

R&D Tax Incentive in Australia

ver. 2024_01





R&D Tax Incentive Program

The R&D Tax Incentive program provides an incentive for companies performing eligible research and development (R&D). The program is legislated and the rules appear in the legislation.

If your R&D activities meet the program criteria, you may be eligible for a tax offset that covers some of the costs of your R&D.

Who should apply for the R&D Tax Incentive Program

You should take a closer look at the R&D Tax Incentive if your company:

1. is incorporated under Australian or a foreign law
2. conducts or plans to conduct one or more eligible core R&D activities

3. has eligible R&D expenditure greater than \$20,000 (if your expenditure is less than \$20,000 you can still claim the tax offset by using a registered Research Service Providers (RSPs) to conduct your R&D).

R&D Tax Offset Benefits

Companies with an aggregated turnover of less than \$20 million may receive a refundable R&D offset rate equal to their corporate tax rate plus an 18.5% premium (43.5% if the tax rate is 25% - most SMEs pay 25% company tax in Australia)

Companies with an aggregated turnover of \$20 million or more may receive a non-refundable R&D tax offset rate equal to their corporate tax rate plus an incremental premium.

Eligible R&D Activities

Core R&D Activities (Experimental)

(a) whose outcome 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:

- i. is based on principles of established science; and
- ii. proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and

(b) 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).

CONTACT

Benedict Youn (CPA)

Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

Supporting R&D Activities

Supporting R&D activities are activities directly related to core R&D activities. This means, the dominance purpose of the supporting activities must be related to core R&D activities.

Excluded Activities

(a) market research, market testing or market development, or sales promotion (including consumer surveys);

(b) prospecting, exploring or drilling for minerals or petroleum for the purposes of one or more of the following:

(i) discovering deposits;
(ii) determining more precisely the location of deposits;
(iii) determining the size or quality of deposits

(c) management studies or efficiency surveys;

(d) research in social sciences, arts or humanities;

(e) commercial, legal and administrative aspects of patenting, licensing or other activities;

(f) activities associated with complying with statutory requirements or standards, including one or more of the following:

(i) maintaining national standards;
(ii) calibrating secondary standards;
(iii) routine testing and analysis of materials, components, products, processes, soils, atmospheres and other things;

(g) any activity related to the reproduction of a commercial product or process:

(i) by a physical examination of an existing system; or
(ii) from plans, blueprints, detailed specifications or publically available information;

(h) developing, modifying or customising computer software for the dominant purpose of use by any of the following entities for their internal administration (including the internal administration of their business functions):

(i) the entity (the developer) for which the software is developed, modified or customised;
(ii) an entity connected with the developer;
(iii) an affiliate of the developer, or an entity of which the developer is an affiliate.

Example (Source: AusIndustry)

You determine that you need to conduct experiments to develop a new product. You use the information you collect from a consumer survey to help you design the experiments you conduct. If your dominant purpose is to support your core R&D activity, then this may be eligible as a supporting R&D activity if it is also directly related to your core R&D activity.

If your dominant purpose for collecting the information is to help you design a marketing strategy for your product or service, it would not be eligible as a supporting R&D activity. This is because your dominant purpose is not to support a core R&D activity.

Evidence Requirements

The regulators for this program expect you to be able to provide evidence that shows how you

conduct or plan to conduct core R&D activities:

- that are based on principles of established science

- whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience worldwide

- whose outcome can only be determined by applying a systematic progression of work - hypothesis, experiment, observation and evaluation, leading to logical conclusions

- for the purpose to generate new knowledge

- that are not excluded from being core R&D activities

Registration Requirements

The programme is accessed by registering self-assessed R&D activities with the department (AusIndustry - this must be done within 10 months of the end of the company's income year) and claiming for eligible expenses relating to the registered activities in the company's tax return.

Companies applying to register for the R&D Tax Incentive must self-assess their activities against the legislated eligibility criteria. When a registration is accepted this does not mean that the registered activities have been determined to be eligible. The department routinely examine registrations in detail for compliance and may contact companies for further information.

