



# THE R&D TAX INCENTIVE EXPLAINED: HOW TO APPLY FOR AND MAXIMISE YOUR REFUND







The R&D Tax Incentive is Australia's largest source of Government funding provided to ensure that we can be competitive in the global economy. The R&D Tax Incentive is available to a wide range of businesses across almost all industry sectors, from startups that have no revenue to ASX-listed multinationals.

This ebook was written to demystify eligibility criteria and explain how taxpayers can access the R&D Tax Incentive without the confusing policy jargon.

Before you commit to spending thousands of dollars on developing new innovative technology, read this ebook and set yourself up for a maximised cash refund.

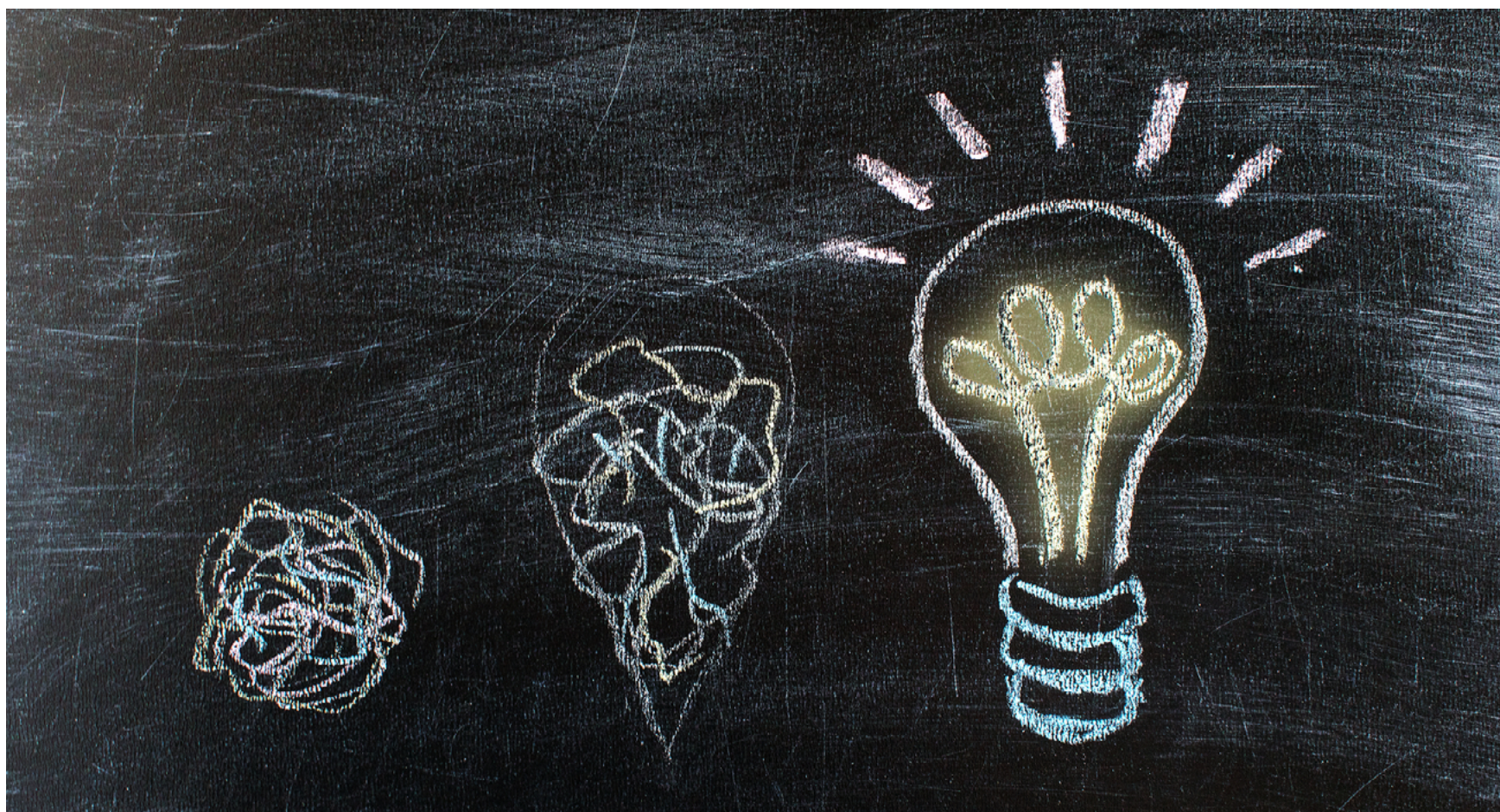
### **What is the R&D Tax Incentive and how can it help my business?**

#### **How much can I get?**

The R&D Tax Incentive is aligned with your company tax year which, for most companies, is 1 July to 30 June. There is no limit to the tax offset that you can access (but expenses are limited to \$100m). If you have an eligible Pty Ltd company and conduct eligible R&D activities you can apply for one of the following options:

1. For businesses with an aggregated turnover of less than \$20 million: a 43.5% refundable tax offset
2. For businesses with an aggregated turnover of more than \$20 million: a non-refundable 38.5% tax offset (unused offset amounts can be carried forward to future years).





