



Request for budget analysis

Tax exemption for university foreign students information	
Person/party requesting the analysis:	Senator Gerard Rennick, Liberal National Party of Queensland
Date analysis completed:	21 March 2024
Expiry date of the analysis:	Release of the next economic and fiscal outlook report.
Status at time of request:	Submitted outside the caretaker period
	<input checked="" type="checkbox"/> Confidential – <i>Authorised for public release on 22 March 2024</i> <input type="checkbox"/> Not confidential
Summary of request: The request sought details of the total value of the tax exemption given to universities/higher education institutions for the income received from foreign students, for as long as the available data allows.	

Overview

The total value of the tax exemption, in terms of revenue foregone, from not levying company tax rates on the net income (revenue less related expenses) from international students attending Australian universities over the period 2010-11 to 2020-21, is estimated to be around \$7.1 billion. A breakdown of the estimate by year is outlined in Attachment A. Attachment A also contains the applicable company tax rates and turnover thresholds over the period 2010-11 to 2020-21.

While this response provides an estimate of the revenue foregone, this value of the exemption applies only to the specific scope of this response and does not factor in any tax offsets that universities may have employed had such a policy been in effect over the analysis period. The value of the exemption is highly uncertain, particularly because the value of universities' expenditure related to international students is not possible to ascertain directly from universities' financial data.

The revenue foregone estimate does not factor in any interactions with other tax offsets. The Department of the Treasury's *Tax Expenditures and Insights Statement*¹ notes that in relation to the income tax exemption for prescribed entities, "The benchmark tax treatment is that income tax is paid on the taxable income of an entity for an income year at its applicable rate of tax." In particular, the extent to which universities may have sought to claim research and development (R&D) expenses through the R&D Tax Incentive Offset would potentially fully offset the additional revenue from

¹ Department of the Treasury (2023), [Tax Expenditures and Insights Statement 2023](#), accessed 20 March 2024

company tax against international students' activities. Further information on the impact of the R&D Tax Incentive Offset is available at Attachment B.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in preparing this analysis.

- Revenue foregone from the tax exemption for universities' foreign student income would be calculated as the company tax rate applied to the net result of universities' foreign student revenue and expenses.
 - Only revenue and expenses of universities that are directly linked to foreign students is considered in this analysis.
 - Other university revenue and expenses, which relate to domestic students and R&D activities, are out of scope of this analysis and would have remained subject to the income tax exemption during the analysis period.
- R&D expenses for Australian universities from 2010-11 to 2020-21 would reflect the combined value of revenue from Education Research Grants, Australian Research Council grants and non-Government grants, scaled for each university so that the total value of R&D expenditure in the sector aligns with the Australian Bureau of Statistics' (ABS) *Research and Experimental Development, Higher Education Organisations, Australia* series in each year.
- Non-R&D expenditure by universities attributable to international students would be equal to total non-R&D expenditure multiplied by a factor equal to total international student enrolments as a proportion of total enrolments, in each year.

Methodology

The value of the tax exemption for universities' foreign student income for the period 2010-11 to 2020-21 was estimated as follows:

- From the Department of Education's *Higher Education – Finance Publications and Tables* series, the total fee-paying overseas student revenue was collected for each university in each year.
- Expenses attributable to international students was estimated by removing the value of R&D expenditure, estimated as per *Key Assumptions*, from total expenditure, and then multiplying the remaining expenditure by the proportion of students who are overseas students.
 - The proportion of overseas students to total students at each university in each year was calculated with student data from the Department of Education's *Higher Education student data collection*.
- The net result of each university's overseas student revenue and expenses was then multiplied by the applicable tax rate in each year to determine the value of the revenue foregone as a result of the tax exemption.

Losses recorded by universities attributable to international students in any year of the period were not carried forward as prior year losses deducted against future income (profits).