The regulators apply the programme's legislative requirements during its registration and compliance processes.

CONTACT

Benedict Youn (CPA)

Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

Registering companies for R&D Tax Incentive must maintain adequate records that can allow self-assessment by substantiating the eligibility of R&D activities.

Companies must ensure expenditure claimed for R&D activities is based on genuine financial records, as is the case for any element of their tax return.

Companies may choose to use an R&D tax advisor to help prepare applications and registrations. However, the use of an R&D tax advisor is not a requirement of entry into any departmental program and using the services of an R&D tax advisor to assist with the preparation of a registration application and offset claim does not guarantee eligibility.

Companies wishing to get an assurance whether particular activities they are currently conducting, or are intending to conduct, are eligible R&D activities may apply to the department for an Advance Finding.

Eligibility must be self-assessed for activities, not for whole projects.

Applying companies also need to be aware of expenditure that is ineligible under the R&D Tax Incentive. This includes:

- interest expenditure (within the meaning of interest in the withholding tax rules),
- expenditure that is not at risk,
- core technology expenditure, and
- expenditure included in the cost of a depreciating asset (decline in value notional deductions may apply however).

Compliance Readiness

Maintaining contemporaneous documentation that demonstrates eligibility under the program is essential. Companies cannot establish eligibility without maintaining detailed documentation that records the process of each activity as it develops.

Principle 1

Ensure that internal processes and systems allow for documentation of how activities meet eligibility requirements as part of the overall project planning and management process.

Principle 2

Identify and document eligible R&D activities at the time they are conducted – this improves the potential to capture associated costs in real time.

Principle 3

Document methods for identifying eligible R&D activities and recording expenditure associated with eligible activities. This ensures that there is a clear understanding of how information has been derived and enables the process to be repeated in future years.

Principle 4

Forge strong connections between those responsible for preparing and maintaining R&D Tax Incentive records and staff who understand the technical aspects of activities to enable a shared understanding of programme requirements.

Principle 5

Ensure that stronglinks have been established between activity and expenditure records.

Foreign Associate and R&D Contract in Australia

R&D activities can be undertaken for an associated foreign corporation if specific conditions are met. If your company is an R&D entity conducting R&D activities for one or more foreign corporations, each residing in a country that has a double tax agreement with Australia, your company must ensure compliance with the following conditions:

1. Location of R&D Activity:

The R&D activity must be conducted solely in Australia or an external territory.

2. Supporting Activities:

If the R&D activity is a supporting activity, each corresponding core activity must be conducted solely within Australia or an external territory and must be eligible for registration under the R&D Tax Incentive for the income year.

3. Foreign Resident Connection:

When conducting the R&D activity, each foreign resident must be either:

- Connected with your company
- An affiliate of your company, or your company must be an affiliate of each foreign resident.

4. Written Agreement:

The R&D activity must be conducted in accordance with a written agreement binding only on you and each foreign resident, specifying that the R&D activities are to be conducted either:

CONTACT

Benedict Youn (CPA)

Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

- directly by your company
- indirectly by another entity under an agreement binding on your company (e.g., conducting the R&D activity under a subcontract)

By adhering to these conditions, your company can ensure that your R&D activities for foreign corporations are compliant with the requirements for the R&D Tax Incentive.

Overseas R&D activities (Advance Finding)

Your company can claim overseas R&D activities as part of an Australian project by applying for and receiving a finding that these activities are eligible.

These activities must be registered separately from Australian R&D activities. To register and claim a tax offset for overseas activities, your company must first apply for an Overseas Finding (Advance Finding).

To qualify for an Overseas Finding, your company must demonstrate that the overseas R&D activities meet the following four conditions:

1. R&D Activity Qualification:

The overseas R&D activity must meet the requirements of either a core R&D activity or a supporting R&D activity.

2. Scientific Link to Australian Core R&D Activity:

- There must be a demonstrable link between the planned overseas activity and the eligible Australian core R&D activity.
- Your company must show that the Australian R&D activity cannot be completed without conducting the overseas activity.

