

“Research and Development from the Myth through to Creating Wealth”



This is not true.

The Research and Development (R&D) legislation has a differentiation for a company at \$20M turnover. For companies with turnovers under \$20M the R&D Tax Offset is calculated at **43% of the total R&D expenditure**.

A tremendous benefit for companies with turnover less than \$20M is the ‘**cash payment**’ that the Australian Taxation Office (ATO) can pay to those companies. We discuss the “**cash payment**” potential benefit later in this article.

According to AusIndustry, the expected amount of the tax offset in 2022/23 is \$2.54B. This means that **the actual Research & Development expenditure by companies with turnovers under \$20M was \$5.9B**.

Research & Development is a very large spend for smaller companies and is definitely a very important consideration for any company that is undertaking the development of new products, services or processes.

Like everything in life, there are rules. We will talk about some of those rules later in this article.



The Australian Government rewards companies that undertake Research and Development because historically, some of the companies that undertake Research and Development create wealth and that generates more income tax.

There is a risk and obviously, not all companies that undertake Research and Development are successful. However, enough of them are to act as an example for other companies to follow suit.

It all starts with an **'IDEA'**

This idea might have been something that was discussed over smoko, and a couple of the team members started inputting on the computer. Perhaps started creating something in the workshop and then they went and talked to their boss and said, *"We have an idea!"*

You could create a **'small team'** to evaluate the **'idea'**. Is it practical? Has it already been done? Cost?

The preliminary investigations are concluded and a decision needs to be made whether to proceed.

Let's check some of the issues to be able to claim the Research and Development Tax Offset...

- ✚ Will the company spend more than \$20,000 on Research and Development activities in the financial year?
- ✚ Team members available?
- ✚ Team leader?

Prior art searches conducted to check whether anyone else in the world has already researched this idea and has patented that idea. If so, you cannot claim the Research and Development Tax Offset.

If you don't find any prior art and decide to proceed, you are required to document and keep records so that your company can claim the expenditure.

These items are:

- ✚ A list of the core activities proposed for the project.
- ✚ A list of the new knowledge intended to be produced from this research.
- ✚ Please note that the outcome cannot be known or determined in advance.
- ✚ A hypothesis or hypotheses needs to be determined for testing in the experimental stages.
- ✚ Prepare a Budget and then submit to your Board of Directors for approval (good corporate practice).



Companies do not have to apply in advance to a government agency to gain approval to undertake Research and Development activities which can ultimately lead to claiming the Research and Development Tax Offset.

However, if the Company Directors want to obtain certainty that the Research and Development activities will be accepted by the ATO, the company can submit an **'Advance Finding Application'**.

Other than these two items, the first time a government agency knows that a company has undertaken Research and Development is when the Research and Development Activities Report is lodged with AusIndustry.

Details of the work undertaken relative to planning the Research and Development activities and conduct of the experiments and other Research and Development activities supported by team member timesheets and contractor's invoices.

- Details of the systematic progression of work:
 - experiments conducted
 - observations/evaluation/conclusions
 - prove or disprove the hypothesis or hypotheses
 - what are the logical conclusions?
 - review of the results



The Research and Development Tax Offset for larger companies is calculated: **Corporate Tax Rate plus an Incremental Premium** – a percentage of the company's eligible Research and Development expenditure as a proportion of the company's total expenditure.

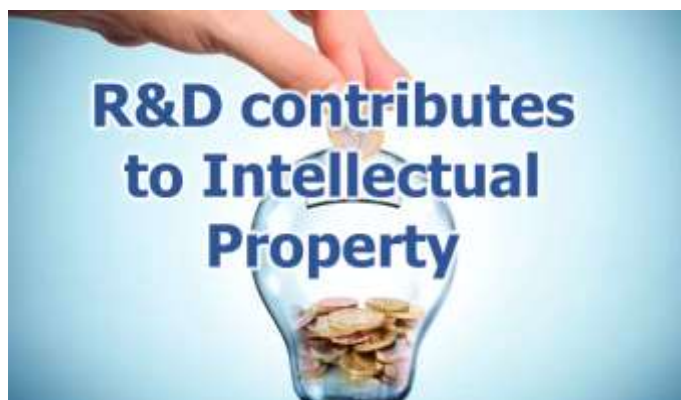
If eligible Research and Development expenditure is above 2% Research and Development intensity, those companies will receive a non-refundable Research and Development Tax Offset of the company's Corporate Tax Rate + 16.5%.

If your company spent more than \$20,000 on eligible Research and Development activities (irrespective of the number of projects undertaken) for the year ended 30 June 2023, you only have three (3) months to lodge the Research and Development Tax Incentive Application with AusIndustry for them to review the projects that have been undertaken, and if the AusIndustry Team have no immediate questions, to issue an “Innovation Number”. Your accountant would then include the “Innovation Number” together with a list of the costs that your company has incurred on Research and Development Activities during the year as substantiation for your company claiming the Research and Development Tax Offset.

If your company's income is under \$20M and your company has been trading at a loss, you can claim a refund of the amount of the R&D Tax Offset, provided your company's tax losses exceed the Tax Offset amount.

If your company's turnover is over \$20M, the Tax Offset is utilised in the determination of your company's Income Tax Assessment.

There is a fair amount of documentation required to support and to be included in the **Research and Development Tax Incentive Application**.



- 🚩 Companies can attract taxation benefits by undertaking Research and Development.
- 🚩 Small Companies (turnover under \$20M) can receive a cash refund.
- 🚩 Expert Advisers and some Accountants can assist.
- 🚩 The 'hidden asset' – 'Intellectual Property' can add significant value to your Company's net worth.

[Click here](#) to download our "Planning a Research and Development Project Flow Chart.

WANT TO DISCUSS

If you would like to have a discussion about any of these issues, we would be happy to talk to you, please call Peter Towers on 1800 232 088 to arrange a Zoom meeting or send an email to peter@essbiztools.com.au.

Stay safe!

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