

Australia

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The Australian government has backtracked on long-standing proposed changes to Australia's R&D Tax Incentive (RDTI) regime that were expected to take retroactive effect as from 1 July 2019. Instead, revised amendments have been introduced into parliament that would take effect as from 1 July 2021. These would largely maintain the current R&D tax offset rates, with some nonrefundable entities with an R&D intensity of greater than 2% being able to obtain a higher premium. The expenditure cap also would be increased to AUD 150 million from AUD 100 million.

Government COVID-19 investment responses including increased instant asset write offs, accelerated depreciation, and temporary full expensing of capital assets. These amounts may be included in eligible R&D expenditure. However, COVID-19 wage subsidies paid to employers (JobKeeper), may not.

A large number of federal and state government grant support measures also have been established to assist industry respond and recover from the economic impact of the pandemic, but these are beyond the scope of this survey.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D tax incentive: refundable component	Refundable R&D tax offset	<ul style="list-style-type: none"> 8.5% (proposed as from 1 July 2021) 17.5% (as from 1 July 2020) 16% (from 1 July 2017 to 30 June 2020) 43.5% benefit for companies with tax losses who may be able to cash out (e.g., early stage/pre-revenue companies) 	All expenditure or capital allowances related to the carrying on of registered R&D activities (excluding interest, and expenditure on core technology and buildings)	Minimum expenditure AUD 20,000
R&D tax incentive: nonrefundable component	Nonrefundable R&D tax offset	<ul style="list-style-type: none"> 8.5% and 16.5% (proposed as from 1 July 2021) 8.5% to 12.5% (as from 1 July 2020) 8.5% to 11% (from 1 July 2016 to 30 June 2020) 	All expenditure or capital allowances related to the carrying on of registered R&D activities (excluding interest, and expenditure on core technology and buildings)	<ul style="list-style-type: none"> Minimum expenditure AUD 20,000 As from 1 July 2014, expenditure exceeding AUD 100 million (proposed to increase to AUD 150 million as from 1 July 2021) attracts a tax offset rate equal to the prevailing corporate income tax rate.
Federal and state-based grants	State and federal governments offer a range of substantial assistance programs amounting to around AUD 9 billion annually	Varies	Varies	Varies



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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	● Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
● Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport



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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)			 	National: Arrears Local: Not applicable	38.5% nonrefundable tax offset for large enterprises and 43.5% refundable tax offset for SMEs (less than AUD 20 million aggregate turnover) Broad range of eligible costs where incurred on R&D activities including salary and wages, contractor costs, consumables, and apportioned overheads	Premium ranging from 8.5% to 12.5% of qualified R&D expenses (since expenditure claimed for the offset cannot be deducted, net benefit is shown as the difference between the tax offset rates and the tax deduction at the prevailing corporate income tax rates)	Premium of 17.5% of qualified R&D expenses (since expenditure claimed for the offset cannot be deducted, net benefit is shown as the difference between the tax offset rates and the tax deduction at the prevailing corporate income tax rates)
Cooperative Research Centre Projects CRC-Ps			 	National: Advance Local: Not applicable	Grant funding, applicant co-contribution required	AUD 3 million	AUD 3 million
Investment							
Northern Australia Infrastructure Facility (NAIF)			 	National: Advance Local: Not applicable	AUD 5 billion common-wealth government concessional finance program to support private sector investment in infrastructure that benefits Northern Australia	No specified maximum, NAIF's preferred minimum investment for an individual project is AUD 50 million	No specified maximum, NAIF's preferred minimum investment for an individual project is AUD 50 million
Building Better Regions Fund (BBRF)			 	National: Advance Local: Not applicable	Funding for capacity-building projects in regional Australia to address comparative disadvantage, create jobs, and provide widespread regional benefits. Grant funding must be matched 1:1 (1:3 for very remote locations). Targetted at not-for-profits, local governments, and non-distributing cooperatives	Grant funding from AUD 20,000 to AUD 10 million	Grant funding from AUD 20,000 to AUD 10 million

