

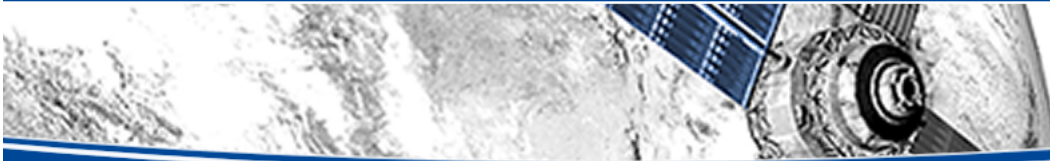


An exceptional
network

The Financial Benefits of Funding Research and Development

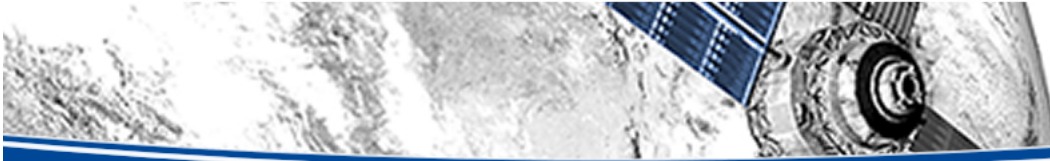
(Overview of the tax incentive for R&D)

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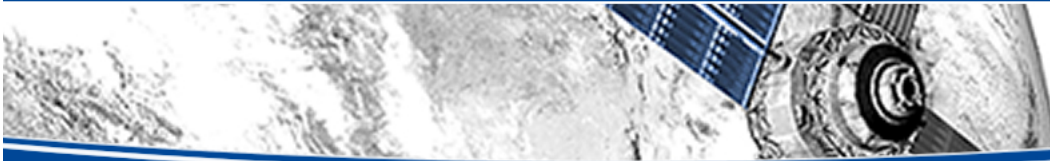
Presentation overview

- current law:
 - o overview;
 - o R&D activities;
 - o Innovation Australia;
 - o rate of deduction; and
 - o categories of deductible expenditure;
- new developments.



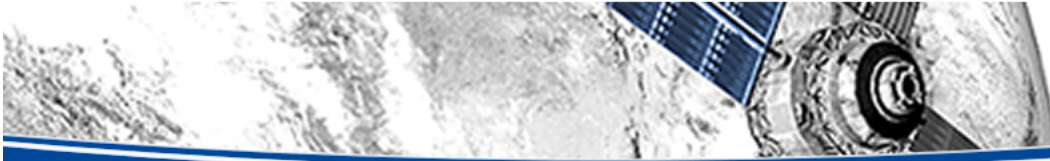
Current law - overview

- tax deduction and refundable offsets (100 – 175%);
- activities in and outside Australia;
- available to Australian Companies;
- must have an R&D plan in place;
- expected to be replaced by the R&D Tax Credit from 1 July 2010.



R&D activities

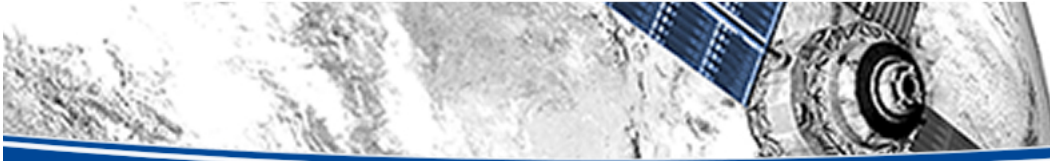
- two categories:
 - (1) *systematic, investigative and experimental activities; and*
 - (2) *directly related activities.*



R&D activities

excluded activities:

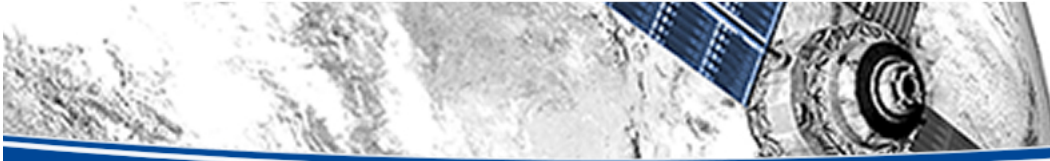
- marketing;
- quality control;
- prospecting, exploring or drilling for minerals or natural gas*;
- cosmetic modifications or stylistic changes;



