

Supporting innovation and competitiveness with tax incentives



The R&D Tax Incentive is a broad based program to support Australian innovation and competitiveness by providing tax offsets for eligible expenditure incurred to undertake experimental activities to generate new knowledge to develop a new or improved product, material, device, process, service or methodology. It's an entitlement based program which in many cases allows companies to receive 'cash' refunds.

Two Key Components of the Program

1. A 43.5% refundable tax offset

Offers up to 43.5% refundable tax offset on eligible R&D activities, for businesses that have an annual turnover of less than \$20 million, and are not controlled by a tax-exempt entity.

2. A 38.5% non-refundable tax offset

Equivalent to 128 per cent deduction for eligible entities with a turnover above \$20 million (tax loss entities may be able to carry forward their offset to future income years).

WHAT DO YOU GET?



The 43.5% refundable tax offset (which can be 'cashed out') should be a crucial consideration for small business cash flow planning. Often many businesses are already undertaking eligible activities and incurring eligible expenses which entitle them to receive the R&D Tax Offset.



43.5% REFUNDABLE Entity turnover < \$20m

	Example 1	Example 2
Company Taxable Position	Loss of \$500,000	Profit of \$500,000
Eligible R&D Expenditure	\$500,000	\$500,000
Benefit	\$217,500	\$80,000*

38.5% NON REFUNDABLE Entity turnover > \$20m

	Example
Company Taxable Position	Profit or loss
Eligible R&D Expenditure	\$1,000,000
Benefit	\$85,000

*Note that the permanent benefit when in profit will differ depending on the entity's corporate tax. The above is for illustration purposes assuming an SBE with a 27.5% tax rate.

Core R&D Activities

To make a claim you must be undertaking 'Core R&D Activities' or 'Supporting Activities'. Where

'Supporting Activities' need to be undertaken as either 'directly related' or for the 'dominant purpose' of supporting the core R&D activities.

As well as undertaking eligible activities critical to making claims is maintaining evidence and records of the new knowledge that is being generated and the process in which activities are being undertaken.

Who Can Claim?

Applicants must be either:

- > A company incorporated in Australia;
- > A corporation that is an Australian resident for tax purposes;
- > A foreign corporation that carries out R&D activities through a permanent establishment in Australia; or
- > A corporation acting as trustee for a public trading trust.

How Do You Make A Claim?

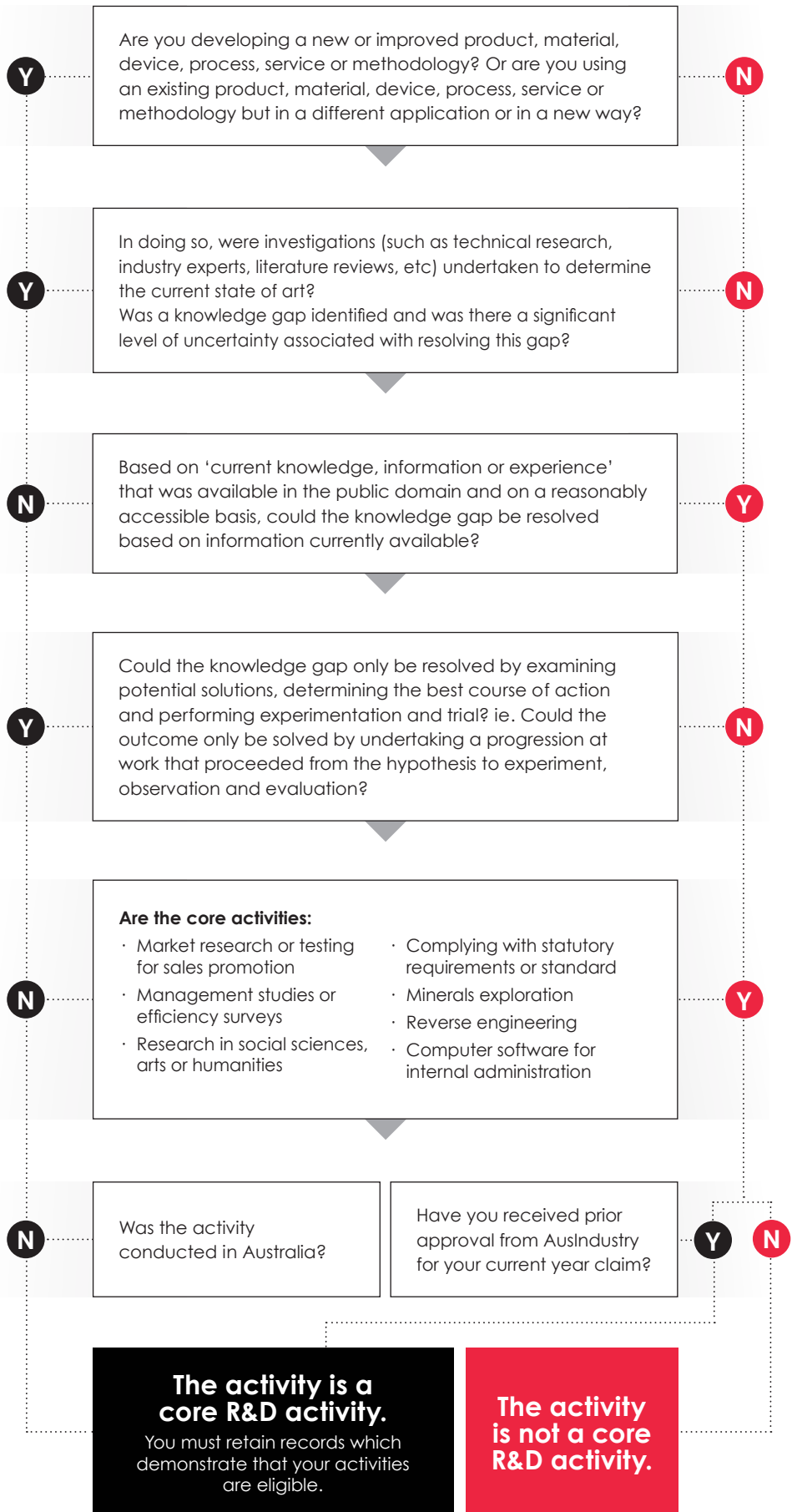
The program is administered jointly by AusIndustry and the ATO. Applications for Registration of R&D activities must be made to AusIndustry no longer than 10 months after a financial year end. For example, by 30 April preceding a 30 June year end or by 31 October preceding a 31 December year end.

