

Issue No 5 - 17 December 2001

Editorial Comment

• *The link between ACIS and the R&D Tax Concession*

Much discussion has taken place in recent times regarding the interaction of ACIS and the R&D Tax Concession.

The R&D Tax Concession is a broad-based scheme that is not industry specific. The Tax Concession is administered jointly by the IRDB, AusIndustry and the ATO.

ACIS on the other hand is specifically aimed at the motor vehicle industry in Australia, and is administered by AusIndustry.

The nexus between the two is that the receipt of ACIS credits will automatically trigger Section 73C of the Income Tax Assessment Act relating to clawback provisions of R&D deductions claimed since January 1999 on a Company's Tax Return.

What does this mean for your Company?

Participants in the ACIS Scheme who are already claiming the R&D Tax concession may have to make amendments to their Tax Returns in prior years as ACIS Credits are received.

Each Tax Return amendment will be made with reference to R&D Tax Concession expenditure (Section 73B) that has been included in the ACIS rolling average calculations. Simply put, the R&D expenditure cannot be claimed twice under both Schemes, only one of them. Given the benefits under ACIS and the broader interpretation of R&D under this Scheme, it's usually preferable from a financial point of view to make the Tax Return adjustment than to leave it off the ACIS rolling average and forego valuable credits.

Still unsure what it means or how it affects you?

Give our team a call for an explanation as to how these two measures affect your Company.

***Disclaimer** - Before relying on the information contained in this newsletter, users should independently verify its currency, completeness and relevance for their purposes, and should obtain any proper professional advice. In particular, users should seek more detailed independent professional advice before making any investment or business decisions.*

Looming modulation in 2002

New Industry Minister Macfarlane will have some hard thinking to do over the Xmas break after this week's press stories that Mitsubishi and Toyota are looking for extra money from the Commonwealth to sustain automotive investments in Australia. After examining Q3 business plan updates, AusIndustry has indicated that modulation is inevitable given the quantity of credits issued in the first year of the Scheme. So the new Minister's first decision in 2002 will be to reduce investment benefits, not increase them! Although some companies have 'capped out' and will not be receiving any further credit allocations this year, calculations have confirmed the \$2 billion grant pool will easily be cleared at present levels of investment in both plant & equipment, and eligible R&D.

Feature Article: Sales Cap for ACIS Goods and Services - Have you analysed the true picture as it affects your company?

An automotive component under the ACIS Administration Act 1999, means any component (completed or not) that is:

- for use in any type of vehicle that, if imported, would be classified to Chapter 87 of Schedule 3 to the Tariff; or
- that has the essential character of a component to which paragraph (a) applies; other than a component of a kind that is declared by the regulations not to be an automotive component. (These are well defined in Regulation 6 (1), (2) and (3).

Check that you have included all eligible components that you manufacture or add value to in accordance with Chapter 87 Schedule 3 - you may be surprised! Call our team for a discussion on the application of Chapter 87 Schedule 3 should you require further details and how this Schedule affects your Company.

Contracted R&D

Last month's (November) article on Contracted R&D : Who claims and who misses out, drew a significant response from participants in the Scheme. Where we could not accurately determine the eligible claimant of the Contracted R&D over the phone, TCF Services undertook several field visits and verified to each clients satisfaction that they were, or were not entitled to claim. This 'health check' is available to all participants in the Scheme. So just to recap the main points on Contracted R&D:

- The R&D expenditure can only be claimed once and cannot be claimed if it is being carried out on behalf of another firm that has contracted the R&D.
- To prevent clawback provisions, apply the various tests internally depending on where your company sits in the supply chain to determine whether the contracted R&D is yours to claim.
- There are several good scenarios that can be applied to easily determine whether or not contracted R&D is claimable. These are available from the AusIndustry Customer Guidelines to claiming Contracted R&D - October 2001, or contact any of our team below for a determination.

Need some tips? TCF Services are able to provide hints and guidelines to interested participants or provide more complex solutions and tools to those who are in a position to take up suggestions because they are not yet 'capping out' under the ACIS Scheme.

Need an ACIS solution or questions answered? Then contact any member of our ACIS team on the numbers below.

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Merry Xmas from TCF Services and its Staff!