3. Inability to Conduct Activity in Australia:

The overseas R&D activity must not be possible to conduct within Australia or its external territories. You must provide justification, which could include:

- Requirement for facilities, expertise, or equipment unavailable in Australia
- Legal restrictions related to quarantine
- Need for a population (of living organisms) unavailable in Australia
- Necessity for access to specific geographical or geological features unavailable in Australia
- Financial reasons alone do not satisfy this condition.

4. Cost Comparison:

The costs of the overseas R&D activities must be less than the costs of conducting the related R&D activities solely in Australia.

By ensuring these conditions are met, your company can successfully apply for an Overseas Finding, allowing you to claim tax offsets for eligible overseas R&D activities as part of your Australian project.

CONTACT

Benedict Youn (CPA)

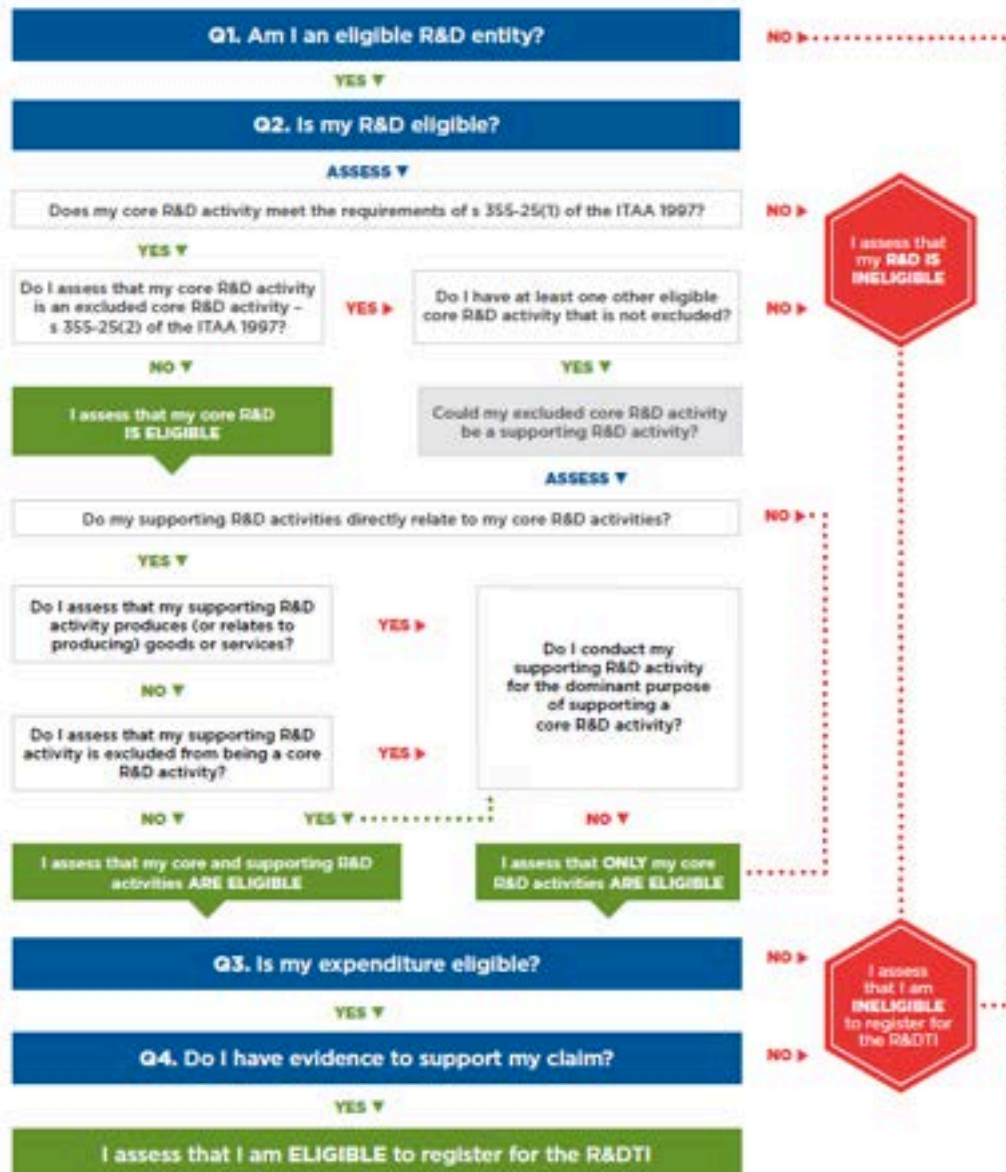
Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