Key:  = PERMANENT INCENTIVE  = TEMPORARY INCENTIVE  = NEGOTIABLE  = NO  = LIMITED APPLICABILITY  = NOT APPLICABLE





















Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Investment (continued)							
Manufacturing Modernization Fund (MMF)			 	National: Advance Local: Not applicable	Supports transformation in small and medium-sized manufacturing businesses to upgrade manufacturing processes, increase uptake of new technologies, and grow associated highly skilled workforces. Applicant co-contribution required	Not applicable	Grant funding of up to AUD 1 million per project
Environmental Sustainability							
Australian Renewable Energy Agency (ARENA)			 	National: Advance Local: Not applicable	Supports activities that advance renewable energy technologies towards commercial readiness, improve business models, or reduce overall industry costs. Applicant co-contribution required	Varies depending on program	Varies depending on program
Emissions Reduction Fund (ERF)			 	National: Advance Local: Not applicable	Financial incentives for business investments that reduce greenhouse gas emissions, and improve energy efficiency. Participants earn Australian carbon credit units for carbon abatement projects, which may be sold for value. Targeted at businesses seeking to reduce their emissions, including individuals; sole traders; companies; local, state, and territory government bodies; and trusts	No specified maximum	No specified maximum
Clean Energy Finance Corporation (CEFC)			 	National: Advance Local: Not applicable	Supports the commercialization and deployment of renewable energy and enabling technologies, energy efficiency, and low-emissions technologies	Preferred minimum investment for renewable technology projects is AUD 20 million. No specified maximum	Preferred minimum investment for renewable technology projects is AUD 20 million. No specified maximum
Other							
Discretionary funding from states and territories			 	National: Advance Local: Advance	Varies depending on location and scale of the project. Funding may be drawn from two or three levels of government. State and territory governments also provide discretionary funding to incentivize private sector investment in identified regional priority areas	Varies depending on program	Varies depending on program

Key:  = PERMANENT INCENTIVE  = TEMPORARY INCENTIVE  = NEGOTIABLE  = NO  = LIMITED APPLICABILITY  = NOT APPLICABLE

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Country background

The standard corporate income tax rate is 30%, with a lower rate of 26% applying to certain “base rate” companies with gross receipts of less than AUD 50 million. The base rate will reduce to 25% as from 2021-22. Both state and federal governments offer a range of substantial assistance programs intended to encourage the economic development of certain industries and regions, and advance social policy objectives.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

A national R&D tax incentive allows qualifying companies to claim a tax credit (offset) on eligible R&D activities instead of a tax deduction. For qualifying expenditure incurred after 30 June 2016:

- A nonrefundable R&D tax offset is available, equal to 38.5% of eligible expenditure for companies with aggregate turnover of at least AUD 20 million; and
- A refundable R&D tax credit of 43.5% of eligible R&D expenditure is available for small and medium-sized enterprises (SMEs) with aggregate turnover of less than AUD 20 million that are not controlled by exempt entities. (Control for this purpose is defined as holding more than 50% of the capital or voting power, or having the right to more than 50% of the income.)

Receipts of connected and affiliated entities are taken into account in determining the aggregate turnover threshold. Companies that claim the tax offset may not also deduct the qualifying expenditure included in calculating the tax offset.

For qualifying expenditure incurred on or before 30 June 2016, the tax credit rates were 45% for SMEs, and 40% for large enterprises. During the period 1 July 2014 through 1 July 2024, the R&D tax incentive is claimable at the above rates only on eligible expenditure amounts up to AUD 100 million; R&D expenditure exceeding that amount is claimable at the relevant corporate income tax rate.

Therefore, the net tax benefit for the 2020-21 financial year is 8.5%, 12.5%, or 17.5%, depending on the size of the taxpayer.

Excess nonrefundable R&D tax offsets may be carried forward indefinitely, but may not be carried back. The ability to use carried forward R&D tax offsets is subject to ownership or business continuity tests, and the amount carried forward may be reduced by certain amounts of nontaxable income.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Entities that are resident in Australia for tax purposes due to incorporation, central management and control, or under the residence tiebreaker article of a tax treaty, may be considered eligible R&D entities. A foreign entity with an Australian permanent establishment based on an applicable tax treaty also may be an eligible R&D entity.

Qualifying expenditure may include staff costs, direct costs, overheads, supplies, tax depreciation, and certain capital expenditure directly incurred on activities defined as core or supporting R&D activities. Interest payments, core technology, and building costs are specifically excluded. Fees paid to contractors to conduct research on the taxpayer's behalf are eligible provided the work performed by the contractor is directly related to the R&D activities.

Increased instant asset write offs and accelerated depreciation amounts that have formed part of the Australian government's COVID-19 response may be included in qualifying R&D expenditure to the extent that the assets are used in R&D activities. However, specific wage subsidies in the form of JobKeeper payments made to employers, may not.

Additional income tax may be payable where research credits are claimed and a government grant is received to fund the same research. The additional tax is payable in the year entitlement to the grant arises; where the grant is received before the R&D is claimed, an amendment will be required to the prior years. The additional tax is limited to 10% of the expenditure.



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Additional income is subject to tax if the R&D results in the output of commercially viable products or goods. This may occur if a new manufacturing process is developed through R&D and needs to be tested at a full commercial scale. If the output from the tests is scrapped, the credit will be available for the full cost of the materials (e.g., feedstock) and other operating expenses incurred to conduct the trial run. However, if the output is sold or applied for further use by the taxpayer, special rules apply to reduce the net benefit of the R&D offset.

