



SPOTLIGHT: RESEARCH & DEVELOPMENT (R&D)

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What is the R&D Tax Incentive?

The R&D Tax Incentive program (RDTI) is the Australian Government's largest targeted entitlement program, aimed at assisting Australian companies in offsetting some of the costs of their R&D activities.

Cashflow is one of the biggest barriers for companies considering taking on Research and Development and the R&D Tax Grant is Australia's answer. The R&D Tax Incentive was created to support all types of innovation across all vectors and sectors.



R&D Tax Incentive Benefit

TURNOVER	BENEFIT	LOSS MAKING	PROFIT MAKING
<\$20 MILLION	43.5%	CASH-REFUNDABLE	NON-REFUNDABLE
>\$20 MILLION	38.5%	NON-REFUNDABLE	NON-REFUNDABLE

Forget about R&D stereotypes - you don't need to be a high-tech company to be doing eligible R&D. Many small businesses do R&D and don't even realise it.

You could be baking bread, making chocolates or developing innovative software applications. You just need to have worked out a creative new solution to a problem in your business.

Some examples of eligible sectors and industries are:



Manufacturing

Food & Beverage

Mining

IT & Software

Health & Medical

Tourism

Fashion

CHECK ELIGIBILITY

Often a person will be making something innovative but simply assume that their R&D is not eligible for the incentive. More often than not the innovation could be eligible.

There are 3 main pillars to understand if the Research and Development is eligible.

New Knowledge

- The first step to new knowledge is identifying a gap in the market
- An area that you feel is lacking and that you believe you can capture or change
- It's important to note here that you don't have to be sending rockets to the moon
- In fact, the final outcome of what you are doing may not be distinguishable from something else in the market, however the opportunity you have identified adds a different benefit to getting to the outcome e.g. faster, smoother, healthier, more efficient or longer lasting – just as some ideas

Experimentation

- Now that you have identified your gap in the market you decide to go ahead and have something made
- This would be the embarking of a process of trial and error. There will be setbacks along the way as you are attempting something new
- The setbacks are very important as they prove that it wasn't an easy process but rather a true process of R&D

Uncertainty

- As with anything new, the outcome shouldn't be known in advance
- Inherent in something new being created should be a level of not knowing what the final outcome will be
- This is a regular process of real R&D. The product or innovation will likely take many different forms along the way as it is something new that is being created

"It's important to note here that you don't have to be sending rockets to the moon"

To help determine eligibility for the R&D tax incentive, we've put together a series of questions that our R&D experts use when reviewing potential claims:



ASK YOURSELF

- Was a scientific experiment carried out?
- Were you trying to achieve something unknown or whether something previously untried would be effective?
- Were you trying to solve a technical problem?
- Did the experiment employ the scientific method?
- Was the purpose of the experiment to generate new knowledge?
- In order to generate new knowledge, were you aiming to create new or improved materials, products, devices, processes or services beyond what is currently available in the industry?
- Did the experiment involve an unknown outcome or a technical risk?
- Is the outcome you are seeking unavailable on a commercial basis?
- Is there a risk that the experiment may fail to produce the outcome you are hoping to achieve?
- Are your activities aimed at developing a new product, process, or service that could lead to a patentable invention?

If you answered yes to these scenarios, the activity is a core Research and Development activity. You should retain contemporaneous documentation to demonstrate each of the points outlined above.

If you answered no to any of these, the activity is not a core R&D activity, however, the activity may qualify as a supporting R&D activity.

HOW DOES SUBMISSION WORK?

1 Eligibility Assessment

To ensure the company meets the eligibility criteria and that the possible benefit of a claim outweighs the required effort.

2 Registration Form

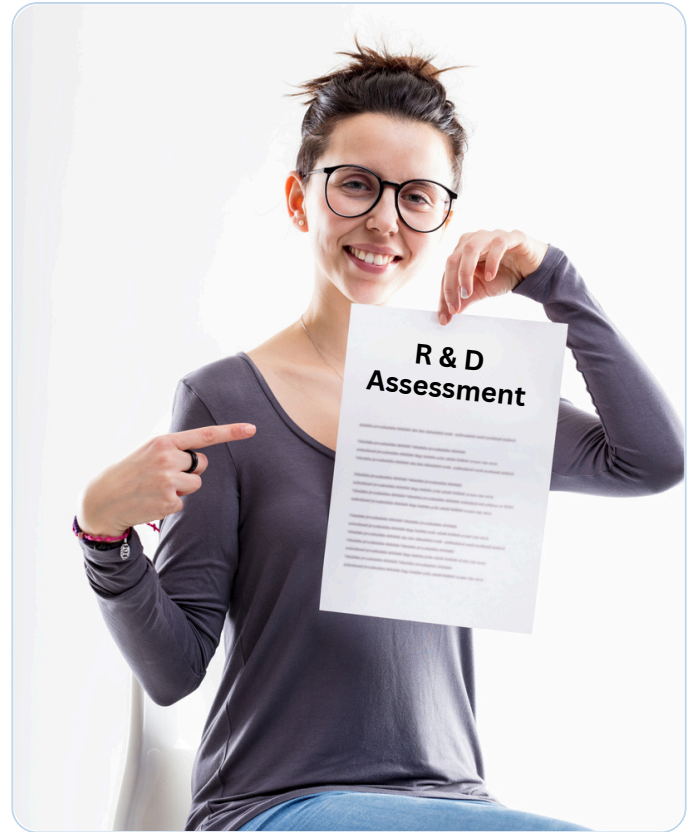
- A submission is made to Ausindustry to formally register the claim.
- There is an R&D Tax Incentive Deadline that needs to be met.
- The deadline is 10 months after the company's financial year end.

3 Income tax return

Tax schedule is prepared. The company's accountant needs to include the schedule in the company's annual tax return.

4 Receive Tax Offset

The net benefit will vary depending on the size of the claim and on the company's profit/loss.



Which expenses may be eligible?

R&D STAFF SALARIES & WAGES	R&D CONTRACTOR FEES	INDUSTRIAL DESIGN
SOFTWARE DEVELOPMENT	FORMULA FORMULATION	PROTOTYPE CREATION
PRODUCT TESTING	MANUFACTURING & AUTOMATION	ENGINEERING COSTS
LAB COSTS & TESTING	PATENT NEW KNOWLEDGE COSTS	R&D MACHINERY
R&D RENT	R&D OVERHEADS	R&D UTILITIES

GAULD TULLOCH BOVE helps with your R&D Tax Incentive applications by:

- **Identifying** the eligible R&D projects
- **Preparing** the R&D Tax Incentive Application
- **Lodging** of documentation required by AusIndustry and Australian Tax Office
- **Calculating** of R&D expenditure and tax compliance
- **Advising and supporting** you throughout the application process

FOR MORE INFORMATION CONTACT

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