Self-assessment tool

Ask yourself the questions in this tool to help you assess if you are eligible to register and claim for the R&DTI. You can use hyperlinks in the tool to go straight to information about terms. This will help you answer the questions. You should also refer to the legislation as you use this tool and answer the questions to assess whether your activities are eligible.



(Source: AusIndustry)

CONTACT

Benedict Youn (CPA)
Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)
Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

Key Benefits Working with Quantum House Australia

1. Industry-leading Knowledge and Experience

Since 2007, our Managing Director, Benedict Youn, has been instrumental in assisting numerous clients across Australia in accessing the R&D Tax Incentive (R&DTI) Program and fostering business growth. Our clientele spans diverse sectors, including manufacturing, software development, engineering, and bio-pharmaceutical technology. Our firm's extensive knowledge and proven track record position us as one of the most experienced and successful R&DTI firms in Australia.

2. Top-Management Engagement

Unlike many R&D consultancy and accounting firms, our firm delivers R&D tax incentive services directly to top management, ensuring a streamlined and error-free process. Our Managing Director personally engages with client companies to optimise the process, thoroughly understand their R&D activities, manage documentation, and provide essential advice. This approach guarantees successful access to the R&D Tax Incentive while minimising compliance risks. In contrast, other firms often fail to provide this level of service, leading to unsuccessful grant applications and significant penalties from authorities.

3. Risk Minimisation

We possess a deep understanding of the R&D Tax Incentive Program's policies and maintain close working relationships with relevant government authorities, including AusIndustry and the Australian Taxation Office. Our involvement with R&D Tax Incentive clients extends beyond merely processing provided information. We actively engage from the early stages of R&D activities, helping define and ensure these activities meet the eligibility criteria outlined by the R&D Act and the Income Tax Assessment Act.

Given that the R&D Tax Incentive is one of the most heavily regulated areas of Australian tax law, compliance is critical, and the penalties for non-compliance are severe. Our expertise in this area has allowed us to help companies mitigate penalties for over a decade. Therefore, selecting the right partner is crucial for achieving a successful R&D Tax Incentive with minimal risk.

4. Streamlined Process for Foreign-Sponsored R&D Activities

For many overseas bio and pharma-tech companies conducting R&D activities in Australia, we offer comprehensive services that extend beyond R&D tax support. Our assistance begins at the planning stage, even before the company is established in Australia, and includes all necessary steps to achieve its goals. Our services include:

- Company setup and bank account opening
- Provision of local resident director services
- Preparation of legal documents (excluding CRO contracts)
- Maintenance of business compliance records
- Accounting and tax services
- Review and advisory on R&D documentation
- Registration of R&D activities with AusIndustry
- Claiming the R&D Tax Incentive through company tax returns
- Provide ongoing advice within 24 hours of receiving the inquiry.

Our streamlined approach, combined with our dedicated and friendly staff, ensures a seamless experience, supporting your business objectives in Australia without any hassles. We work closely with foreign-based sponsor companies to facilitate smooth operations and compliance, enabling them to focus on their core R&D activities in Australia.

CONTACT

Benedict Youn (CPA)

Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

5. In-house services (Fully Licensed and no outsourcing)

Many R&D consulting firms in Australia rely on external accounting firms to prepare and lodge the R&D tax schedule in the company tax return, as many of them are not licensed to provide the services. This practice can introduce compliance risks, as the Australian Taxation Office (ATO) does not require engagement with the R&D consultant but rather with the company's directors or the tax agent responsible for lodging the return. This structure can lead to issues when the accountant, unfamiliar with the preparation details, is required to explain the R&DTI schedule to the ATO. Additionally, some R&D consultants may cease operations without notice, leaving clients unsupported.

