

The Australian R&D Tax Incentive – General Factsheet

Benefits

The R&D Tax incentive comprises benefits for smaller and larger entities. Tax offsets of 43.5% or 38.5% are available for costs incurred on eligible activities depending on a company's annual aggregated turnover. The 43.5% benefit is a refundable offset.

Turnover (FY17)	Company Tax Rate	R&D Tax Offset Rate	Tax Benefit %	Refundable or Non-refundable
Less than \$10 m	27.5%	43.5%	16%	Refundable
Between \$10m - \$20m	30%	43.5%	13.5%	Refundable
\$20m or more	30%	38.5%	8.5%	Non-refundable

Example

	(i) 38.5% R&D Tax offset	(ii) 43.5% R&D Tax offset	(iii) 43.5% R&D Tax offset
R&D expenditure (Wages, Contractors, Travel, Overheads etc.)	\$1,000,000	\$1,000,000	\$1,000,000
R&D tax credit	\$385,000	\$435,000	\$435,000
Ordinarily deductible (@ Company tax rate) where (i) 16% (ii) 13.5% (iii) 8.5%	\$300,000	\$275,000	\$300,000
Permanent tax benefit	\$85,000	\$160,000	\$135,000

Overseas R&D

Eligible R&D activities carried out overseas may be claimed for the R&D tax incentive. Applicants must demonstrate that the proposed activities could not have been undertaken in Australia.

On Own Behalf

Eligible R&D can be performed by contractors, external consultants, or third parties provided that you:

- Effectively own the results of the R&D activities
- Have appropriate control over the conduct of the R&D activities
- Bear the financial burden of carrying out the R&D activities

The information is of a general nature only and does not take into account the individual objectives, financial situation or needs of any particular entity. It should not be used, relied upon, or treated as a substitute for specific professional advice. It is recommended that you obtain professional advice before making any decision
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Identifying Core R&D Activities

In order to claim R&D tax benefits, your company must identify Core R&D Activities, which are 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
 - that are conducted for the purpose of generating new knowledge (this can be in the form of new or improved materials, products, devices, processes or services)

It is important to note that certain activities do fall under the Core R&D Exclusion List, meaning they are not eligible to be claimed.

Identifying Support R&D Activities

In addition to Core R&D Activities, certain activities must take place in order for the R&D activities to occur, e.g. the hiring of scientific staff, purchase of equipment, overheads etc. These expenses may be claimed in addition to the Core R&D.

A supporting activity is one that is directly related to core R&D activities or, for certain activities, has been undertaken for the dominant purpose of supporting core R&D activities. Activities that must satisfy the dominant purpose requirement are those that produce - or are directly related to producing - goods or services; or are excluded from being core R&D activities.

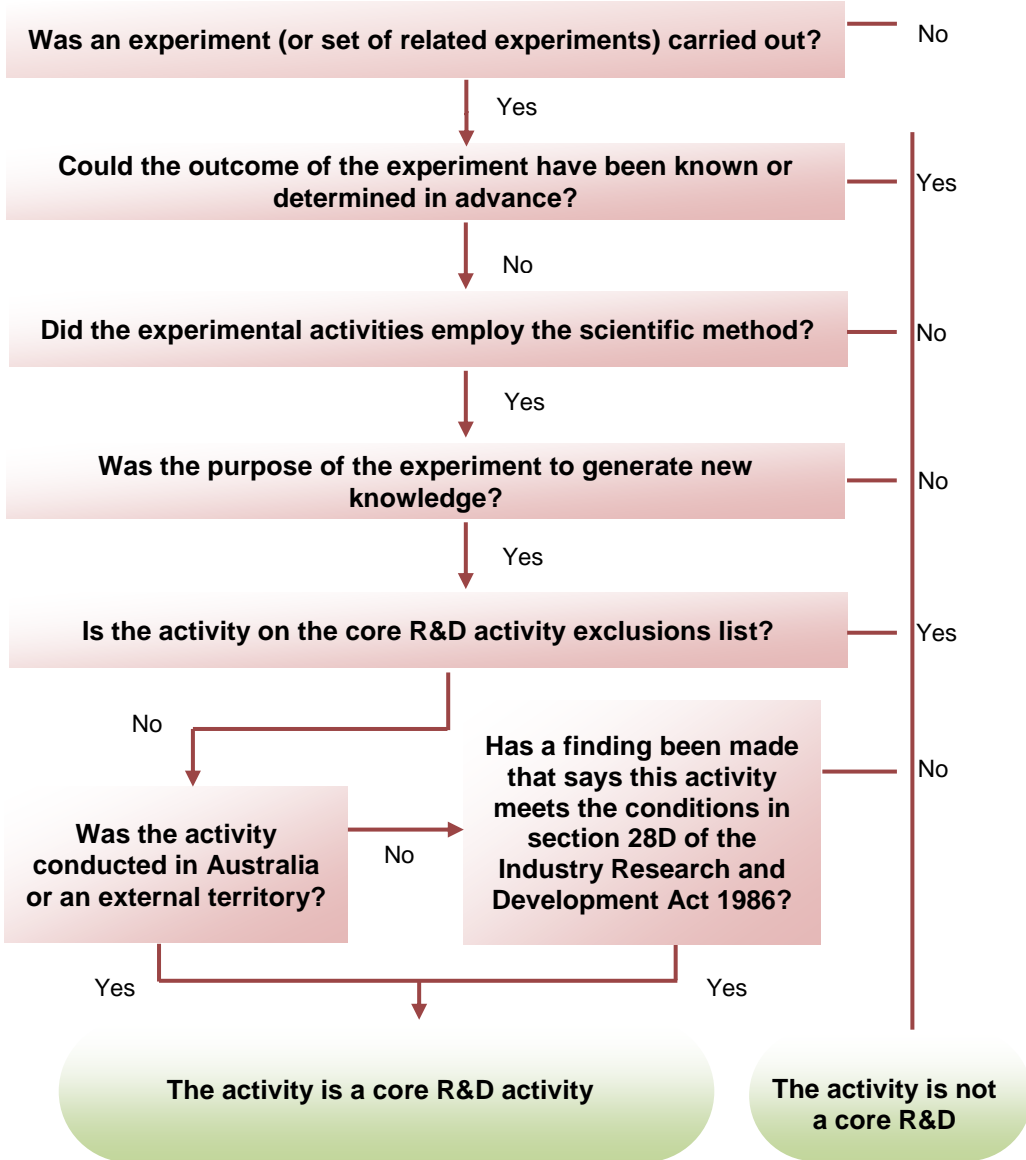
Software Development

If the core activity is software development, an additional 'internal business administration' restriction applies. The 'internal business administration' restriction requires the company to demonstrate the software is not for the dominant purpose of internal business administration. Examples of potentially eligible software R&D include:

- Software developed for the dominant purpose of providing a service to customers
- Software developed and made available as an open source product
- Software developed in-house which is of an applied nature, such as forming an integral part of an electrical or mechanical device being developed



Core R&D Identification



Supporting R&D Identification

