

Spotlight on the R&D Tax Concession

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The R&D (Research and Development) Tax Concession is a Commonwealth Government initiative to encourage more R&D to be undertaken in Australia. It is administered jointly by AusIndustry and the Australian Tax Office. This concession allows companies to deduct 125% of eligible expenditure incurred on R&D activities from their assessable income when lodging their tax returns. A 175% deduction is available for expenditure that exceeds a 3-year rolling average.

The tax concession is certainly an incentive for construction companies considering investment in R&D activities. It impacts directly on the bottom line and is therefore very visible to senior management, so it generates a positive attitude and strategic approach to R&D, and certainly helps in the short-term cost-benefit analysis of proposed R&D activities.

The R&D Tax Concession is not just for activities that fit our classic understanding of research – laboratories and people in white coats – it applies more broadly to innovation and the activities necessary to develop and test innovations.,

To claim the R&D tax concession a company must be incorporated in Australia, and have prepared and maintained an R&D Plan.

To be eligible for the R&D Tax Concession, the R&D must involve systematic, investigative and experimental activity which:

- involve innovation (contain an appreciable element of novelty) or high levels of technical risk; and
- are carried on for the purpose of acquiring new knowledge or creating new or improved materials, products, devices, processes or services.

A company can also claim for activities that are directly related to the undertaking of R&D – support activities.

Other requirements for eligibility are that a company must:

- maintain contemporaneous records to substantiate the R&D activities;
- bear both the financial and technical risk associated with the R&D activities;
- control the R&D project and effectively own the R&D results; and
- intend to exploit the results of the R&D activity on normal commercial terms to the benefit of the Australian economy.

If the R&D activities are for the development of computer software, the company must intend that this software is for multiple sale to non-associates of the company.

Details of how the R&D Tax Concession works are given on the AusIndustry website (www.AusIndustry.gov.au) under AusIndustry products.