At Quantum, as we are fully licensed and capable (a CPA Practice with tax agent number 24702326), we handle all client work internally. From the initial planning stage to the final submission of the R&D Tax Incentive claim, our dedicated team manages the entire process. We believe this approach ensures responsible and professional service for our clients. Below, we illustrate how different approaches can yield significantly different outcomes.

Example 1: Successful R&D Tax Incentive (A Client of Quantum House - biotech company from South Korea)

Total R&D Expenditure: \$1,682,218
R&D Tax Incentive Refund: \$731,764.83

PART E - R&D TAX OFFSET CALCULATION		
ADDITIONAL INFORMATION		
Tax rate	R	25%
REFUNDABLE TAX OFFSET		
Total notional R&D deductions	Z1	\$1,682,218.00
Refundable R&D tax offset	U	\$731,764.83

Example 2: ATO Audit Case (A Client of One of the R&D Consulting Firms in Sydney)

Total R&D Tax Expenditure: \$6,045,763 calculated by the R&D Consultant

Result: The entire R&D Tax Incentive claim was denied with a Negative Finding report by the AusIndustry, and a 50% Penalty (\$1,314,953.46) was imposed after the ATO audit.

During the ATO's audit, the R&D Consultant and the accounting firm that lodged the company tax return did not support the company. Therefore, the company engaged Quantum House for a penalty reduction purpose.

CONTACT

Benedict Youn (CPA)

Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)

Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989

Summary of proposed changes

17. The proposed changes to your R&D notional deductions are reflected in Table 1 below.

Table 1: Proposed changes – 2021 R&D notional deductions

Year	Original notional deductions	Disallowed notional deductions	Amended notional deductions
2021	\$6,045,763	\$6,045,762	\$0

18. The proposed changes to your R&D schedule are reflected in Table 2 below.

Table 2: Proposed changes – 2021 R&D Schedule Adjustments Table 2: Proposed changes – 2021 R&D Schedule Adjustments

Part	Label	Original	Proposed
Preliminary Calculation	Add back R&D accounting expenditure	\$6,045,763	\$0
A	Australian owned R&D		
	R&D expenditure - Contract expenditure	\$5,548,138	\$0
	R&D expenditure - Salary expenditure	\$23,721	\$0
	R&D expenditure - Other	\$101,567	\$0
	R&D expenditure - Paid to associates in the current year	\$361,337	\$0
	Total notional R&D deductions	\$6,045,763	\$0

Table 4: Proposed changes - Tax shortfall, penalty and SIC

Year	Tax shortfall	Administrative penalty	SIC	Total payable
2021	\$2,629,906.91	\$1,314,953.46	\$0	\$3,944,860.37
Total	\$2,629,906.91	\$1,314,953.46	\$0	\$3,944,860.37

21. The proposed amount payable (inclusive of the administrative penalties and refund withheld by the ATO) arising from the shortfall is reflected in the table below.

Table 5: Total proposed amount payable

Year	Tax shortfall	Refund withheld by ATO	Administrative penalty	SIC	Total amount payable
2021	\$2,629,906.91	(\$2,629,906.91)	\$1,314,953.46	\$0	\$1,314,953.46
Total	\$2,629,906.91	(\$2,629,906.91)	\$1,314,953.46	\$0	\$1,314,953.46

R&D Tax Incentive Team

Benedict Youn (CPA)
(Managing Director)



Tiffany Park (CPA)
(Senior Manager)



Jill Ramdenee (CA)
(Senior Consultant)



CONTACT

Benedict Youn (CPA)
Email: ben.youn@quantumhouse.com.au | Phone: +61 433 323 228

Tiffany Park (CPA)
Email: tiffany.park@quantumhouse.com.au | Phone: +61 2 7208 7989



1300 809 697
+61 2 7208 7989



inquiry@quantumhouse.com.au



HEAD OFFICE: LEVEL 8, 280 PITT ST SYDNEY NSW 2000 AUSTRALIA



www.quantumhouse.com.au