

GRANTREADY 



R&D TAX
INCENTIVE

What is the Research & Development (R&D) Tax Incentive?

The R&D Tax Incentive program is the Australian Government's principle measure to enhance and increase the amount of research and development undertaken by Australian businesses.

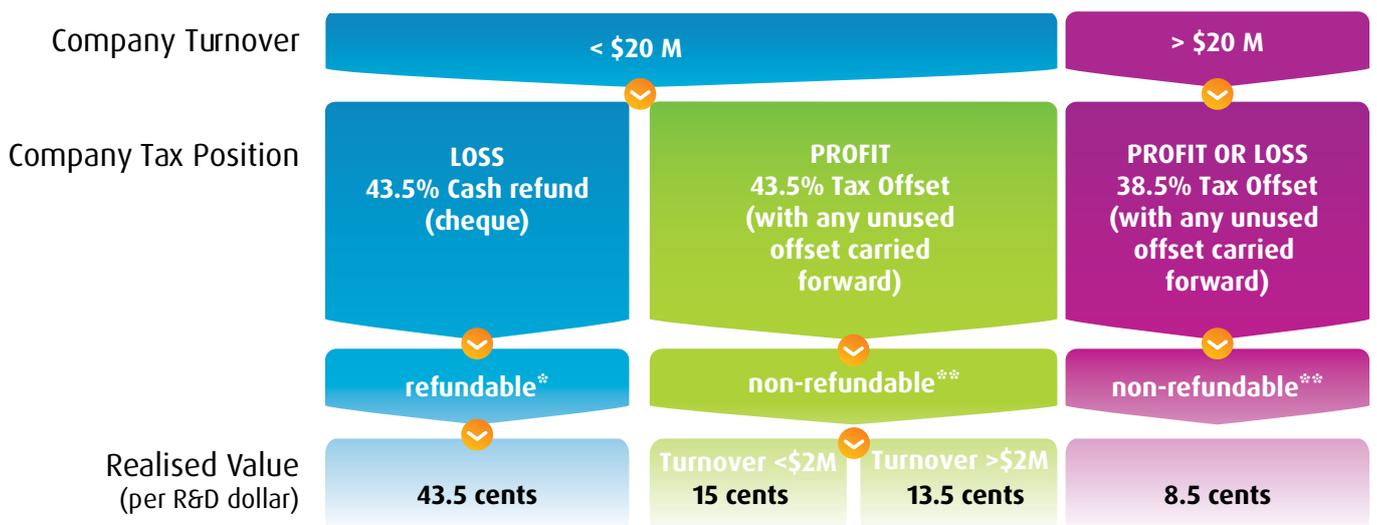
The R&D Tax Incentive provides eligible entities with a tax offset for expenditure on eligible R&D activities and for the decline in value of depreciating assets used for eligible R&D activities.

The objectives of the R&D Tax Incentive program are to provide a tax offset to make eligible companies more competitive and improve productivity across the Australian economy by:

- Encouraging industry to conduct R&D that may not otherwise have been conducted.
- Providing business with more predictable, less complex support.
- Improving the incentive for smaller firms to engage in R&D.

What does it offer?

There are two components of the program, with eligibility based on company turnover. Use the chart below to identify the benefit relevant for you.



*Refundable tax offset: once a company's tax liability is reduced to zero, companies may access a cash refund for any unused offset amount.

**Non-refundable tax offset: companies cannot access a cash refund for any unused offset amount once their liability has been reduced to zero. However, these excess offsets may be carried forward into future income years.

Note: Companies with an aggregated annual turnover below \$2 million are taxed at 28.5 per cent. Therefore the net benefit remains at 15 cents. Further reduction of the company tax rate to 27.5% has been proposed for the 2016-17 income year for companies with group turnover of less than \$10 million but it has yet to be passed through the Senate.

It's an entitlement,
so you don't have to
compete for funds.

Companies with turnover less than \$20 million

The 43.5% R&D Tax Incentive is a refundable tax offset, which means that once a company's tax liability is reduced to zero, companies may access a cash refund for any unused offset amount if the company is in a tax loss position.

Example 1:

Company Taxable Position	LOSS of \$1 million
Eligible R&D Expenditure	\$1 million
Benefit	\$435,000 (cash refund)

Example 2:

If the company is in a profit position, the benefit will be in the form of a reduction in tax liability and any unused offset amount will be carried forward into future years to reduce future tax liability.

