



**aamri**

Association of Australian  
Medical Research Institutes

SUBMISSION TO  
**TAX DISCUSSION PAPER**

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## ABOUT AAMRI

**The Association of Australian Medical Research Institutes (AAMRI) is the peak body representing medical research institutes (MRIs) across Australia.** Our 47 member institutes are leaders in health and medical research, working on an extensive range of human health issues, from preventative health and chronic disease, to mental health, Indigenous health and improved health services. Their research ranges from fundamental biomedical discovery through to clinical research and the translation of research findings from bench to bedside. Together, they aim to drive innovation in healthcare to improve the lives and livelihoods of people in Australia and world-wide.

## INTRODUCTION

The Association of Australian Medical Research Institutes (AAMRI) welcomes the opportunity to provide feedback on the Tax Discussion Paper. This submission relates to Chapter 7 on the not-for-profit (NFP) sector, and specifically focusses on the effect of current NFP tax arrangements on independent medical research institutes (iMRIs).

### About Australia's NFP medical research institute sector

Most of AAMRI's 47 member institutes are *independent* medical research institutes (iMRIs), that is, independent legal entities separate from a hospital or university.<sup>1</sup> The majority of iMRIs are companies limited by guarantee, with the remainder being statutory bodies or other incorporated entities.

All iMRIs are registered charities, with most being Health Promotion Charities (HPCs), or otherwise Public Benevolent Institutions (PBIs). They are Deductible Gift Recipients (DGRs) and endorsed to access the income tax exemption, refundable franking credits, goods and services tax (GST) concessions, and a fringe benefits tax (FBT) exemption (\$30,000 cap).

Collectively, Australia's iMRIs have an annual turnover of over \$1 billion and employ more than 10,000 staff and students. The sector receives around half of its income from Federal and State Governments, the majority through competitive grants from the National Health and Medical Research Council (NHMRC). iMRIs also rely on income from community donations and bequests, foundations and trusts, and industry.

Importantly, Federal and State Governments only partially cover operational overhead costs incurred by iMRIs for government-funded research projects, typically providing about half of the operational overhead funding required. Salary levels provided by government grants are also well below the salaries paid to researchers. iMRIs must be able to provide salaries comparable to those offered by universities, which receive income streams not available to iMRIs, such as student fees and a higher rate of funding from the Federal Government for operational overhead costs. In general, iMRIs and universities are not able to provide salaries comparable to those provided by the private sector.

### Unique contribution of NFP medical research institutes to the community

iMRIs provide an important service to the community through their research across the full spectrum of human health conditions. Australia's health and prosperity relies on this research to provide advances in disease prevention, diagnosis and treatments. Health and medical research also safeguards the community from future health risks, and improves the quality and efficiency of health service delivery.

Being based on hospital campuses, iMRIs provide a unique interface between laboratory-based research and improved clinical practice. iMRIs also help train the next generation of Australian researchers by providing research training facilities for graduate students enrolled through affiliated universities. As mission-based organisations in areas of genuine community, iMRIs attract important philanthropy to health and medical research in the order of \$160 million per annum.

It is estimated that Australian health and medical research returns more than \$2 for every \$1 invested through improvements in health. This is a direct return to the community, the government and the economy through improved labour participation rates, increased productivity and a reduced burden of illness on the health system and society.

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<sup>1</sup> The remaining eight of AAMRI's 47 member institutes are either controlled entities of a university (themselves charities), a private hospital (Health Promotion Charities) and/or state government (e.g. NFP public hospitals).

## RESPONSES TO QUESTIONS

### 47. Are the current tax arrangements for the NFP sector appropriate? Why or why not?

The viability of the iMRI sector – and thus our national capacity to deal with emerging diseases and reduce the burden of disease on our health system and economy – fundamentally relies on the tax concessions afforded to iMRIs as HPCs/PBIs. While mostly appropriate, the continued lack of indexation of FBT exemption caps means that the tax arrangements for iMRIs has been progressively worsening over time to the disadvantage of the sector.

#### i. Importance of NFP tax concessions for a successful, competitive medical research sector

The current FBT exemptions and other NFP tax concessions form an essential source of the remuneration equity between iMRIs, universities, government agencies, for-profit organisations and international research organisations.

While iMRIs do not compete with the private sector in their purpose (see Qu 48), they do compete with the private sector for skilled support staff (e.g. finance, communications, fundraising, IT and administration staff). Skilled support staff are critical to providing a culture of strong governance for iMRIs. Because Federal Government research grants only partially meet the operational overhead costs (including support staff salaries) of iMRIs and universities, these organisations rely heavily on tax concessions to be able to provide remuneration packages to attract and retain skilled support staff.

Because of the international nature of research, iMRIs, universities and hospitals must also compete with international NFP research organisations to prevent a brain-drain of Australia's best researchers overseas. The ability of Australian research organisations to compete internationally is diminished by the fact that salary scales provided by Federal Government research grants are well below the salaries necessary to attract and retain researchers. The Federal Government also contributes less than many overseas nations (such as the UK, USA and Singapore) to the operational overhead costs of iMRIs and universities, meaning these organisations rely on NFP tax concessions to be able to compete internationally.

**The iMRI sector also relies on the more generous tax concessions provided to them as HPCs/PBIs in order to offer researcher remuneration packages comparable with those provided by Australian universities and government agencies.** This is because universities and government agencies have access to a range of income streams not available to iMRIs (e.g. universities receive student fees and more generous Federal Government funding for research operational overheads).

In a 2012 survey by Systems Knowledge Concepts Pty Ltd of 102 NFP employers, 85 per cent believed that salary packaging was important or critical in attracting and retaining employees. A survey of over 3,200 NFP employees found that 75 per cent thought that salary packaging was very important in influencing whether they remained in the NFP sector. Should FBT concessions be discontinued without any compensating changes, 41 per cent indicated that they would leave the sector.

