

BusinessPlus+ Newsletter

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Research and Development

Thousands of business owners and team members have been working from home for the last 2-3 months and may have given some thought to the development of new products, processes or services or be undertaking some initial research and development. If you're one of those people and you're wondering whether you should continue to work on this particular idea to see whether a commercial product or service could be developed and what would be the taxation deduction for the expenditure that you have spent, you will probably be interested in a brief overview of the Australian government's Research and Development Incentive Scheme.

You must be conducting your research and development activities via a company if you're going to access the research and development tax incentive.

There are two key components relating to the Research and Development Tax Incentive:

- For companies with turnovers under \$20 million - a 43.5% refundable tax offset.
- For companies with turnovers over \$20 million - a 38.5% non-refundable tax offset.

The minimum expenditure on complying research and development activities is \$20,000 in the financial year irrespective of the number of projects and whether the research was successful or not.

Companies have to register their research and development projects with AusIndustry annually, normally by 30th April the following year (i.e. for the year ended 30th June 2019 companies would normally have had to register by 30th April 2020) or the date of lodgement of the company's income tax return, whichever is the earlier. (This year the registration deadline has been extended to 30th September 2020 because of COVID-19).

To claim research and development expenditure so that the offset will be allowed, companies must be able to justify that they have undertaken "experimental activities" to prove that their "idea" is "new knowledge".

The outcome of the experiments could not have been known or determined in advance on the basis of publicly available knowledge, information or experience. The company needs to be able to indicate the research that was undertaken to determine the "knowledge gap".

There needs to be some searches undertaken to determine whether the concept that you're proposing is already known in the marketplace.

You then need to conduct a series of experiments that prove a "statement" relating to your concept.

Formal documentation of the experiments that have been undertaken (both successful and unsuccessful) also need to be maintained.

If you are interested in obtaining more information on the Research and Development Incentive Scheme, please contact Anna Casamento at CBSW.

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