The best part of the R&D Tax Incentive is that if you are paid a refund by the ATO, or given a tax liability reduction, you do not have to pay it back and it is not assessed as income.

## Examples of R&D Tax refunds

In the 2017–18 year, if a company:

- spent \$100,000 on eligible research and development activities;
- with revenues of \$500,000; and
- with a net loss of \$200,000;

the company would be able to apply for the 43.5% R&D Tax Incentive and this would result in a cash refund of \$43,500.

## R&D tax changes from the 2018 Federal Budget

The Federal Budget handed down in May 2018 has changed the way the R&D Tax Incentive works. From 1 July 2018 it will:

- Introduce a \$4m annual cap on cash refunds. Excess amounts will become non-refundable tax offsets (exclusions apply for R&D with clinical trials).
- Amend the refundable tax offset to be 13.5% above the company tax rate (a reduction from 43.5% to 41% for companies with turnover below \$20m).
- Impose an “intensity test” for companies with an aggregated turnover above \$20m. The rate will depend on the percentage R&D expenditure over the total expenditure and range from 4% up to 12.5% on top of the applicable company tax rate.
- Increase the existing \$100m expenditure threshold to \$150m.

If passed, the changes will come into effect on from 1 July 2018 for FY19 claims.



## Real example: Crawford Kitchens R&D

Andrew Crawford's company, Crawford Kitchens, provides ready-to-go, custom-built mobile commercial kitchens. For the past five years, Crawford Kitchens has been innovating their way to success thanks in part to the R&D Tax Incentive.

"We've been innovating and inventing a new system," says Crawford.

"We build mobile transportable buildings that instantly expand when they arrive on site. In order to sell into particular markets, we've had to innovate."

Crawford Kitchens keeps records of all new designs tested and the results from each experiment. Documentation of the new knowledge and experimentation at the time it is conducted is essential for compliance.

Crawford acknowledges that having expert advice from R&D tax consultants means he knows that he is getting the maximum refund allowable.

"Our consultant goes through all our expenses to make sure nothing eligible is overlooked," says Crawford.

Not only has Crawford been able to re-invest the funds back into his R&D, but he used the freed-up cash flow to commercialise his product.

"We're now poised to scale up our production and employ more staff because of the R&D Tax Incentive," he says.

"We've increased our fleet of mobile buildings by 40% in the last 18 months."

## How to apply

Conduct your R&D activities and keep detailed records of everything involved.

At the end of the financial year:

1. Register all core and supporting R&D activities from the year with AusIndustry.
2. Complete the R&D Tax Schedule with your accountant or R&D tax consultant.
3. Lodge the R&D Tax Schedule with your regular Company Tax Return.
4. Receive your tax offset as a cash refund or reduction of your tax liability.

Refunds are usually paid within four to six weeks after submitting your tax return with the R&D Tax Schedule. If you have already lodged your Company Tax Return before registering with AusIndustry, you can submit an amended Tax Return with the R&D Tax Schedule.

## Am I eligible to claim the R&D Tax Incentive?

The R&D Tax Incentive is administered by two government departments, The Department of Industry, Innovation and Science (AusIndustry) and the ATO. Businesses can assess their expenditure on eligible R&D activities and apply every year by registering with AusIndustry. Once registered, the R&D Tax Schedule is completed and included with the Company Tax Return lodged with the ATO.

### Is my entity eligible?

The ATO has a comprehensive list of eligibility requirements on its website. In short, you will need a company that is incorporated under Australian law, ie. registered with ASIC as Pty Ltd and not a trustee for a trust.

Foreign entities conducting R&D in Australia may still be eligible but will need to be carrying on business in Australia through a permanent establishment and be a resident of a country with which Australia has a double tax agreement.

If you're trading as an individual sole trader, a trust, a trustee, a limited partnership or an exempt entity, then you cannot apply.

### Eligible R&D activities?

AusIndustry administer the determination and registration of eligible R&D activities. You will need to register your core and supporting R&D activities each year after the end of your financial year and before 10 months have passed. For most businesses with July to June tax years, the deadline is 30 April.



## Core R&D activity

Your core activity must be based on principles of established science, such as medical, chemical, engineering or computer sciences. AusIndustry require you to comply with the definition or you will not be able to apply.

Each of the three points below must be satisfied to be allowed.

