

Research and development tax incentive

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WHAT IS THE R&D TAX INCENTIVE AND HOW DOES IT WORK?

The R&D tax incentive is designed to encourage all forms of R&D in Australia, with recent changes to the incentive intended to encourage businesses to spend more than 2% of their total expenditure on eligible R&D. The R&D tax incentive is contained in Division 355 of the *Income Tax Assessment Act 1997* (Cth).

Am I entitled to the R&D tax offset?

You must self-assess your eligibility for the R&D tax offset and register your R&D activities with the Department of Industry, Innovation and Science. You are eligible for the R&D tax offset if you are:

- incorporated in Australia;
- incorporated offshore but are an Australian income tax resident; or
- incorporated offshore (in a country with which Australia has a double tax treaty) but carrying on business in Australia through a permanent establishment.

Partnerships are not themselves eligible for R&D tax offsets. However, each individual partner may register and apply for an R&D tax offset in its own right. If you are the head of a consolidated group or multiple entry consolidated group, you are treated as a single entity for R&D tax offset purposes.

What benefits are available?

The offset rates that currently apply vary by aggregated annual turnover:

Table 1 – Calculation of tax offset rate

Turnover	Tax offset rate
< \$20 million	Corporate tax rate + 18.5% (refundable)
≥ \$20 million	Corporate tax rate + 8.5% / 16.5%* (non-refundable)

* The rate for eligible R&D expenditure up to 2% of total expenditure is 8.5%. The rate for eligible R&D expenditure beyond 2% of total expenditure is 16.5%. Any unused offsets may be rolled forward and used in future income years.

Are there any thresholds and caps?

You need to spend a minimum of \$20,000 on eligible R&D expenditure to claim the R&D tax incentive, although special rules may apply if you are an eligible [research service provider](#). R&D tax incentive claims are capped at \$150 million per income year. Any amount of offset claimed over that cap reverts to the corporate tax rate.

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How can I use the R&D tax offset?

If you are entitled to a refund of tax, you would ordinarily need to wait until the end of the financial year to receive the refund. However, some lenders may be willing to lend money in anticipation of your future receipt of that refund. This means you may be effectively able to monetise the tax offset before receiving potential tax refunds. Any non-refundable offset amount will first be applied against your tax liability, but any excess may be able to be carried forward for use in future income years.

WHAT ACTIVITIES GIVE RISE TO THE R&D TAX OFFSET?

Division 355 contains the requirements for R&D expenditure to be eligible for the R&D tax incentive. This may include, for example, salaries and wages, costs of purchasing goods and services, costs of running equipment and the depreciation of machinery.

Although the R&D tax incentive captures most R&D that takes place in Australia¹, including contract R&D performed as a member of a multinational group, certain activities are specifically excluded, including prospecting, exploring or drilling for the purposes of discovering deposits and determining the size, quality or the more precise location of deposits.

What are some examples of R&D I can claim for?

- Developing new materials
- Developing new software applications
- Developing new methods of extracting minerals and other materials
- Developing new clean energy products and technology
- Creating more efficient engines and other devices
- Developing new manufacturing techniques.

¹ Core R&D activities are defined as experimental activities – the outcome of which cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that is based on principles of established science; and proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and that are conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services). Supporting R&D activities are defined as activities directly related to core R&D activities if they are undertaken for the dominant purpose of supporting core R&D activities.