Company Taxable Position	PROFIT of \$1 million
Eligible R&D Expenditure	\$1 million
Benefit	\$135,000 (Reduction in tax liability) This amount will be credited against any tax owed or carried forward into future income years. It is calculated by subtracting company tax of 30% from the offset amount. = (\$1 million x 43.5% = \$435,000) LESS (\$1 million x 30% = \$300,000)

Companies with turnover greater than \$20 million

The 38.5% R&D Tax Incentive is a non-refundable tax offset, which assists to reduce a company's tax liability. Once the liability has been reduced to zero, any excess offset may be carried forward into future income years.

Example 3:

Company Taxable Position	PROFIT or LOSS
Eligible R&D Expenditure	\$1 million
Benefit	\$85,000 This amount will be credited against any tax owed or carried forward into future income years. It is calculated by subtracting company tax of 30% from the offset amount. = (\$1 million x 38.5% = \$385,000) LESS (\$1 million x 30% = \$300,000)

The R&D Tax Incentive is decoupled from the company tax rate and thereby creates certainty in the level of assistance to be provided. This means that companies will receive the same benefit regardless of the prevailing company tax rate.

// *Innovation is crucial for both established and new businesses. It's not just about tech start-ups or IT; it's also about established businesses doing things better to be more productive and stay competitive* //

Hon Greg Hunt MP, Minister for Industry, Innovation and Science.

Eligibility to claim the Incentive

To be eligible, entities must meet each of the following tests:

Test 1. Applicant Eligibility

An applicant must be:

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

Ineligible applicants include those that are:

- Tax exempt entities or majority owned or controlled by a tax exempt entity.
- A partnership, a sole trader or a trust other than a public trading trust.

Your R&D must be undertaken on your own behalf, meaning you must:

- Bear technical and financial risk;
- Be able to influence or control the conduct and direction of the R&D; and
- Either own or have effective ownership of the R&D results, including the right to exploit the results.

Activities must be undertaken within Australia. Where the relevant conditions are met, overseas activities may be deemed eligible, however, a separate submission must be made to AusIndustry, which must approve these activities prior to them occurring overseas.

The R&D Tax Incentive allows for foreign corporations undertaking R&D in Australia regardless of where the resulting intellectual property is held, provided the above conditions are satisfied.

Test 2. Activity Eligibility (Submitted to AusIndustry)

Under the R&D Tax Incentive, a distinction has to be made between core and supporting R&D activities with the additional requirement that core and supporting R&D activities be reported separately.

Definition of core activities

Core R&D activities are experimental activities:

- Whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that:
 - Is based on principles of established science; and
 - Proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and
- That are conducted for the purpose of acquiring new knowledge (including knowledge or information concerning the creation of new or improved materials, products, devices, processes or services).

Further to this general principle, some activities are specifically excluded from qualifying as core R&D activities.

Definition of supporting R&D activities

Supporting R&D activities are activities directly related to core R&D activities. If supporting activities are undertaken for normal operational reasons, they only remain eligible where the dominant purpose for conducting them is to support core R&D activities.

