



Upcoming changes to the R&D Tax Incentive:

Overview factsheet

Enhanced reforms to the R&D Tax Incentive were introduced as a part of the 2020-21 Budget. Included in Budget Paper 2, [JobMaker Plan – Research and Development Tax Incentive – supporting Australia’s economic recovery](#). These reforms formed a part of [Treasury Laws Amendment \(A Tax Plan for the COVID-19 Economic Recovery\) Bill 2020](#) received Royal Assent on 14 October 2020.

The changes to the R&D Tax Incentive apply to income years beginning on or after 1 July 2021. Therefore, the existing provisions will remain until that date. Some administrative elements of the reforms will apply from 1 January 2021.

The table below compares changes to the R&D Tax incentive that will come into effect from 1 January 2021 with the current features of the program.

Reforms coming into effect 1 January 2021

New feature	Current feature
ISA determinations	
<p>The Board of Innovation and Science Australia (ISA) may also make determinations about the circumstances and ways in which it will exercise its powers, or perform its functions or duties in relation to the R&D Tax Incentive. These determinations are binding on the Board.</p>	<p>No equivalent.</p>
Extensions of time	
<p>The Board’s ability to grant an extension of time is subject to a cap of three months on the total extension available, unless the extension is granted to allow an applicant to wait for the outcome of a separate pending decision.</p>	<p>The Board of ISA must grant extensions of time for registrations and the provision of information of up to 14 days if it is necessary and may grant a longer period if an applicant’s ability to meet the deadline is impaired by events outside the applicant’s control.</p>

Reforms coming into effect from the first income year commencing on or after 1 July 2021 to be administered by the Australian Tax Office*

New law	Current law
Expenditure threshold	
The R&D expenditure threshold is increased to \$150 million.	The R&D expenditure threshold applies to eliminate the incentive component of the R&D tax offset in relation to notional deductions in excess of \$100 million.
The R&D expenditure threshold is a permanent feature of the law.	The R&D expenditure threshold is legislated to no longer apply from 1 July 2024.
R&D Tax Offset for small R&D entities	
R&D entities with aggregated turnover of less than \$20 million are generally entitled to an R&D tax offset rate equal to their corporate tax rate plus an 18.5 per cent premium.	R&D entities with aggregated turnover of less than \$20 million are generally entitled to an R&D tax offset rate of 43.5 per cent.
R&D Tax Offset for large R&D entities	
R&D entities with aggregated turnover of \$20 million or more are entitled to an R&D tax offset equal to their corporate tax rate plus a premium based on the level of their incremental R&D intensity for their R&D expenditure.	R&D entities with aggregated turnover of \$20 million or more are entitled to a non-refundable R&D tax offset at a rate of 38.5 per cent.
Schemes to obtain an R&D tax benefit	
The Commissioner may also deny a tax benefit in the form of an amount of a refundable or non-refundable R&D tax offset that an R&D entity seeks to obtain from a tax avoidance scheme.	The Commissioner may deny a tax benefit in the form of a deduction or notional deduction that an R&D Entity seeks to obtain from a tax avoidance scheme.
Uniform clawback rule	
Recoupment amounts and feedstock adjustments give rise to an amount of assessable income equal to the grossed-up value of the incentive component of associated amounts of R&D tax offset.	Recoupment amounts are subject to a standalone tax of 10 per cent. One third of feedstock adjustments are included in an R&D entity's assessable income.
An amount is included in the assessable income of the R&D entity that received or is entitled to the R&D tax offset in relation to a recoupment amount or feedstock revenue received by a related entity.	In cases involving related entities, the entity receiving a recoupment is subject to recoupment tax. In cases involving related entities, the R&D entity entitled to the R&D tax offset is subject to a feedstock adjustment if the related entity receives feedstock revenue.

New law	Current law
Balancing adjustments for R&D assets	
<p>The R&D entity's assessable income is increased by an amount equal to the grossed-up value of the incentive component of the associated amounts of R&D tax offset.</p>	<p>For an R&D asset held only for R&D purposes where the balancing adjustment amount is included in the R&D entity's assessable income – the amount is generally increased by one third.</p> <p>For an R&D asset held partially for R&D purposes where the balancing adjustment amount is included in the R&D entity's assessable income – the R&D component of the amount is generally increased by one third.</p>
<p>The R&D entity is entitled to a deduction equal to the grossed-up value of the incentive component of the associated amounts of R&D tax offset that would have been obtained if the R&D component of the balancing adjustment amount was included in the calculation of the offset.</p>	<p>For an R&D asset held only for R&D purposes where the balancing adjustment amount is allowed as a deduction – the deduction is included in the R&D entity's R&D tax offset calculation.</p> <p>For an R&D asset held partially for R&D purposes where the balancing adjustment amount is allowed as a deduction – the R&D component of the amount is increased by one third or (for small R&D entities) or one half.</p>
<p>Similar amended rules apply to balancing adjustments for R&D assets held by R&D partnerships.</p>	<p>Similar rules apply to balancing adjustments for R&D assets held by R&D partnerships.</p>
<p>The transitional rules are amended in line with the primary amendments but continue to apply to R&D assets acquired before the introduction of the R&D Tax Incentive in 2011.</p>	<p>Transitional rules apply to R&D assets acquired before the introduction of the R&D Tax Incentive in 2011.</p>
Transparency of R&D claimants and activities	
<p>As soon as practicable after the period of two years following the end of the financial year, the Commissioner must publish information about the R&D entities that have claimed notional deductions for R&D activities, including the amount claimed.</p>	<p>No equivalent.</p>

* Note: Changes to how you claim the incentives will be included in your company tax return and R&D schedule instructions from 2021/22. Updates on these changes will be made available through www.ato.gov.au/business/research-and-development-tax-incentive

For further information on the R&D Tax Incentive, visit www.business.gov.au/RDTI or contact us at: RDTI.Engagement@industry.gov.au

