



The R&D Tax Incentive for accountants

Fact Sheet

The R&D Tax Incentive is the Australian Government's principal measure to encourage industry investment in research and development.

It provides generous benefits for eligible research and development activities (R&D activities) to around 13,000 companies each year. It helps companies link with Australia's world-class research base to develop new products, processes and services.

The *R&D Tax Incentive* is administered jointly by AusIndustry and the ATO.

The program offers two core components:

For income years from 1 July 2016:

- a 43.5 per cent refundable tax offset to eligible entities with an aggregated turnover of less than \$20 million per annum (unless controlled by tax exempt entities).
- a 38.5 per cent non-refundable tax offset to all other eligible entities¹. Unused offsets may be able to be carried forward for use in future income years.

For income years starting before 1 July 2016:

- a 45 per cent refundable tax offset to eligible entities with an aggregated turnover of less than \$20 million per annum (unless controlled by tax exempt entities).
- a 40 per cent non-refundable tax offset to all other eligible entities². Unused offsets may be able to be carried forward for use in future income years.

Who can apply?

The *R&D Tax Incentive* is available to:

- a company incorporated under an Australian law;
- a company incorporated under a foreign law that is an Australian resident for tax purposes; and

- a company incorporated under a foreign law that is a resident of a foreign country with a double tax agreement with Australia and who carries on business through a permanent establishment of the body corporate in Australia.

Trusts are generally not eligible for tax benefits under the *R&D Tax Incentive*. The one exception is a body corporate acting as trustee of a public trading trust.

What activities are eligible?

The Incentive supports experimental R&D activities (referred to as core activities) and supporting activities where these are closely related to the experimental activities. The core activities must be conducted for the purpose of generating new knowledge (such as developing new or improved products or processes).

Eligibility must be self-assessed for specific activities, not at a whole project level. The key question for an accountant is 'what are the experiments', because activities must include genuine experiments to be eligible. Contemporaneous records must be available to substantiate the self-assessment of eligibility.

To be eligible, activities must meet the full set of requirements set out in sections 355-20, 355-25 and 355-30 in the *Income Tax Assessment Act 1997*.

Overseas Findings and Advance Findings

Generally only R&D activities conducted in Australia or the external Territories qualify for the *R&D Tax Incentive*. However where most of the R&D is being done in Australia, but some essential activities can't be, R&D activities conducted overseas may also qualify. To be eligible for the offset for any overseas activities, companies must apply to AusIndustry for an overseas finding about activities occurring overseas.

Advance findings allow companies to seek a binding determination as to the eligibility of their activities prior to registration. Advance findings give companies certainty.

^{1, 2} With effect from 1 July 2014, a \$100 million threshold applies to the R&D expenditure for which companies can claim a concessional tax offset under the R&D Tax Incentive. For any R&D expenditure amounts above \$100 million, companies will still be able to claim a tax offset at the company tax rate.

How and when do companies apply?

Applications for registration of R&D activities must be lodged with AusIndustry within 10 months after the end of the company's Australian income year in which the activities were conducted.

After registering with AusIndustry, applicants may claim the tax offset by completing the ATO's *R&D Tax Incentive* Schedule and the relevant labels in their income tax returns.

A positive overseas finding is required to claim overseas expenditure under the *R&D Tax Incentive*. Applications for overseas findings must be lodged with AusIndustry before the end of the company's income year in which the activities are conducted. Overseas findings last for the duration of the relevant activities.

What types of expenditure can companies claim a tax offset for?

Subject to eligibility criteria and exclusions, a company can generally claim a tax offset for:

- expenditure incurred on R&D activities;
- decline in value of depreciating assets used in R&D activities; and
- balancing adjustments for depreciating assets used only in R&D activities.

These are referred to as 'notional deductions'.

Companies must have incurred notional deductions for an income year of at least \$20,000 to claim a tax offset. However, this threshold does not apply to expenditure incurred to a Research Service Provider (RSP), provided the RSP is not an associate.

How can I find out more?

Further information on the *R&D Tax Incentive* can be found on the websites of the administering agencies.

For more information on the eligibility of R&D activities, registration, advance and overseas findings, core technology findings and Research Service Providers visit business.gov.au.

For more information on eligible notional deductions, adjustments and company eligibility visit the Australian Taxation Office website ato.gov.au.

What is available on the websites?

The online version of this fact sheet has live hyperlinks that will take you straight to the relevant guidance.

business.gov.au

[R&D Tax Incentive e-learning for Accountants and Tax Agents](#)

This free online course is for accountants and tax agents who want to help their clients access the benefits of the *R&D Tax Incentive*.

[R&D Tax Incentive Snapshot website](#)

This website is designed to assist companies to self-assess the eligibility of activities they have conducted.

[R&D Tax Incentive: A Guide to Interpretation](#)

This publication sets out how AusIndustry interprets the key elements of the definition of 'R&D activities'.

[R&D Tax Incentive: Guide to Findings](#)

This publication provides information on decisions made by AusIndustry about a company's eligibility in specific circumstances (Findings). Findings can be initiated by AusIndustry or on the request of a company.

[R&D Tax Incentive: Compliance Readiness](#)

This publication provides information to assist companies to meet their compliance responsibilities. It provides guidance on business R&D planning, systems and record keeping.

[Publications on Research Service Providers \(RSPs\)](#)

Research Service Providers (RSPs) are entities registered by AusIndustry as being capable of providing scientific or technical expertise and resources to perform research and development on behalf of companies.

[Advance/Overseas Finding application form](#)

Companies complete and lodge this form to receive a binding ruling (a Finding) on the eligibility of their activities. A Finding does not replace registration. The form must be completed and lodged where a company wishes to claim overseas activities.

[R&D Tax Incentive Registration form](#)

Companies must complete this form within 10 months of the end of their income year to register the activities they wish to claim for that income year.

The business.gov.au website also has sector guides that provide illustrative guidance on eligible core & supporting R&D activities through hypothetical customer stories, and more.

ato.gov.au

The ATO website includes guidance to help determine whether an entity is eligible, how to make adjustments and when adjustments might need to be made, how to claim activities that are registered with AusIndustry, correcting mistakes and disputing decisions, compliance and monitoring, and more. It is all on the ATO³ website.

³ <https://www.ato.gov.au/Business/Research-and-development-tax-incentive/>