DLK ADVISORY

R&D INCENTIVE OVERHAUL

The Research and Development (R&D) tax incentive is an offset designed to encourage eligible companies to undertake R&D activities that are likely to benefit Australia's wider economy. It provides a tax offset to eligible companies that conduct eligible R&D activities which are classified as experimental activities that are conducted in a scientific way for the purpose of generating new knowledge of information.

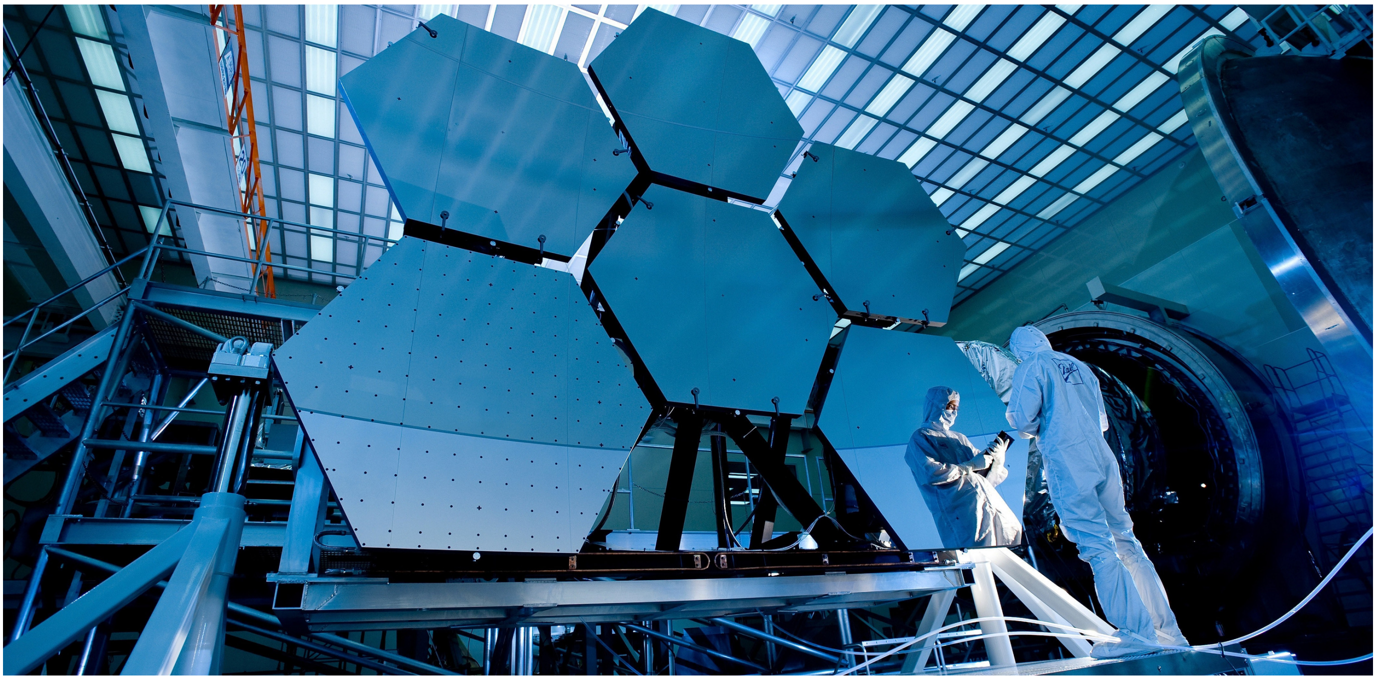
Since its implementation, successive governments have undertaken reviews into the effectiveness of the incentive.

The 2016 Review of the R&D Tax Incentive and 2018 Innovation and Science Australia 2030 Strategic plan found the R&D tax incentive did not fully meet its policy objectives of inducing business research and development expenditure beyond "business as usual" activities".

As a response to the reports, the government announced in the 2018 Budget that it will be overhauling the R&D tax incentive to better target the program and ensure its integrity. In short, in draft legislation released, the government has proposed an introduction of an "R&D premium", which is the rate of the non-refundable offset plus the applicable company tax rate. The premium will depend on the aggregated annual turnover of the company as well as the R&D "intensity" in some cases.

For companies with an aggregated annual turnover of $20m or more, the R&D premium will be based on R&D intensity, calculated as a proportion of eligible R&D expenditure (up to $150m) and total expenditure (which will be based on the tax returns of the company applying for the incentive). The company will be entitled to differing percentage points of the non-refundable offset based on the intensity of the R&D activity varying from 4 percentage points for 0% to 2% intensity, to 12.5 percentage points for intensity above 10%.

For companies with aggregated annual turnover below $20m, the refundable R&D offset will be a premium of 13.5 percentage points above the applicable company tax rate. However, cash refunds from the refundable R&D tax offset will be capped at $4m per year and those amounts that cannot be refunded can be carried forward as a non-refundable tax offset to use in future income years. It has also been proposed that clinical trials will be exempted from the $4m refund cap, provided it satisfies the Therapeutic Goods Administration definition of a clinical trial.



The proposed overhaul has been met with a subdued response from various industry groups, particularly in the technology and digital space which see the proposed changes as potentially being limiting. There is concern that start-ups that incur high R&D costs prior to earning significant income may worse off as the refund cap could reduce their cash flow at a time when they need it the most.

CONTACT

If you have any queries, please feel free to contact us.

Ben Melin
ben.melin@dlkadvisory.com.au

David Lilja
david.lilja@dlkadvisory.com.au

DLK Advisory
Level 6, 2 Russell Street
Melbourne VIC 3000
T: +61 3 9923 1222

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