



GLOBALRESEARCH
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RESEARCH & DEVELOPMENT

OVERVIEW



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RESEARCH & DEVELOPMENT OVERVIEW

HOW IT WORKS

The Research & Development (R&D) Tax Incentive helps businesses offset some of the costs of doing R&D. The program aims to help more businesses do R&D and innovate. It is a broad-based entitlement program. This means that it is open to firms of all sizes in all sectors who are conducting eligible R&D.

STEP 1: THE BENEFIT

- 1 – It is open to firms in all sectors that are conducting eligible R&D.
- 2 – Companies may receive a 43.5% refundable tax offset if their aggregated turnover is less than \$20 million.
- 3 – For aggregated turnover more than \$20 million a 38.5% non-refundable offset can be claimed for notional deductions incurred on eligible activities.
- 4 – A company must have notional R&D deductions for an income year of at least \$20,000 in order to claim a R&D Tax offset.

STEP 2: IS MY BUSINESS ELIGIBLE?

The R&D Tax Incentive is open to companies from any industry in Australia. Under the program you self-assess whether or not your company is eligible to register activities and claim the R&D Tax Incentive in any given year.

- Generally a company that is liable to pay tax in Australia and is incorporated under Australian law is eligible.
- Under certain circumstances overseas companies operating in Australia can be eligible.
- Trusts are generally not eligible.

STEP 3: IS MY WORK ELIGIBLE?

Your research and development work needs to be recognised as an eligible R&D activity.

- Core R&D activities are the part of the work where the company tries to do or make something that hasn't been done before and cannot be done without experimenting
- To prove it, the company must aim to create new knowledge by following a path from concept to conclusion with measurable experimental outcomes to support the reasons for the conclusion.
- Core R&D activities could be, for example, the testing of a new or improved product, device, process or service.
- A business must have at least one core R&D activity in order to claim.
- Supporting R&D activities are company activities that support core R&D activities.
- These activities need to have a direct, close and relatively immediate relationship to the core R&D activity. If these activities are involved in producing goods or services the dominant purpose of the activities must also be to support your eligible core R&D activities.

EXCLUSIONS

Some activities are explicitly excluded from being eligible core R&D activities. However, these activities could still be eligible supporting R&D activities as long as they were undertaken for the dominant purpose of supporting an eligible core activity and have a direct, close and relatively immediate relationship with that activity.

Examples of excluded core activities include:

- management studies
- market research
- prospecting; and
- research into the arts.



STEP 4: RECORD KEEPING

Record keeping is an important part of any R&D project and also an important part of good business practice. If you register for the R&D Tax Incentive you need to keep records to demonstrate the work you register is eligible for support. Good planning combined with good business systems and processes improve the chance for a company to get the most out of their R&D investment.

There are two types of record keeping required for the R&D Tax Incentive:

1. Activity based record keeping

Activity based records show that activities were actually carried out, and show how they are eligible core or supporting R&D activities.

The type of records that might be kept for activity based records include:

- Notes from meetings with project and technical staff.
- Business plans and approvals.
- Results of background research and scoping.
- Technical project documents, including the results of testing on the product, idea or service.
- File notations and updated records to track the progress of an R&D activity.

2. Expenditure based record keeping

Expenditure based records justify expenditure claims for eligible R&D activities.

The type of records that might be kept for expenditure based records include:

- Timesheets to verify the amount of time spent on R&D activities.
- General ledger entries and invoices to verify the amount incurred on R&D activities and that include sufficient detail to link them to the R&D activities.
- Spreadsheet or template that allows for eligible R&D costs to be consolidated into a format that allows for direct input into the ATO R&D Tax Incentive Schedule.
- Financial documents including records of expenditure that include sufficient detail to link them to the R&D activities.

STEP 5: HOW DO I REGISTER?

If your company and activities are eligible and you want to claim the R&D Tax Incentive in your company's income tax return, you must first register with AusIndustry.

You must register before you lodge your company income tax return to claim the Incentive. You must register within 10 months of the end of your company's income year*.

You must register your R&D activities for every income year you want to claim the Incentive.

* E.g. If your 2023 income year ends on 30 June 2023, you have until 30 April 2024 to register.

If your 2023 income year ends on 31 December 2023, you have until 31 October 2024 to register.



STEP 6: HOW DO I CLAIM?

The Australian Tax Office (ATO) has set out six steps on its website to work out if you can claim the R&D Tax Incentive and, if so, how much. The ATO also explains how you lodge a claim for the offset. Below is a summary of the six points. Remember, you need to keep accurate records.

- 1 You must be sure that you and your activities are eligible, you have registered with AusIndustry and you have incurred expenditure that qualifies. If you plan on using a tax agent to help you lodge your returns or complete your forms, you need to make sure they are a registered tax agent.
- 2 You need to identify if you are controlled by any entities that are exempt from income tax because this factor will be taken into account in determining if you're eligible for the 43.5% refundable tax offset or the 38.5% non-refundable tax offset.
- 3 You need to calculate your annual turnover for the income year. Conditions apply if there is annual turnover for an entity connected or affiliated with your company.
- 4 If your annual turnover is less than \$20 million and you worked out in Step 2 that you are not controlled by any exempt entities, then you can claim the 43.5% refundable tax offset (over \$20m – 38.5% non-refundable offset).
- 5 Once you have worked out which offset you can claim, you can calculate the amount of your tax offset. You do this by multiplying the total notional deductions by the rate of offset you are eligible for. To calculate your claim for the 43.5% refundable R&D tax offset, multiply the total of the notional deductions by 0.435.
- 6 Once you have determined you can claim the R&D Tax Incentive tax offset, the final step is to lodge your claim for the income year. You claim the R&D Tax Incentive tax offset by completing a Research and Development Tax Incentive Schedule and relevant labels of the company tax return and lodging them with the ATO.



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