R&D activities

excluded activities (Cont):

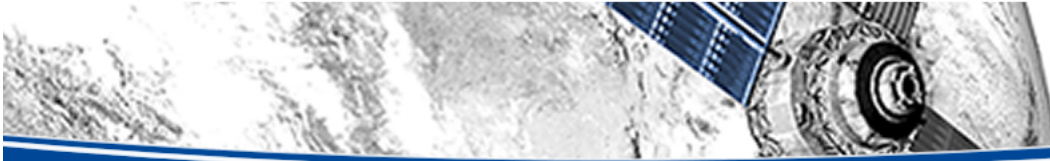
- research in social sciences, arts or humanities;
- donations;
- pre-production activities;
- routine collection of information, except as part of the research and development process;
- preparation for teaching;



R&D activities

excluded activities (Cont):

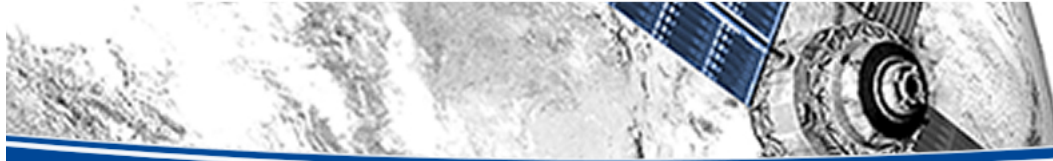
- commercial, legal and administrative aspects of patenting, licensing or other activities;
- activities associated with complying with statutory requirements or standards;
- specialised routine medical care; and
- any activity related to the reproduction of a commercial product.



R&D activities

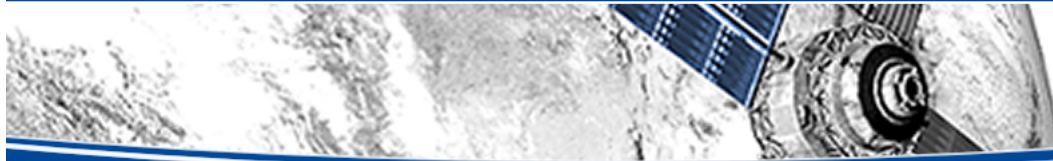
Australian and certified overseas activities:

- Overseas activities generally may only be claimed where certified by Innovation Australia;
- small level of overseas expenditure accepted where ancillary or incidental to the project.



Innovation Australia (formerly the Research and Development Board)

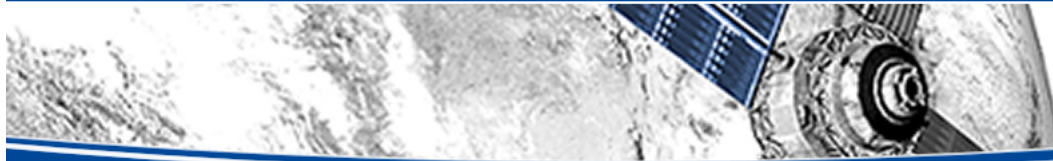
- responsibility for administering the incentive split between Australian Taxation Office (ATO) and Innovation Australia;
- company and particular R&D activity in year of income must be registered with Innovation Australia to claim;



Innovation Australia (formerly the Research and Development Board)

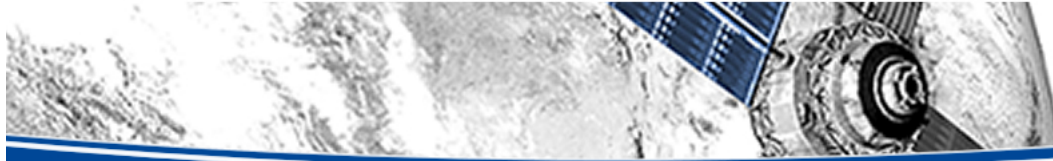
responsibility for:

- ensuring activities are R&D;
- results exploited on normal commercial terms and benefit the Australian economy;
- adequate Australian content;
- no ineligible finance schemes relating to activities;
- syndicated research provisions; and
- overseas R&D provisions.



