

How much R&D expenditure can be claimed, and what are the benefits?

* Eligible R&D entities with an aggregated turnover of less than \$20M – are entitled to a refundable tax offset that is fixed at a rate of 18.5% above the company's tax rate. This means that it is entitled to claiming 43.5% of eligible R&D expenditure.

Should the tax offset exceed the entity's tax liability, the balance will be paid to the entity in cash as a rebate. Eligible entities with an aggregated turnover above \$20 million per annum, will receive 38.5% of eligible R&D expenditure as a tax credit where their total R&D expenditure is less than 2% of their total business expenditure, and for eligible entities whose R&D expenditure is greater than 2% of their total business expenditure, they will receive a tax credit of 46.5% of eligible R&D expenditure. Importantly, unused tax credits can be carried forward indefinitely.

Further, up to AUD 100 million of eligible R&D expenditure per annum can be utilised for the R&D tax incentive.

What activities must be undertaken to qualify for the R&D Tax Incentive?

To be eligible for the R&D Tax Incentive, your R&D activities must be classified as either core R&D activities or supporting R&D activities.

1. CORE ACTIVITIES

In general terms, AusIndustry defines a Core R&D activity as an experimental activity:

(a) Whose outcome cannot be known or predicted, based on current available knowledge, information or experience, but can only be determined by applying a methodical progression of work that is:

- Based on principles of establishment science; and
- Proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and

(b) Conducted for the purpose of producing new knowledge. New knowledge includes, improved materials, products, devices, processes or services.

2. SUPPORTING R&D ACTIVITIES

Supporting R&D activities are activities that are:

- directly related to core R&D activities, or
- are undertaken primarily to support 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.

What expenditure can be claimed?

Once it has been determined what eligible R&D activities are undertaken by the entity, the entity can then apply monetary value to the activities to claim any eligible expenses.

Below is a list of expenses that generally come up as eligible R&D expenditure.

- Staff salaries and wages.
- Payments to contractors or research service providers (RSPs).
- Payments to Cooperative Research Centres (CRCs) (such as a university).
- Depreciation.
- Materials and Consumables.
- Overheads (including rent, electricity, telephone, internet and other administrative costs).
- Depreciation.
- Travel Expenses.

Eligible R&D expenditure can also include a significant portion of operating costs not directly related to the R&D activities.

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While there are few exceptions, generally speaking, only R&D projects carried out in Australia are eligible for the R&D Tax Incentive. R&D projects carried out overseas may be eligible if the Department of Industry, Science, Energy & Resources (previously AusIndustry) determines that the project satisfies the following requirements:

- a) There is a "significant scientific relationship" between the overseas R&D activity and the core R&D operations that are entirely carried out in Australia;
- b) The foreign research and development activity must not be able to be carried out in Australia, typically due to a lack of access to a facility, specialised knowledge, a particular population, or equipment in Australia, or if the activities violate Australian biosecurity laws
- c) The amount spent on the foreign R&D project must be less than the amount spent on Australia's main R&D projects.

The R&D Tax Incentive application process:

The process for applying for the R&D Tax incentive can be broken down into two steps.

Step1: Registration of R&D activities with AusIndustry

You must register your R&D activities with AusIndustry within 10 months of the end of your company's financial year. AusIndustry will determine the eligibility of your R&D activities from a technical perspective.

You will be required to provide the following information:

- * Entity name and contact information
- * Descriptions of R&D projects and activities
- * Activity dates and locations; and
- * Expenditure estimates for each activity.

Step 2: Submission of R&D Tax Schedule to the ATO through the corporate entity's tax return.

Once you have received a registration number from AusIndustry, you may submit an R&D Tax Schedule to the Australian Taxation Office (ATO) as part of your income tax return to claim your tax refund or tax credit. Should you be eligible for a refund, the refundable amount will generally be paid within four to six weeks from the date of lodgement.

Find out if you are eligible

If the answer to each of the following is "YES", there is genuine potential for an R&D Tax Incentive claim to be successful.

1. Are you a company incorporated in Australia, or a company incorporated overseas that carries on a business in Australia through a permanent establishment?
2. Are you carrying out activities related to the development of new and improved materials, products, devices, processes or services?
3. Are you conducting experimentation to solve technical unknowns?
4. Are the activities carried out in Australia?
5. Are you incurring a minimum cost of \$20,000 on eligible R&D activities for the financial year?

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Additional Insights

The Australian Taxation Office (ATO) released its first R&D Tax Incentive Transparency report on October 3, 2024 covering data from the 2021-2022 income year. The report provides information on companies based in Australia that have claimed significant R&D expenditure.

- The transparency reports for 2021-22 revealed that 11,545 companies claimed a total of \$11.2 billion in R&D expenditure.
- Public and multinational businesses accounted for \$4.9 billion of these claims, while small businesses represented 48% of claims.

For a comprehensive list of all companies claiming the incentive, refer to the full reports published on data.gov.au or the ATO's website.



How we can assist

Our **R&D tax specialists** will prepare the R&D tax incentive applications to AusIndustry after gathering the necessary information from our clients about their R&D activities. No information is required to be included in the R&D application which would compromise the confidentiality of the client's intellectual property.

Our R&D tax specialists policy is not to submit an R&D application with AusIndustry if it will not result in a successful outcome.

Our R&D tax specialists can advise on how to structure your R&D activities to ensure they meet the definition of eligible R&D activities to ensure a successful claim.

Our R&D tax specialists fees are only charged on a success basis.

****DISCLAIMER****

Please note many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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