Any change to iMRI access to HPC/PBI FBT exemptions without a compensatory change to provide a level playing field between iMRIs and universities could severely compromise the iMRI business model to the detriment of Australian health and medical research.

## ii. Improving the integrity and effectiveness of FBT arrangements: caps and indexation

**The recent introduction of an annual cap on salary sacrificed meal, entertainment facility and accommodation expenses will help improve the transparency and integrity of the NFP sector.** However, the \$5,000 'grossed-up' cap (equivalent to \$2,550 in expenses per annum) is more restrictive than the \$10,000 cap that we recommend based on the average levels to which this tax concession is currently utilised. The \$5,000 cap thus materially reduces the ability of iMRIs to compete for employees with the private, public and university sector, and with international counterparts.

**One of the most pressing issues affecting the fairness and appropriateness of FBT arrangements for iMRIs is the continued lack of indexation of FBT exemption caps** (the \$30,000/\$17,000 'grossed-up' caps for living expenses and now the \$5,000 cap for meals, entertainment facilities and accommodation). This lack of annual indexation has meant that the real value of this benefit has fallen each year over a long period of time. If this continues, the benefit will become so materially reduced that it will have little impact on the NFP sector's ability to attract and retain staff. We urge that the FBT exemption caps be indexed annually for either consumer price index (CPI) or increases in average weekly wage.

## iii. Importance of franking credits and DGR status

**The current ability to receive cash refunds for franking credits from the Australian Taxation Office should be preserved for NFPs**, as it is an important aspect of the investment income earned that is then applied for charitable purposes. Importantly, franking credits are also available to for-profit organisations and individuals, and so their availability to NFPs does not provide a competitive advantage over the for-profit sector.

**iMRIs' DGR status is critical to their ability to attract philanthropic giving to health and medical research, collectively raising around \$160 million in donations and bequests each year.** iMRIs rely on this income to meet the costs of operations not covered by other income sources (including gaps in Federal Government funding for researcher salaries and operational costs). This injection of funding from philanthropy also reduces the burden on the Federal Government in maintaining a globally-competitive medical research sector.

While a reduction in tax concessions to iMRIs would marginally increase government tax revenue, the expected concomitant loss of highly skilled research staff to other sectors and countries would be a significant cost to the Government and community on its substantial investment in these highly trained members of the workforce. The negative impact on our national capacity in medical research and the translation of research discoveries into improved health services would also have important knock-on effects on government health expenditure, and revenue realised through improvements in labour participation and productivity.

## 48. To what extent do the tax arrangements for the NFP sector raise particular concerns about competitive advantage compared to the tax arrangements for for-profit organisations?

**Because iMRIs provide a unique community service that cannot be provided by for-profit organisations, there is no concern about whether tax concession arrangements provide a competitive advantage over for-profit organisations.**

Much of the research and research translation activities undertaken at NFP research organisations (including iMRIs, universities and hospitals), while providing a long-term community and economic benefit, do not provide an immediate commercial return. Therefore, if not undertaken by NFP

organisations, these activities are unlikely to take place. This is recognised internationally as a form of market failure that mandates government investment world-wide in health and medical research. Examples of medical research with a social or economic benefit but no commercial return include research that reduces the time spent on a clinical procedure or that prevents the over-utilisation of unnecessary medical tests or procedures (thus reducing health costs, including those of the Government); or research that improves our understanding of a disease (e.g. how it is transmitted or risk factors), which is indispensable in determining how to prevent it.

#### **49. What, if any, administrative arrangements could be simplified that would result in similar outcomes, but with reduced compliance costs?**

The current FBT concession system is not onerous for iMRIs to manage as most outsource the work associated with managing and ensuring compliance with the FBT concession and receive an input file on a monthly basis to upload into their payroll systems.

**Now that employee salary sacrificed meal, entertainment facility and accommodation expenses are subject to a cap, consideration could be given to combining this cap with the living expenses cap to give an overall living expenses cap of \$40,000/\$27,000** (replacing the two separate caps of \$30,000/\$17,000 for living expenses and the recommended \$10,000 cap for meals, entertainment facility and accommodation expenses). This would essentially have the same or similar outcome for staff and the Government, while streamlining administration and compliance.

**It is very important that the recently-introduced cap on salary sacrificed meal, entertainment facility and accommodation expenses does not impact on the treatment of entertainment within NFPs themselves.** The capping arrangement results in a reportable fringe benefit that is shown on an employee's payment summary. If this were extended to cover entertainment provided at the entity level, the amount of complexity and work would be very onerous for NFPs.

#### **50. What, if any, changes could be made to the current tax arrangements for the NFP sector that would enable the sector to deliver benefits to the Australian community more efficiently or effectively?**

**As noted in Qu 47, the most important change to current tax arrangements that would enable the NFP sector to more effectively deliver benefits to the Australian community is the indexation of FBT exemption caps** (the \$30,000/\$17,000 caps for living expenses and the \$5,000 cap for meals, entertainment facilities and accommodation) for either consumer price index (CPI) or increases in the average weekly wage. The lack of annual indexation has meant that the real value of this benefit has fallen each year over a long period of time.

**NFPs would also appreciate assistance from a government authority, and particularly the Australian Taxation Office, in dealing with the withholding taxes applied to philanthropy and other income that Australian charities source from other countries**, such as the USA. This is an incredibly complex area for NFPs to navigate and they often cannot afford to engage tax partners of large accounting firms to assist. This would support Australian NFPs to more readily source non-Australian income.

# AAMRI MEMBERS

