive for businesses to undertake collaborative R&D and help strengthen the pathway from research to commercialisation.

Recommendation 5.

- Introduce a Collaboration Premium of up to 20 per cent on the non-refundable R&D tax offset for eligible R&D undertaken in partnership with universities, public research organisations or startups.

[8] BCA Submission to the Strategic Examination of R&D, June 2025
[9] *Ambitious Australia*, Strategic Examination of R&D Final Report, December 2024

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