

## Issue – August 2020

### Research and Development - Commencing A Project

The Research and Development Incentive (for companies with turnovers under \$20 million per annum) – is currently **calculated at 43.5% of all eligible research and development expenditure**. This article will elaborate on how to determine what is eligible R & D expenditure, as the matter is complicated and requires a systematic approach.

**Only companies can claim the Research and Development Incentive which is conducted on the “self-assessment basis” – the company must maintain adequate records to substantiate that the research and development activities were conducted.**

The experiments do not have to culminate in a commercially successful outcome to be able to be claimed as research and development incentive so long as the research and development process has been conducted in accordance with the requirements of the legislation.

**The company must have spent at least \$20,000 in the financial year on legitimate research and development activities.**

Research and development normally begins with the identification of an 'idea' and some preliminary investigation. The 'idea' would normally have been generated from the company's leadership team or team members having a discussion perhaps over a cup of coffee and deciding that a particular 'idea' might be worthwhile looking at to see whether it would improve a process, product or service that was being utilised within the business.

The team that is working on the project needs to undertake 'prior art searches'. At the beginning, this will be a preliminary prior art search to enquire as to whether there is any evidence that a product, process or service similar to that which is being developed from the 'idea' is already known. Prior art does not need to exist physically or be commercially available. It's enough that someone, somewhere, in the world sometime previously has described or shown or made something that contains the use of technology that is very similar to the idea that is being discussed.

An existing product is the most obvious form of prior art. This can lead many inventors to make a common mistake: just because they cannot find a product containing their invention for sale in any shops, or distributors or on the Internet, they assume that their invention must be novel. The reality is very different. Many inventions never become products, yet there may be evidence of them somewhere. That evidence – whatever form it may take – will be 'prior art'.

If no prior art is identified from this preliminary research, it is reasonable to move on to the next stage which is the determination of a hypothesis or several hypotheses. A 'hypothesis' requires a statement to be proven right or wrong by conducting an experiment. A 'hypothesis' relates to a specific matter by conducting:

- experimental activities (whose outcomes can only be determined by a progression of work);
- that proceeds from hypothesis to experiment, observation and evaluation and leads to ultimate conclusions; and
- the systematic progression of work is conducted for the purpose of generating new knowledge.

The hypothesis statement needs to be recorded in writing and then by experiment needs to be proven or disproven.

If the small team developing this concept of a new 'idea' is satisfied that they're able to proceed on a legitimate research and development project, it is advisable to then produce a Research and Development Plan which identifies the hypothesis or hypotheses and outlines the new knowledge to be obtained. It is a good idea to prepare a Research and Development Budget on this project and submit the Research and Development Plan and the Research and Development Budget to the Board of Directors for approval. Then the research and development process can begin with accurate records being kept of all experiments and the results, as well as the costs.

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