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Association of Australian
Medical Research Institutes

SUBMISSION

**REVIEW OF AUSTRALIAN TAXATION
OFFICE ADVICE ON SCHOLARSHIPS**

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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. Collectively AAMRI's member institutes employ over 15,000 staff and students including over 2200 higher degree research (HDR) students across all states and territories. Our member MRIs are also engaged at all stages of the research commercialisation pipeline, which is essential for accelerating their research discoveries towards the clinic. In 2014-2015 MRIs were awarded 207 new patents, were active in 1,220 clinical trials and generated nearly \$90 million in commercial income from research IP.

REVIEW OF AUSTRALIAN TAXATION OFFICE ADVICE ON SCHOLARSHIPS

Summary of submission

- AAMRI disagrees with the discussion paper that where an output of a scholarship could be otherwise be undertaken by a contractor or employee that the scholarship is therefore not principally for educational purposes.
- In determining the principle purpose of a scholarship, the discussion paper places too much emphasis on the importance of potential commercial benefits arising from the scholarship recipient's output.
- The main objective of scholarships provided to Higher Degree by Research (HDR) students are to support students to achieve a qualification, and in many cases, to gain industry experience and skills so as to become more employable. It is this principle purpose that should be at the heart of determining whether a scholarship should be income-tax exempt.
- The proposed ATO definitions in the discussion paper have the potential to increase barriers between the end-users of research and the university and MRI sector.
- The Australian Qualifications Framework should be used to assess whether the qualification meets the required standard in terms of meeting the definition of being provided for educational purposes.
- As the ATO is reviewing its taxation advice on scholarships it should take this opportunity to reconsider the taxation status of part-time scholarships.
- Part-time students should be afforded the same income-tax exemption as full-time students for their scholarship.

Interpretation of 'educational purposes'

For scholarships to be exempt from income tax they must be provided principally for educational purposes. If the principal purpose is something else, for example to benefit the commercial enterprise funding a scholarship, then the scholarship might not be income tax exempt. The discussion paper states that this might be the case where a scholarship recipient's activities produce an output for the scholarship provider equivalent to what a similarly experienced employee or contractor would produce. This narrow definition overlooks the primary principal purpose of educational activities of a student and the education provider. It also threatens to undermine efforts to increase industry engagement with Higher Degree by Research (HDR) training.

Each year the Australian Government through the Department of Education and Training, the National Health and Medical Research Council, the Australian Research Council, and the Department of Foreign Affairs and Trade, amongst others, provides scholarship funding for students undertaking a Higher Degree by Research. Scholarships are also funded by state governments, universities, medical research institutes (MRIs), charities and not-for-profits, as well as by industry. A Higher Degree by Research is a level 9 or 10 qualification on the Australian Qualifications Framework, and sees a student studying for an MPhil or a PhD. The main objective of scholarships provided to Higher Degree by Research (HDR) students is support students to achieve a qualification and in many cases, to gain industry experience and skills so as to become more employable. It is this principle purpose that should be at the heart of determining whether a scholarship should be income-tax exempt.

In the context of HDR training, AAMRI disagrees with the discussion paper that where an output of a scholarship could be otherwise be undertaken by a contractor or employee that the scholarship is therefore not for educational purposes. Taking such an approach provides too narrow a definition of educational purposes, overlooks the principle purpose of the scholarship, and does not assist in determining whether a scholarship is income tax exempt. This could result in lower-value scholarships for students, particularly those that have industry links, at a time when the government has been putting in place incentives to increase collaboration.

In determining the principle purpose of a scholarship, the discussion paper places too much emphasis on the importance of potential commercial outcomes arising from the scholarship recipient's output and on the provider of scholarship funding. Instead the focus should be on the main issue at hand, which is the educational intent of both the educational institution and the student.

The discussion paper does not detail the threshold at which a benefit to the scholarship provider occurs, and appears to imply that any benefit that could have been delivered by a contractor or employee would make the scholarship taxable. This is not a workable definition as it would force both the recipient and the provider to take extraordinary steps to ensure that the educational activities of the recipient provided no benefit, even inadvertently, to the provider. In fields such as health and medical research this would be a perverse outcome and would lead to unnecessary knowledge barriers being erected, preventing the flow of high quality new medical research from reaching its intended recipients such as hospitals and healthcare providers.

The ATO definitions proposed in the discussion paper have the potential to increase barriers between the end-users of research (e.g industry, health service providers) and the university and MRI sector. Changes that could increase industry-research barriers directly contradict the Australian Government's recently stated policy aimed at providing greater incentives for engagement and collaboration between research institutions and industry, particularly during the delivery of HDR programs. In June 2016, the Australian Government announced investment of \$28.2 million in *AMSI Intern*, Australia's only national

PhD internship program in place that is specifically designed to build collaborations between research institutions (universities) and industry, and increase the uptake of research trained staff by Australian companies. These are two areas in which we trail other OECD economies. The strategy will be to expand programs such as the ASMI Intern to HDR students in other disciplines. The ATO's approach could reduce the impact of incentives such as these that provide support from the government to industry by subjecting them to new income tax measures. The imposition of such a tax on government funding would be inefficient, and would result in additional funds needing to be provided to increase the value of scholarships. The result of introducing such a tax could dramatically reduce participation in industry-linked scholarships, including participation by high calibre candidates and under-represented demographic groups with significant financial burdens, given that such scholarships would be less attractive financially.

Alternative method for determining the tax status of scholarships

AAMRI suggests that scholarships provided primarily for a student to achieve a qualification should be tax exempt, irrespective of whether there is any incidental commercial outcome or benefit. The Australian Qualifications Framework should be used to assess whether the qualification meets the required standard in terms of meeting the definition of being provided for educational purposes. This would ensure that all scholarships for HDR training (level 9 and 10 qualifications is listed in the framework) remain income-tax exempt.

Taxation status of part-time scholarships

As the ATO is reviewing its taxation advice on scholarships it should take this opportunity to reconsider the taxation status of part-time scholarships. At present part-time scholarships are not income-tax exempt. This anomaly disadvantages those equity groups that are less likely to study full-time, including women, regional students, remote students, students with a disability, and Indigenous students.

There are many reasons that people choose to study part-time but these often relate to financial pressures and family caring responsibilities. Reducing the financial benefit of the scholarship relative to full-time students increases financial stress and puts part-time students at a financial disadvantage. Both part-time and full-time students might choose to work while they undertake their HDR program, for example through teaching and demonstrating activities that contribute towards their professional development. Full-time students can take advantage of the tax-free threshold for this employment, whereas part-time students must include their scholarship income when calculating what income is above their tax-free threshold.

Part-time students should be afforded the same income-tax exemption as full-time students for their scholarship.

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