1. Eligible “core” R&D activities need to be conducted for the purpose of generating NEW knowledge. The activity can be to improve materials, products, services or processes.
2. The outcomes of the experiments conducted can not be known beforehand.
3. The research must be conducted through a systematic progression of work that proceeds from hypothesis to experiment, observation and evaluation to a logical conclusion.

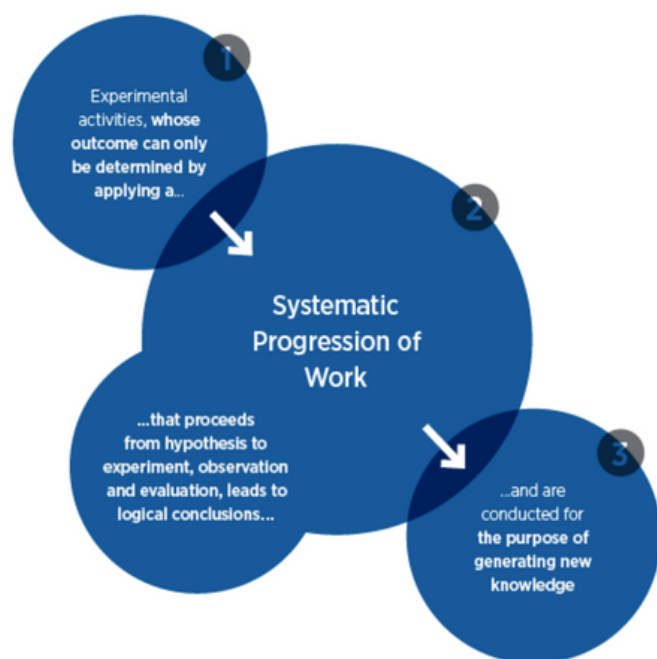


Diagram from AusIndustry publication: *The R&D Tax Incentive – a guide to interpretation*.

AusIndustry have published a number of booklets on how to define an R&D eligible activity. They also have well-produced videos to help understand the definitions in their [online Resources Library](#).

## Supporting R&D activity

A supporting activity is one that is related to the core R&D. This could include activities such as researching, designing and building prototypes, and setting up the experiments. These are those that are necessarily undertaken and without which the core activities could not have taken place.



## Excluded core activities

While many activities are eligible R&D activities, there are plenty that are not. Examples of excluded core activities include administration, management surveys, patent registration and the social sciences. A full list of [excluded activities](#) is available through the ATO.

## Eligible expenses

Expenses can only be claimed in the year in which they are incurred. Expenses incurred to “associates” needs to be “actually paid” to the associate in the year of the claim. Associates are defined as having more than 40% ownership in the eligible entity. Expenses for wages, contractors, materials and overheads are eligible but must be directly related to the R&D activities. For further information on spending you can include, see the [ATO website](#).

## Record-keeping

To receive an R&D Tax refund you must be able to prove that you have undertaken the work. Examples of what AusIndustry may consider to be proof include:

- Timesheets of staff
- Invoices with details about the R&D
- Measurements of experiments
- Meeting minutes
- Photos
- Reports
- Records of your failures.



Checklist: Expert tips to apply and maximise your R&D tax refund

- ☐ **Don't leave things to the last minute.**  
Applying for the R&D Tax Incentive requires methodical planning. Make sure you leave plenty of time to register before the deadline.
- ☐ **Read through AusIndustry's self-assessment documentation.**  
All the documentation you need is available on the AusIndustry website, with everything from guides on eligibility of activities in different industry sectors, to resources on how the program is run. This is the best place to start your journey.
- ☐ **Establish your eligible Pty Ltd entity as soon as you can and before you start spending money on R&D.**  
You must have an eligible Pty Ltd incorporated company conducting the R&D, not a sole trader, partnership, trustee or trust.
- ☐ **Pay yourself a salary.**  
As a business owner you can claim a portion of your salary if you are contributing to the R&D work. Directors' distributions are ineligible.
- ☐ **Use Australian resources to do the R&D.**  
R&D conducted overseas requires an Overseas Finding, which need to be approved in advance. There are restrictive criteria to be met.
- ☐ **Check none of your core activities are excluded R&D activities.**  
Read the list of excluded activities before claiming.
- ☐ **Claim the eligible proportion of overheads.**  
Overheads can add up to 20% more to your claim. These could includes things like rent and motor vehicles, if they are incurred in conducting the R&D activity.
- ☐ **Make sure you record R&D documentation to prove your R&D occurred in the year of claim.**  
No evidence means no claim. Timesheets and project documentation are basic materials that need to be provided in case of an audit. Record your failures as these are good evidence that the outcome could not be known in advance.
- ☐ **Enlist professional help to protect yourself and get your finances in pristine condition.**  
Ultimately, applying for the R&D Tax Incentive can get complicated. It is advisable to speak to an expert rather than going it alone. Check that they are a registered Tax Agent to ensure you get good advice.



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