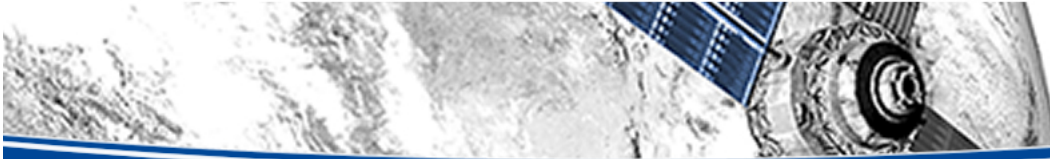
Innovation Australia (formerly the Research and Development Board)

- decisions of Innovation Australia are binding on the ATO.



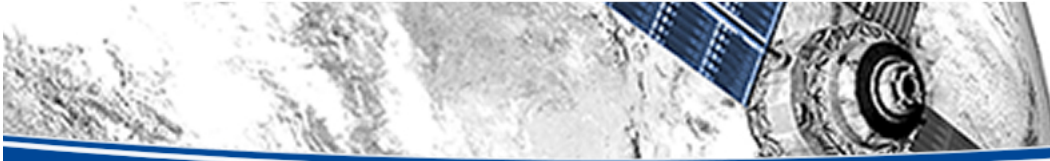
Rate of deduction

- 125% where aggregate R&D expenditure $> \$20,000$ – most categories;
- 100% where aggregate R&D expenditure $< \$20,000$ – and some categories;
- certain eligible companies can convert to refundable tax offset – 37.5 or 30 cents for each dollar which would have been deductible;
- up to 175% for some expenditure types where real increase in overall R&D expenditure;
- may be deductible at 100% where R&D provisions not satisfied.



Categories of deductible expenditure

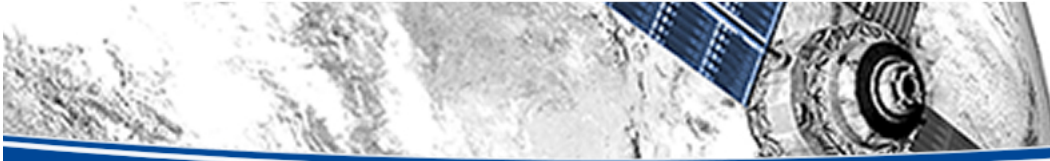
- (1) *Research & Development expenditure* – expenditure incurred on R&D activities, including:
 - (i) salary expenditure incurred directly on R&D activities;
 - (ii) expenditure with registered research agencies, approved research institutes or the Coal Research Trust; and
 - (iii) other expenditure which is incurred directly in respect of R&D activities.



Categories of deductible expenditure

(2) Depreciating Assets:

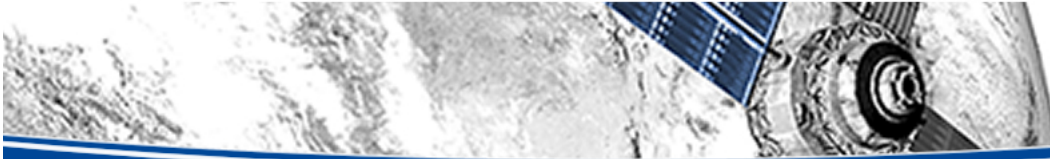
- decline in value (depreciation) at 100% or 125%;
- does not include intangibles.



Categories of deductible expenditure

(3) Core technology expenditure:

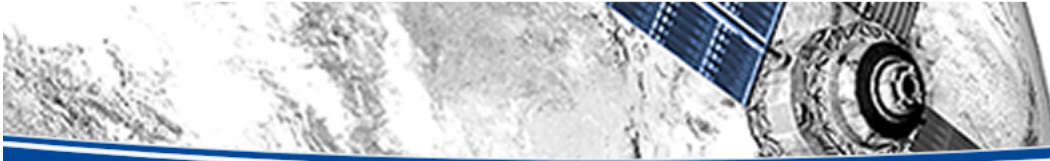
- deductible at 100% but deductions allowable tied to the R&D activities conducted on core technology; and
- in an income year cannot exceed one-third of the R&D expenditure on the core technology.