What Expenses Are Eligible?

Expenses relating to an eligible 'core' or 'supporting' R&D Activity including:

- > Salaries and wages (including oncosts)
- > Direct materials
- > Contractors
- > Reasonable overhead expenditure i.e. rent, lease, electricity
- > Costs of undertaking trials
- > Depreciation of Assets used exclusively in R&D

How to identify if activities are CORE R&D

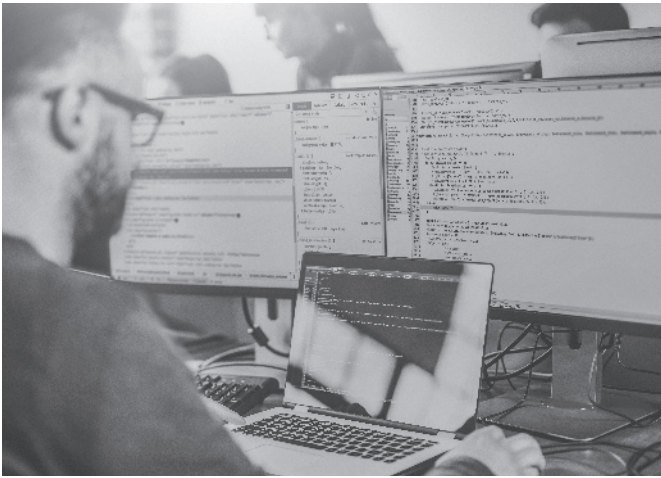


Projects our clients have claimed



Please note: projects need to be assessed against the eligibility criteria and on a case by case basis.

ICT/Software



Our client is a leading software developer that specialises in developing software for the retail healthcare industry. The industry is unique in the way that information is distributed and recorded, where often multiple independent systems are used with no uniform approach to recording and reporting data.

A program needed to be developed that was intuitive and could also rapidly interpret, disseminate and collate data across multiple remotely hosted systems.

Due to the uniqueness of the industry, no current system was available and new algorithms had to be developed and tested.

These activities were tested against key eligibility criteria and the client was able to claim much of its development costs and beta trials and receive the R&D tax offset.

Healthcare Products



This client is a Queensland based Natural Healthcare product manufacturer which has Therapeutic Goods Administration (TGA) and Certified Natural Organic status.