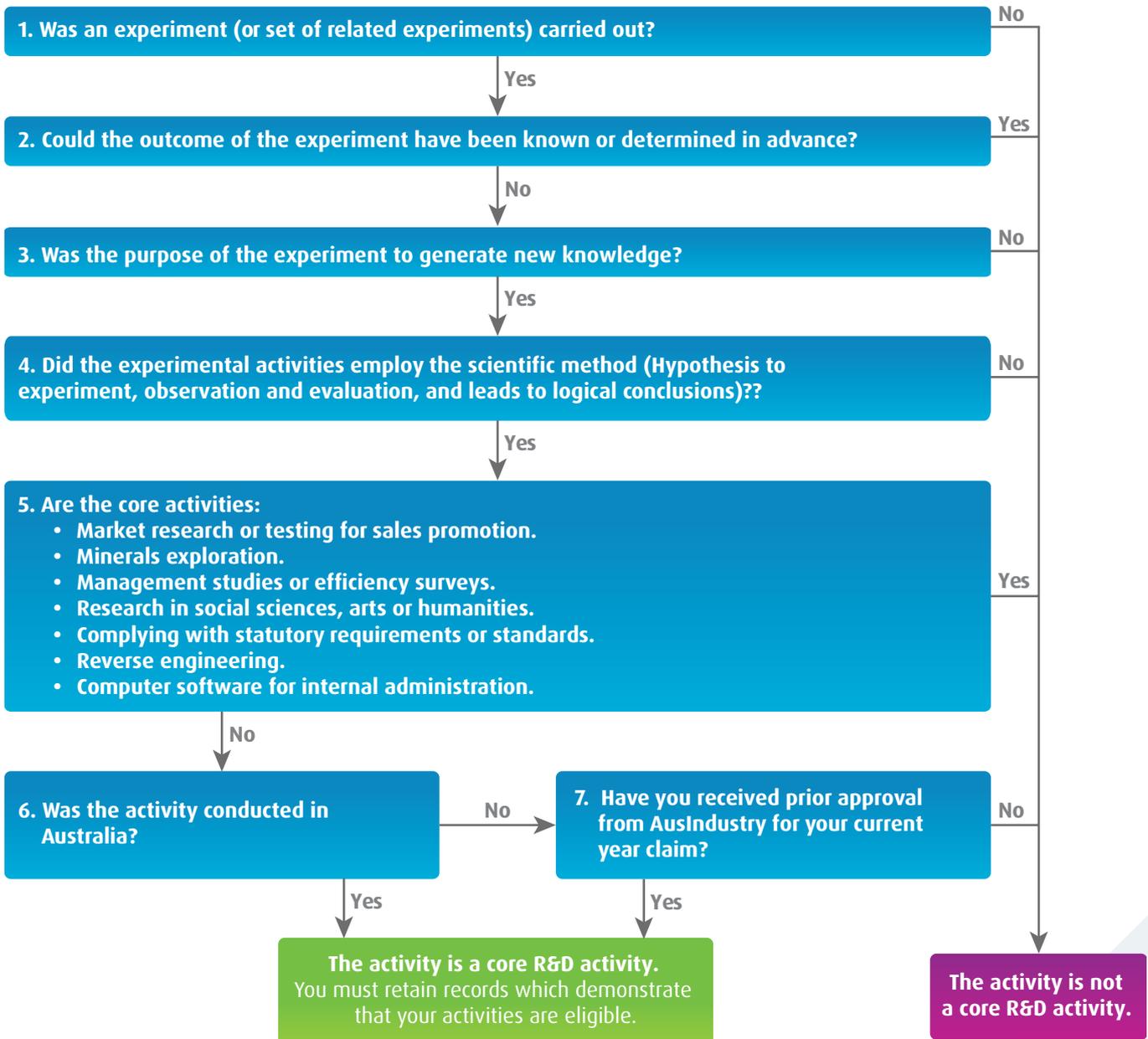
Test 3. Expenditure Eligibility (Submitted to the ATO)

The R&D Tax Incentive is not subject to an expenditure cap. However, for any R&D expenditure above \$100 million, companies will only be able to claim a tax offset at the company tax rate which basically means there are no additional R&D benefit. Most expenditure related to R&D activities are eligible, including salaries, overheads, contractor costs, feedstock, R&D plant depreciation amount and materials.

Applicants must meet the minimum expenditure threshold of \$20,000, although this threshold is waived if R&D is contracted to a registered research provider.

Core Activities

To claim the R&D Tax Incentive, you must have a 'core' activity. Use the flowchart to assess whether you have a core activity.



We can help

GrantReady is a well-established team with a long history of assisting companies access the R&D Tax Benefit.

Our approach is to cut through the complexity and to take the pain out of the process so you can access your benefit.

Our clients want the maximum benefit, while remaining compliant with the legislation, so we provide strong support and substantiation for each claim.

If you use a consultant, make sure they are a Registered Tax Agent. It's a legal requirement since the R&D Tax Incentive is a tax based program.

Rest assured, we are registered, and approved to help you.

How to Apply

Registration is required for each year of income in which R&D expenditure is incurred. Registration must be lodged no later than 10 months after the end of a company's financial year.

Companies are required to register annually with Innovation Australia before being able to claim a tax incentive.

