

Understanding the R&D Tax Incentive

This guide provides a high-level summary for start-up founders and small and medium-sized enterprises (SMEs) interested in determining their eligibility to claim benefits under the Research and Development (R&D) Tax Incentive program. It also includes some key frequently asked questions and a seven-point checklist to assist potential claimants in the eligibility process.

Q1: What is the R&D tax incentive?

A: The R&D tax incentive is the federal government's headline industry assistance program designed to assist and encourage R&D activities across all industry sectors in Australia for the purpose of creating new jobs through the generation of new innovative products, processes, and services.

Q2: What constitutes eligibility under the R&D tax incentive?

A: Eligible activities include those that are experimental, conducted in Australia, and seek to provide a technical or scientific advancement through the generation of new knowledge that is not freely available anywhere in the world or could not be deduced by an expert in the field based on existing knowledge.

Q3: How is the return calculated against my annual R&D expenses under the R&D tax incentive?

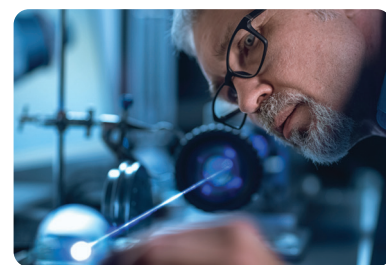
- A: a)** Companies with annual R&D aggregated turnover of less than \$20 million trading without revenue or with matching tax losses to cash out can expect to receive a 43.5% refundable tax offset payable in cash, or a 17.5% refundable tax offset (payable in cash after any taxes are offset by the ATO at time of lodgement) for companies trading in profit.
- b)** Companies with annual R&D aggregated turnover of \$20 million or more will receive a non-refundable tax offset (to reduce company tax payable) equal to 8.5% of annual R&D expenses claimed.

Q4: What are the four pillars of eligibility that I am required to meet to qualify for a benefit under the R&D tax incentive?

A: Eligible Entity – Only incorporated entities are eligible to make claims (i.e., Pty Ltd or Ltd) or a Body Corporate acting as a trustee of a public trading trust (i.e., public companies). Individuals, trusts, sole traders, and partnerships are not eligible.

Eligible Activities – Core R&D activities must be experimental by nature and conducted for the purpose of generating new knowledge on a technical or scientific basis for which the R&D entity must also own or control the resultant intellectual property.

Eligible Expenditure – Is the financial risk incurred by the claimant entity associated with its technical or scientific risk? The majority of expenses claimed are usually the cost of direct labour (salaries or contractor) and other direct costs involved with undertaking the experimental activities (e.g., parts, materials, hosting, etc.). An apportionment of indirect overheads like rent and power, plus depreciation allocated to the use of any R&D assets, are also claimable.



Eligible Recordkeeping – Contemporaneous records must be established, including weekly timesheets to substantiate the apportionment of annual wages to be claimed annually plus technical reports that evidence the conduct of your R&D activities using the scientific method (i.e., proceeds from hypothesis, experiment, observation, and evaluation, leading to logical conclusions). Other records that would be expected to support your claim include project plans, design drawings, minutes of R&D meetings, photos of prototypes, and contracts for outsourcing of R&D.

Seven-Point R&D Tax Incentive Eligibility Checklist

If your answer is “Yes” to all of the questions below, you may be eligible to claim a cash benefit under the R&D tax incentive.

- ☐ Do you have an incorporated Australian company?
- ☐ Will your company carry out an experiment or set of related experiments to achieve a technical or scientific advancement in your industry sector?
- ☐ Will the experiment(s) investigate and test a hypothesis?
- ☐ Will the new knowledge being sought be new to the world or, at minimum, be unavailable in the public arena?
- ☐ Will you own or control the resulting intellectual property generated from the R&D activities?
- ☐ Will the R&D activities be conducted in Australia?
- ☐ Will the annual costs for undertaking R&D meet the minimum threshold of \$20,000?

Why Ryan?

Since 1991, Ryan’s knowledgeable team of R&D tax incentive consultants has overseen the delivery of more than \$2 billion in government grants and tax incentives for Australian companies. With vast experience across many sectors, including software, automotive, food, and all types of engineering disciplines, we work closely with you to deliver a positive outcome for your organisation.



Award-Winning Tax Services

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