Categories of deductible expenditure

(4) Interest expenditure:

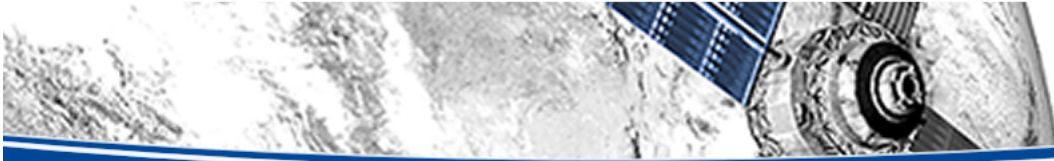
- deductible at 100%.



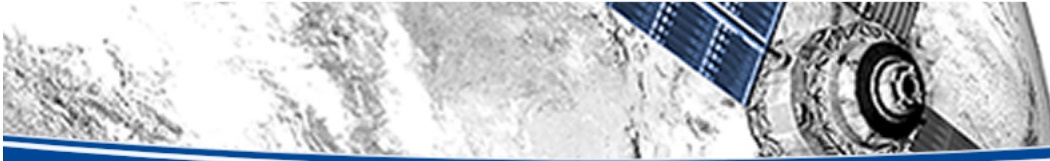
Categories of deductible expenditure

(5) Residual feedstock expenditure:

- deductible at 100% in year incurred.

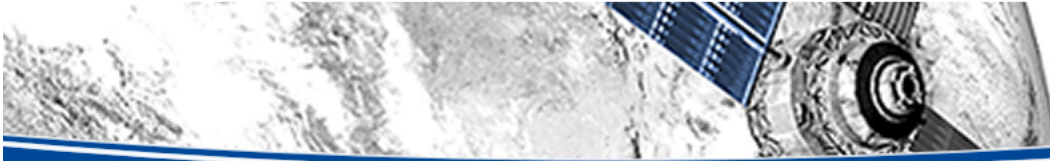


Examples



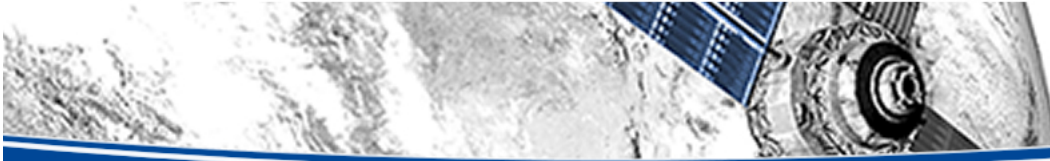
New Developments

The following proposed changes from 1 July 2010 are not law. When Parliament adjourned on 24 June 2010 the proposal was subject to further debate in the senate.



New Developments

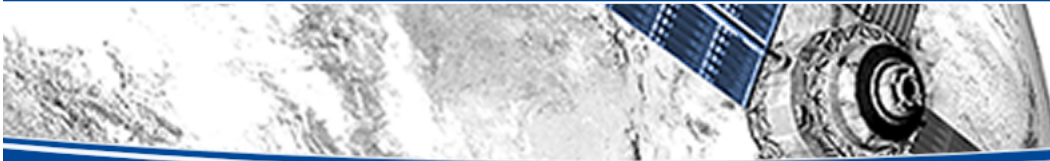
- a 45% refundable tax offset (equivalent to a 150% deduction) will be available to small companies with annual aggregate turnover < \$20M;
- 40% non-refundable tax offset (equivalent to 133% deduction) for companies with annual aggregate turnover >\$20M;
- No longer a requirement for R&D plan.



New Developments

Changes to definition of R&D expenditure:

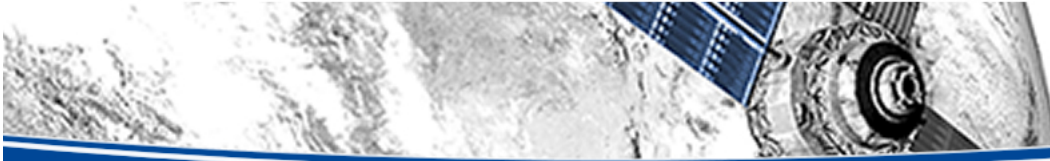
- core; and
- supporting.



New Developments

Core activities:

Experimental activities whose outcome cannot be known in advance on the basis of current knowledge but can only be determined by applying a systematic progression of work that is based on principles of established science and proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions. These activities must be conducted for the purpose of generating new knowledge.



New Developments

Supporting activities:

Activities undertaken for the dominant purpose of supporting core R&D activities.