



R & D Tax Incentive

The Research and Development (R&D) Tax Incentive is a generous government initiative that encourages Australian businesses to engage in R&D activities.

Snapshot of the R&D Tax Incentive:

- It is open to all companies in all sectors that are conducting eligible R&D activities (trusts, partnerships and sole traders are not eligible – ask us how you can restructure to take advantage of the R&D tax offset)
- Companies may receive a 43.5% refundable tax offset if their aggregated turnover is less than \$20 million
- For companies with an aggregated turnover of greater than \$20 million a 38.5% non-refundable tax offset is available
- A company must incur R&D expenditure of at least \$20,000 in an income year to be eligible to claim the R&D Tax Incentive

Benefit of the R&D Tax Incentive:

Taking into consideration the varying corporate tax rates that presently exist, a summary of the benefit provided by the R&D Tax Incentive based on group turnover is as follows:

Group Turnover	Company Tax Rate	R&D Tax Offset Rate	Benefit of R&D Tax Offset	Refundable or Non-refundable Offset
Less than \$10M	27.5%	43.5%	16%	Refundable
Between \$10M - \$20M	30%	43.5%	13.5%	Refundable
Greater than \$20M	30%	38.5%	8.5%	Non-refundable

Example: if a company with turnover of \$5M spends \$250,000 on R&D they will receive a benefit of \$40,000 ($\$250,000 \times 16\% = \$40,000$).

What are eligible R&D activities?

If your business is spending money to improve products, services or processes and the outcome of what you are trying to achieve is not known in advance, then it sounds like you are conducting R&D activities.

Determining if you are engaged in R&D activities can be likened to a high school science report:

- there needs to be a hypothesis for the problem you are trying to solve or improve;
- there needs to be an experiment;
- the experiment needs to be evaluated; and
- a logical conclusion needs to be reached in relation to your hypothesis.

If you follow these steps (and sometimes you might do so unknowingly) then what you are doing is R&D.

As a generalisation, companies operating in the technology, software, engineering and manufacturing industries are most likely to be engaged in R&D activities. Common examples of eligible R&D activities include: technology start-up business creating a new product or mobile app, a farmer improving soil management or irrigation techniques or a manufacturer improving/inventing a process to determine if they can achieve a performance gain.

The R&D Tax Incentive decreases the cost and minimises the risk of conducting R&D activities for businesses by providing a tax incentive.

If you think that you may be engaged in R&D activities and would like more information please contact Williams Hall Chadwick to discuss.