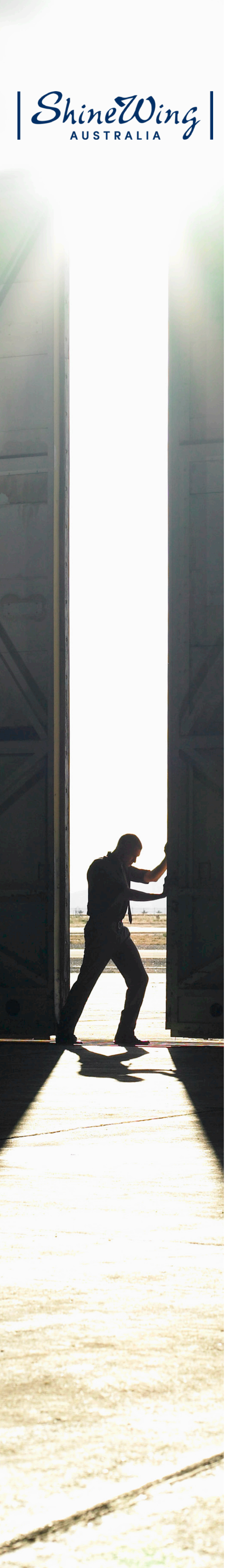


Federal Budget 2018–19 Fast Facts

Research & Development Tax and Government Incentives

As announced in the lead up to the 2018 Federal Budget, a number of reforms have been announced to the R&D Tax Incentive Program. The proposed measures are planned to take effect for income years commencing on or after 1 July 2018.

Most important takeaways

The Budget has adopted some of the recommendations suggested in the Innovation and Science Australia 2030 Strategic Plan.

Small businesses – under $20m in aggregated turnover

- A **$4m annual cap** on the 'cash' refund will apply. Amounts in excess can be carried forward as a **non-refundable tax offset** into future income years.
- The cap on R&D cash refunds will not apply to R&D tax offsets on clinical trial expenditure, recognising the critical role of R&D in development of new drugs and medical devices.
- The R&D tax offset rate will be a premium of **13.5 percentage points** above the relevant income tax rate.
  - For pre-revenue start-ups and companies with sufficient tax losses, the refundable offset will be a **maximum of 41 cents in the dollar**.

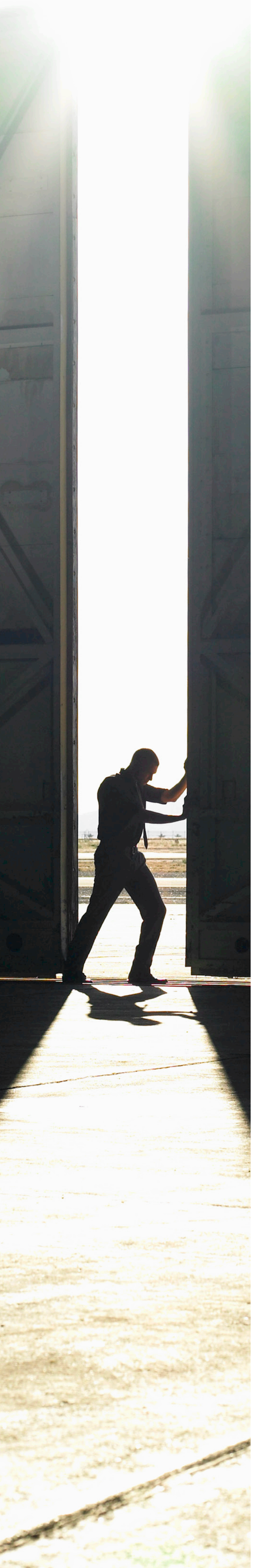
There will be no lifetime cap on individual business R&D claims.

Large businesses – over $20m in aggregated turnover

The major impact of the proposed changes will be for larger businesses, with the intent of rewarding companies with high R&D intensity.

- The existing 8.5 per cent tax saving on R&D expenditure will be replaced with a progressive offset premium that increases from **4 to 12.5 per cent** of R&D expenditure based on R&D intensity (R&D spend divided by total annual expenditure).
  - This change will negatively impact low profit margin and high expenditure businesses including manufacturing, agribusiness and energy and resources.
- The R&D expenditure cap will increase from $100m to **$150m**, allowing larger companies to continue to be rewarded for R&D as they grow.

R&D Intensity	R&D premium rate (added to corporate tax rate)
0 - 2%	4%
> 2%-5%	6.5% (applied to expenditure between 2% and 5%)
> 5%-10%	9% (applied to expenditure between 5% and 10%)
> 10%	12.5% (applied to expenditure above 10%)



Integrity and guidance

A series of compliance, enforcement and administration changes will be introduced to improve program integrity:

- Additional resourcing to ensure ineligible R&D claims are denied.
- Publishing company names claiming the Incentive and the value claimed annually.
- Development of further guidance materials on eligible R&D activities and expenses.

Government incentives

The Budget delivered new and additional grant funding including:

- $200m for a third round of the Building Better Regions Fund for regional infrastructure and community investment.
- $189.7m over five years to support mature age Australians to adapt to the transitioning economy.
- $68m over four years for Sovereign Industrial Capability Priority Grants in defence.
- $30m over four years for research and skills in artificial intelligence and machine learning.
- $26m for the Stronger Communities programme for small capital projects delivering social benefits for local communities.
- $20m to establish the Asian Innovation Strategy for regional strategic research
- $15m in grants for strategic space projects generating employment and business opportunities.
- $2.3m for the Regional Jobs and Investment Package for regional Tasmania.

There was no change to programs such as the Entrepreneurs Program, including Accelerating Commercialisation, and the Export Market Development Grant.

Main impacts to your business

- The timing of R&D expenditure will be important. Applicants should consider planning R&D activities to maximise refund opportunities under the cap.
- Large business should review R&D expenditure against broader expenditure to assess likely impacts of the new intensity thresholds.
- For large businesses, it is unknown how 'total annual expenditure' will be defined. This may relate to operating expenditure and/or capital expenditure. The extent of grouping, particularly for multinationals, is currently unknown.
- R&D activity substantiation will be critical with higher review activity likely.
- Improved guidance may make the program easier to interpret.

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