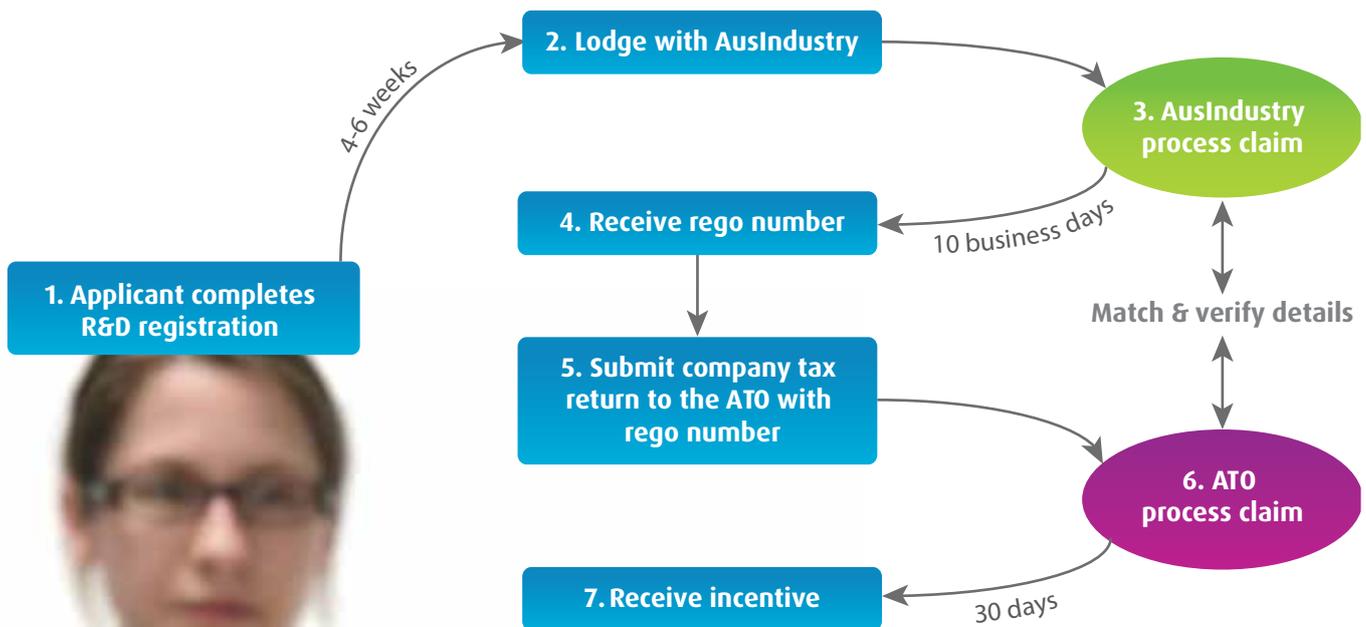
Who runs the program?

AusIndustry, a division of the Department of Industry, Innovation and Science and the Australian Taxation Office (ATO) share the responsibility for the administration of the R&D Tax Incentive. AusIndustry manages the registration of R&D activities to ensure that the activities claimed comply with the R&D legislation. The ATO manages the eligibility of the R&D expenditure claimed in the company tax return.

We have a
100% success rate.

Including all claims,
AusIndustry reviews and
ATO audits.

Application Process



Good Record Keeping and Best Practice R&D Planning

Applicants intending to access the R&D Tax Incentive must keep adequate records to demonstrate to both AusIndustry and the ATO that:

- R&D activities have been undertaken.
 - Company records must be sufficient to show that the claimed activities took place and that they met all aspects of the definition for either ‘core R&D activities’ or ‘supporting R&D activities’.
 - To satisfy the R&D definition, there is a strong requirement for claimants to demonstrate experimental activities, explaining the use of scientific method in order to generate new knowledge and overcome uncertainty. The scientific method is:
 1. Hypothesis
 2. Experiment
 3. Observation and evaluation
 4. Conclusion
 - Thus, the company must retain records that support their view that there is a current knowledge gap at the time they conducted their activity, depending on the nature of the business and the R&D project. Examples include literature reviews, patent searches, scientific or technology reviews or trade journals.
- Eligible expenditure has been incurred in relation to the above R&D activities.
 - Time sheets or summaries of individual employees’ total hours charged to the project; and
 - Costing information including: salary and wages, superannuation, payroll tax, workers’ compensation, contractor payments, travel expenses, cost of trials, R&D plant and equipment, other R&D expenditure and general administration overheads.
- Applicant’s R&D activities and expenditure meet all legislative requirements for eligibility under the program.

Proven Results

“Applying for government grants is a difficult process for small businesses. But with the assistance of GrantReady, Pacwel have been able to access the R&D Tax Incentive that have enabled us to further develop and perfect our products for the export markets and support Australia’s manufacturing industry.”

Gary Tempany, Pacwel Pty Ltd

“The R&D Tax Incentive continues to support company growth, especially when cash flow is paramount. Over the last few years we benefited by continuing to expand our knowledge base and intellectual property portfolio, which despite the risks, are critical for our future plans for success.”

James Nathanielsz, Propanc Pty Ltd

“The approach of the team at GrantReady is unique, its a pleasure dealing with such professional and engaged people that think strategically and operationally from the businesses perspective – and they deliver!”

Justin Howden, Swisse Wellness Group Pty Ltd



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Disclaimer

The material in this document aims to provide general guidance only. The intention of the guidance material is to provide useful information that will assist taxpayers seeking to claim the tax offsets available under the R&D Tax Incentive. However, it is by no means exhaustive or in the nature of definitive legal or financial advice. The guidance material cannot and does not purport to extend or supplement the operation of the legislation. Any examples provided in the guidance material are for illustrative purposes only and are not an exhaustive statement of the application of the legislation to any particular fact situation.

It is up to you to manage your financial and tax affairs, and to ensure the accuracy of any information that you provide concerning your claims. You should also be aware of any changes to the law that may affect your rights and responsibilities in claiming the R&D Tax Incentive for R&D activities.