Research & Development ("R&D)" Concession

The changes proposed to the R&D concession are significant for entities that have in the past, been able to access the incentive to help develop new technologies and processes.

The changes proposed focus on a shifting emphasis for the refundable credit from established companies with a lower turnover to companies commencing activities. Older companies can still benefit under the R&D concession, however, they need to be self sufficient from a cashflow perspective or have sufficient tax liabilities to be able to absorb the R&D tax credit.

The main changes can be summarised as follows:

- Expenditure on supporting R&D activities is no longer eligible to receive the tax offset. The concept of "core R&D activities" is renamed "R&D activities" removing eligibility of supporting R&D activities for the R&D Tax Incentive.

In the revised definition it is clear that the renamed "R&D activities" do not include activities that would have been classified as "supporting R&D activities".

In simple terms this means that expenditure that was previously considered to be eligible for the tax offset under either the supporting R&D activity category or the core R&D activity category, is now eligible only if it meets the criteria for an "R&D activity". This is likely to reduce the scope and value of claims made.

- The maximum expenditure eligible for a premium rate of tax offset is increased to $200m (from $150m).
- The aggregated turnover threshold for eligibility for the refundable offset rate is increased to $50m (from $20m). It should be remembered that aggregated turnover is a wide-ranging term and can include the turnover of shareholders that are not within the accounting group of entities (eg where the shareholder holds a significant interest).
- The refundable offset is to be restricted to companies that are ten years or younger (15 for R&D activities related to therapeutic goods). Historically the age of the company was not relevant in determining access, what was relevant was the activities undertaken and the aggregated turnover of the group.
- Entities which do not meet the conditions above regarding the 10-year limit but are below the $50 million aggregated turnover threshold, remain eligible for the highest tax offset rate, however, this is non-refundable.
- A lot of companies have historically relied on the R&D refundable credit to assist with cash flow, however, this will no longer be possible for "older" companies.
- Each of the offset rates are increased by 4.5 percentage points. The offset rates change based on the level of intensity of the R&D activities with the base offset rate for the refundable credit increased to 23%.
- The intensity premium threshold applying to R&D intensity is reduced to 1.5% of total expenses.

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