

Submission to the Review of ATO Advice on Scholarships

Introduction

The University of Melbourne welcomes the opportunity to respond to the Review of ATO Advice on Scholarships. The University supports and has also contributed content to the ShineWing Australia, Group of Eight, Australian Council of Graduate Research and Universities Australia submissions.

The University agrees that it would be desirable for a general statement of scholarship taxation exemptions to be available to assist students, universities and their collaborators and we note that the ATO must purposefully interpret the legislation in force.

However, in applying the legislation, we believe the ATO should also consider the government's policy intentions and strategies. We believe that the approach proposed will be detrimental to improving student employability outcomes and to realising the objectives of the National Innovation and Science Agenda¹ which seeks to improve university – industry collaboration and increase engagement of PhD students with industry.

We welcome the acknowledgement that education and training can be provided in any location. With the national imperative to produce 'work-ready' graduates more students will spend some component of their course in an industry (broadly defined) location, engaging with research partners and/or studying remotely.

This submission focuses on the potential impact of the proposal on the training of higher degree by research (HDR) students, but the comments in relation to industry-based and work-integrated learning apply to all student cohorts.

In summary, it is our contention that scholarships to undertake a research training degree should not be taxed. The statements of concern in the proposed application of paragraphs 51-35 (c) - (e) of the Income Tax Assessment Act, particularly in relation to research training, are that:

- the purpose of the provider should be considered paramount in assessing eligibility for exemption
- if a provider *could* benefit from the students' activities, the scholarship would not be exempt from taxation and
- if the recipient's activities produce research or other (potentially) useful output, then the principle purpose is considered to be something other than the provision of education.

The University's recommendations

To address the concerns with the proposed application of paragraphs 51-35 (c) - (e) the University recommends the following:

1. In assessing tax exemption for scholarships it is the purpose of the activity that should be considered paramount, not that of the provider.
2. Scholarships for full-time enrolled students, undertaking an internship that is part of their course, are principally for educational purposes and should be tax exempt.

¹ Commonwealth of Australia, 2015. National Innovation and Science Agenda.
<https://www.innovation.gov.au/page/national-innovation-and-science-agenda-report>

3. A broad definition of “scholarship, bursary, educational allowance or education assistance” is warranted and also that “the selection of recipients is based on merit or some other rational criterion.”
4. Someone who is doing at least 75% of the equivalent full-time study load should be deemed a full-time student. The University does not support the alternative suggestion of specifying the number of hours per week.

Discussion of recommendations 1-4

1. Research Training

The ATO suggests that the definition of an educational purpose relies on the ‘giving or imparting of instruction’. This definition is too narrow to describe the experiential learning (research training) of HDR students and of research components in coursework degrees. Research students are required to formulate the research question, choose appropriate methods and approaches to answer the question, collect data and analyse the results. They are guided in this process by supervisors and mentors, but not necessarily instructed. Knowledge is obtained in the process rather than being imparted. This experiential training is tested primarily through examination of a thesis.

All research training has the *potential* to provide useful research outcomes, but it is undertaken by a student - by definition someone who is seeking skills defined by the learning objectives and graduate attributes. It cannot be claimed that the outcomes they might achieve would be equivalent to or cost-effective compared with those generated through the hiring of a skilled researcher.

In response to national science and innovation priorities, an increasing number of HDR students undertake research training while answering research questions of interest to industry. The source of the research question does not fundamentally change the training experience, nor does the placement of the student within an industry context.

Universities are encouraged to translate more of their own research into commercially useful outcomes.² Under the ATO’s proposed interpretation, a student who receives a university scholarship to undertake their research training on a university directed project, could also be subject to taxation. More than two-thirds of Australia’s research students are aged over 30.³ Full-time enrolled HDR students usually receive a living stipend throughout their course, with a base rate in 2017 of \$26,682.⁴

If there was a potential that this already modest living allowance would be reduced through the taxation of scholarships, students will choose to not engage in research training, and/or research training that might cause their meagre stipend to be taxed. There will be reduced industry engagement, and the pathway post research degree into industry will be made more complex. This unintended consequence will impact the National Innovation and Science Agenda and is contrary to the recommendations of the *Review of Australia’s Research Training System*.⁵

²Department of Education and Training, 2014 Boosting the Commercial Returns from Research.

