

**TAX ALERT:
Revisit R & D Tax Incentive Proposed Changes for 2019 Year.**

Introduction

During the delivery of the May 2018 Federal Budget, a number of changes to the Research & Development (“**R&D**”) Tax Incentive scheme were announced. These changes were made to encourage additional investment in R&D projects, and will affect companies accessing the R&D Tax Incentive with income years commencing on or after 1 July 2018.

While the legislation to enact the changes is yet to be introduced to Parliament, given the 2019 tax year is well underway, we thought it may be useful to revisit the details of the announced changes.

Current operation of the R&D Tax Incentive scheme

To be eligible for R&D Tax Incentives your business must:

- Incur eligible R&D Expenditure through a company structure;
- Conduct experimental activity where the outcome cannot be determined in advance;
- Generate new knowledge by developing new or improved:
 - Products (eg. quality wine with faster fermentation process);
 - Processes (eg. improved wine fermentation);
 - Devices (eg. efficient fermentation facilities); or
 - Services.

Companies engaged in R&D may be eligible for the following tax benefit:

- Where group turnover is less than \$20 million, a 43.5% refundable tax offset provides the following for eligible expenditure depending on a company’s tax position:
 - a 43.5% cash refund to the extent a company is in tax loss;
 - a 16% tax saving/refund if a company is in a tax payable position;
- Where group turnover exceeds \$20 million, a 38.5% non-refundable tax offset provides a 8.5% tax saving for eligible expenditure.

Important compliance information for companies already claiming the R&D Tax Incentive

Companies already registering their R&D Activity should be aware of current compliance focuses by programme administrators. AusIndustry and the ATO regularly release new guidance material outlining compliance requirements which should be reviewed during claim collation. Current areas of focus include:

- Research before R&D Activity commences to show knowledge generated did not exist;
- Substantiation of the process and results of experiments conducted during the R&D Activity; and
- Substantiation of the time claimed for personnel conducting the R&D Activity.

Proposed Changes to R&D Tax Incentive announced in May 2018 Federal Budget

Changes were announced to the R&D Tax Incentive in the May 2018 Federal Budget which included:

- Changes to R&D Tax Offset rates:

Where group turnover is less than \$20 million, the refundable R&D Offset is proposed to be based on a company's tax rate + 13.5%;

- Where group turnover exceeds \$20 million, the non-refundable R&D Offset is proposed to be based on a progressive rate determined by the company's R&D "intensity";
- Changes to caps on R&D Tax Offsets for very large claims;
- Changes to other administrative provisions of the programme.

Whilst the changes were scheduled to apply for the year ending 30 June 2019, legislation to enact the changes is yet to be introduced to parliament.

Please do not hesitate to contact your Lowe Lippmann Relationship Partner if you wish to discuss any of these matters further.



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