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.²

² <https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules>

Data sources

Australian Bureau of Statistics (2022), [Research and Experimental Development, Higher Education Organisations, Australia](#), accessed 20 March 2024

Australian Taxation Office (2023), [Tax rates 2001–2002 to 2010–11](#), accessed 20 March 2024

Australian Taxation Office (2023), [Tax rates 2011–12 to 2020–21](#), accessed 20 March 2024

Australian Taxation Office (2022), [Rates of R&D tax incentive offset](#), accessed 20 March 2024

Department of Education (2023), [Higher Education Publications - Finance Publication 2021](#), accessed 20 March 2024

Department of Education (2023), [Higher Education publications - 2008 to 2020 Finance Publications and Tables](#), accessed 20 March 2024

Department of Education (2024), [Higher Education Statistics - Student Data](#), accessed 20 March 2024

Department of the Treasury (2023), [Tax Expenditures and Insights Statement 2023](#), accessed 20 March 2024

Attachment A – Tax exemption for university foreign students information – financial implications

Table A1: Estimated value of tax exemption for universities' international students income, 2010-11 to 2020-21 (\$m)^(a)

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2010-11 to 2020-21 Total
<i>Estimated total sector net profit/(loss) attributable to international students^(b)</i>	590	643	740	873	1,046	1,419	2,206	2,860	3,062	3,144	3,806	20,389
<i>Tax liability – Commonwealth revenue foregone</i>	292	313	345	375	412	512	732	916	969	1,004	1,216	7,085

(a) Estimated tax liability calculated on a revenue foregone basis, and not necessarily representative of tax revenue that would have been raised through levying company tax rates on universities.

(b) This is a net figure, some universities were in profit while others were in a loss. Those in profit would lead to a tax liability in the row below.

Table A2: Applicable company tax rates and turnover thresholds, 2010-11 to 2020-21^(a)

	Aggregated turnover threshold	Tax rate below threshold	Tax rate above threshold
2010-11	N/A	30%	30%
2011-12	N/A	30%	30%
2012-13	N/A	30%	30%
2013-14	N/A	30%	30%
2014-15	N/A	30%	30%
2015-16	\$2m	28.5%	30.0%
2016-17	\$10m	27.5%	30.0%
2017-18	\$25m	27.5%	30.0%
2018-19	\$50m	27.5%	30.0%
2019-20	\$50m	27.5%	30.0%
2020-21	\$50m	26.0%	30.0%

(a) Turnover relates to revenue from fee paying overseas students as reported by individual universities.

Attachment B – Research and Development (R&D) Tax Incentive Offset

The R&D³ tax incentive provides tax offsets for companies engaged in certain R&D activities⁴. The incentive has 2 core components. For income years commencing on or after 1 July 2021, entities engaged in R&D may be entitled to:

- a refundable tax offset equal to the entity's company tax rate plus an 18.5% premium for eligible entities with an aggregated turnover of less than \$20 million per annum, provided they are not controlled by income tax-exempt entities.
- a non-refundable tax offset for all other eligible entities equal to the entity's company tax rate plus a two-tiered premium determined on the notional R&D expenditure as a proportion of total expenditure for the income year. The rates are the company tax rate plus
 - 8.5% for R&D expenditure up to 2% of total expenditure
 - 16.5% for R&D expenditure above 2% of total expenditure.

The rate of the R&D tax offset is reduced to the company tax rate for the portion of an entity's notional R&D deductions that exceeds \$150 million for an income year.

Up to 30 June 2021, entities engaged in R&D may have been entitled to:

- a 43.5% refundable tax offset for entities with an annual turnover of less than \$20 million.
- a 38.5% non-refundable tax offset for entities with an annual turnover of more than \$20 million.

In its most recent *Research and Experimental Development, Higher Education Organisations, Australia* publication, the Australian Bureau of Statistics (ABS) reported that the total value of Australian universities' R&D expenditure in 2020 was \$12.7 billion⁵.

³ Australian Taxation Office (2022), [Rates of R&D tax incentive offset](#), accessed 20 March 2024

⁴ Lists of eligible and ineligible R&D activities are available at [business.gov.au](#). Core R&D activities are activities with outcomes that a competent professional can't know or determine in advance, based on current knowledge, information and experience. The outcomes of core R&D activities can only be determined by applying a systematic progression of work that:

- is based on principles of established science.
- proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions.

Notably for university eligibility for the tax offset, research in social sciences, arts or humanities is excluded.

⁵ Australian Bureau of Statistics (2022), [Research and Experimental Development, Higher Education Organisations, Australia](#), accessed 20 March 2024