Whilst various scientific literature is available to support claims of the uses and effects of various compounds and bio-active ingredients, no information is available which prescribes the exact combination of formulation and manufacturing protocols necessary to ensure that products remain stable after manufacture and ensure they meet all regulatory requirements so they are fit for human consumption.

Various activities and expenditure were therefore eligible under the R&D tax incentive in overcoming the knowledge gap, developing and testing the hypothesis and undertaking the required stability trials.

Energy Efficient Technologies

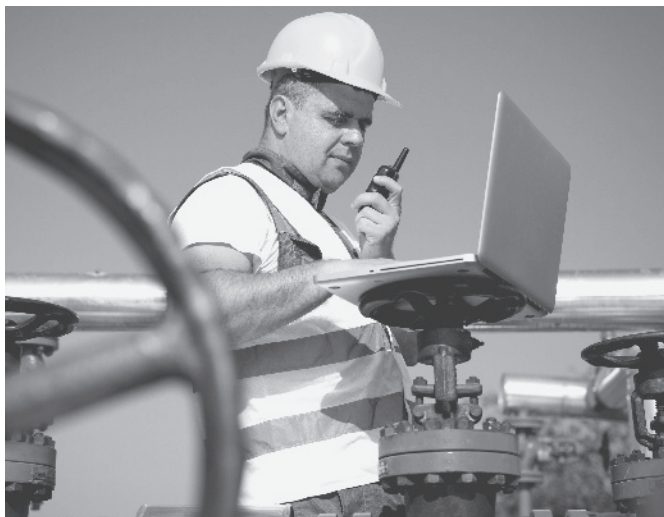


A leader in the development of solar-hybrid air-conditioning units, our client has developed a unique energy capture technology. Whilst other late comers are starting to pop up, the technology developed is 80% more energy efficient over those developed by competitors. It is also totally free from dangerous hydro-chlorofluorocarbons (HCFC's).

The costs associated with developing and testing its various prototype units were eligible to receive the R&D tax offset. The clients' tax position enabled them to 'cash out' their R&D tax offset and receive the full 43.5% refund. The refund received will help them to further develop their technology and continue a program of R&D in future years.

The client is also investigating its opportunity to receive funding under the Federal Government's Entrepreneurs Program: Accelerating Commercialisation Grant of up to \$1Million available to help establish a commercial proof of concept and bring its new technology to market.

Mining – Natural Gas



A new comer to the Australian Natural Gas Industry, this junior mining company has mining tenements in the Bowen and Surat Basins of Queensland and New South Wales.

The company is investing heavily in establishing protocols and methodologies to maximise the extraction of various hydrocarbons (within both coal and shale deposits) including experimentation with water based and organic drilling fluids, non-evasive fracking techniques and multi directional drilling. Due to the resource depth, unique geology and combination of objectives the company wished to achieve, no knowledge or methods existed which are known to achieve the desired results.

The activities undertaken were not to discover deposits or to more precisely determine the size, location or quality of deposits (thus not on the Core R&D activity exclusions list) and therefore the company was able to receive the 43.5% refundable R&D Tax Offset.

Biotech – Livestock



A leading cattle breeder and exporter based in Central Queensland, our client has maintained its success on the back of its ongoing investment in R&D.

Specialising in cross-breeding Zebu breeds this Brahman producer sells its semen throughout Asia and the United States.

The R&D Tax Offset has been critical to help the business defray the costs of its R&D program to enable it to produce more durable, physically superior livestock and claim eligible expenses incurred to undertake progeny and breeding trials, investigate genetic and carcass traits, and to undertake feedlot and grazing programs.

How can we help?

Our specialist R&D Tax advisers can assist you to:

- > Identify eligible R&D projects and activities;
- > Identify and collate eligible R&D expenditure;
- > Prepare and submit R&D Applications;
- > Prepare the necessary R&D Tax Incentive Schedule;
- > Assist with the development and preparation of technical documentation;
- > Assess and implement substantiation and documentation processes & procedures to support R&D activities; and
- > Defend claims against AusIndustry Audits.

We appreciate all opportunities for discussion around this and other Government Grant programs. Every initial meeting (i.e. to help establish eligibility, or merely to explore which program may be relevant), is provided free of charge.

Disclaimer: The information provided in this document is intended to provide general guidance only. The examples given are for illustrative purposes only. Applicants making claims should ensure they are compliant with the relevant legislation and/or seek specialist advice in this area.

Contact us

to find out more or to discuss your eligibility under the program.