³ McGagh, J, Marsh, H, Western, M, Thomas, P, Hastings, A, Mihailova, M, Wenham, M (2016) Review of Australia’s Research Training System. Report for the Australian Council of Learned Academies, <http://acola.org.au/wp/PDF/SAF13/SAF13%20RTS%20report.pdf> p 5

⁴ <https://www.education.gov.au/research-training-program>

⁵ McGagh, J, Marsh, H, Western, M, Thomas, P, Hastings, A, Mihailova, M, Wenham, M (2016) Review of Australia’s Research Training System. Report for the Australian Council of Learned Academies, <http://acola.org.au/wp/PDF/SAF13/SAF13%20RTS%20report.pdf> p 5

Specifically, the Review's recommendations included the following to the Australian Government (pg. xviii):

- The Government should remove the regulatory and financial barriers that prevent universities from developing accessible entry pathways to HDR training and offering flexible scholarships of appropriate duration and value.
- The Government should ...provide additional funding to incentivise industry– university collaboration, with a particular focus on initiatives that connect HDR candidates with industry-led research problems.
- The Government should ...develop a national program to support industry placements for Research Doctorate candidates... Over time, the national scheme should be expanded to be accessible to all HDR candidates who wish to participate.

Recommendation: In assessing tax exemption for scholarships it is the purpose of the activity that should be considered paramount, not that of the provider. The purpose of research training is principally to provide education. That education, by its nature, may have incidental benefits - the vast majority of which accrue to the public good.

2. Internships

The same logic above applies to internships that are undertaken within a course. The purpose of industry-based or work-integrated learning is principally educational – in this case to develop students' employability skills such as project and IP management. While the students undertake internships, they are enrolled in their course, undertake preparatory training in workplace skills before being placed and are assessed on their performance in the workplace, typically via the submission of a report and/or reflective essays.

Industry partners commit otherwise productive resources to student instruction and supervision and do not receive a benefit comparable to that from a trained employee.

Recommendation: Scholarships for full-time enrolled students undertaking an internship that is part of their course are principally for educational purposes and should be exempt from taxation.

Definitions

3. *Scholarship, bursary, educational allowance or educational assistance*

The University supports a broad definition of "scholarship, bursary, educational allowance or education assistance". The statement that 'the selection of recipients is based on merit or some other rational criterion' is welcome given the number of scholarships available to increase student equity and diversity and alleviate hardship. The Commonwealth Research Training Program (RTP) allows higher education providers to direct its RTP scholarships to support institutional research strategies.

As discussed in the Australian Council of Graduate Research submission it should be noted that while scholarships are available on a competitive basis, not all are 'open to a wide range of candidates'.

Scholarships may be provided as part of a research grant or be limited in scope by the conditions of the trust or bequest from which the scholarship is provided.

Recommendation: The University supports a broad definition of “scholarship, bursary, educational allowance or education assistance” and also the statement that “the selection of recipients is based on merit or some other rational criterion”.

4. Full-time student

The University supports the intention to regard someone who is doing at least 75% of the equivalent full-time study load to be a full-time student. This definition is also used in the Commonwealth Scholarship Guidelines Research (2017).

The University does not support the alternative of specifying the number of hours per week. These data are neither collected nor meaningful for students in taught courses where, for example, the student may only have 15 contact hours per week, but is expected to be reading additional material or completing assignments and essays for the remainder of the time.

Recommendation: The University supports the intention to regard someone who is doing at least 75% of the equivalent full-time study load to be a full-time student. The University does not support the alternative of specifying the number of hours per week.

The University would welcome an opportunity to discuss this submission or to provide further information. Professor Dick Strugnell, Pro-Vice Chancellor (Graduate Research), can be contacted on rastru@unimelb.edu.au.