Core R&D activities generally are experimental activities conducted for the purpose of generating new knowledge, whose outcome cannot be known or determined in advance based on current knowledge, information, and experience. The Australian courts handed down a precedential decision on the interpretation of core R&D activities in mid-2019.

Certain activities are specifically excluded from the scope of core activities, including certain mineral exploration activities, and software development for the primary purpose of internal business administration.

Supporting R&D activities are activities that are directly related to core R&D activities. However, if an activity is on the core exclusion list, or produces goods or services, it must be undertaken for the dominant purpose of supporting the core R&D activities to be eligible.

Intellectual property (IP) and jurisdictional restrictions

IP rights relating to eligible R&D activity generally do not need to be retained in Australia.

Related overseas companies can fund Australian-based R&D activities to be carried out on their behalf provided certain conditions are satisfied.

Where activities are being carried out for an Australian-based entity, up to 50% of the total project costs of R&D activities may be physically performed outside Australia and remain eligible for benefits if the government has approved an advance overseas finding.

Potential changes

A review of the R&D incentives regime was undertaken during 2016, and government decisions on the recommendations were announced in May 2018. On 6 October 2020 when the federal budget was handed down, the government backtracked on the long-standing controversial proposals. Instead, revised amendments have been introduced into parliament that would take effect as from 1 July 2021. These would largely maintain the current R&D tax offset rates, with some nonrefundable entities with an R&D intensity of greater than 2% being able to obtain a higher premium. The expenditure cap also would be increased to AUD 150 million from AUD 100 million.

Cooperative Research Center Projects (CRC-Ps)

The CRC-P program provides funding to support short-term, industry-led collaborative research with a maximum of up to AUD 3 million available for each project. The research project must demonstrate the ability to resolve industry problems and deliver tangible outcomes. A co-contribution by the applicant is required.

Investment Incentives

CAPEX: Northern Australia Infrastructure Facility (NAIF)

The NAIF is a five-year, AUD 5 billion commonwealth government concessional finance program to support investment in infrastructure that develops Northern Australia. Typical projects identified by the government for support include airports, communications, energy, ports, rail, and water. There is no specified maximum assistance, but the NAIF's preferred minimum investment size for an individual project is AUD 50 million.

CAPEX: Building Better Regions Fund (BBRF)

The BBRF provides funding of up to AUD 10 million towards capacity-building projects in regional Australia to address comparative disadvantages, as well as creating jobs and providing widespread regional benefits. The BBRF and its predecessor programs have been a consistent feature of successive commonwealth governments, and is expected to continue for the foreseeable future. A co-contribution by the applicant is required.



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Environmental Sustainability Incentives

Australian Renewable Energy Agency (ARENA)

ARENA has approximately AUD 2 billion in funding available through 2022 for activities that “advance renewable energy technologies towards commercial readiness, improve business models, or reduce overall industry costs.” ARENA funding is applied to projects at all pre-commercialization stages from R&D to demonstration to deployment. A co-contribution by the applicant is required.

Emissions Reduction Fund (ERF)

The AUD 2.55 billion ERF provides financial incentives for business investments that reduce greenhouse gas emissions and improve energy efficiency. ERF participants earn Australian carbon credit units for their carbon abatement projects, which then may be sold for value. There is no specified maximum assistance.

Clean Energy Finance Corporation (CEFC)

The AUD 10 billion CEFC fund is dedicated to accelerating Australia's transformation towards a more competitive economy in a carbon-constrained world. The CEFC aims to invest in the commercialization and deployment of renewable energy and enabling technologies, energy efficiency, and low-emissions technologies. There is no specified maximum assistance, but the CEFC is capped at AUD 2 billion annually, and the preferred minimum investment size for a renewable technology project is AUD 20 million.

Manufacturing Modernization Fund (MMF)

The AUD 50 million fund supports transformation in small and medium-sized manufacturing businesses. The MMF provides

co-funded grants up to AUD 1 million to upgrade manufacturing processes, increase the uptake of new technologies, and grow associated highly skilled workforces. The program is run over three years from 2019, and delivered through two funding streams.

Other Incentives

Discretionary funding from states and territories

Depending on the location and scale of the project, a package of assistance often may be drawn from two or three levels of government. The six state and two territory governments also provide discretionary funding to incentivize private sector investment in identified priority areas in their regions. This is typically based on expenditure around:

- Job creation or consolidation;
- Capital expenditure;
- R&D and innovation;
- Market and economic impacts;
- Positive effects on areas of disadvantage;
- Renewable energy;
- Access to export markets;
- Increased efficiency of supply chains; and
- Early stage commercialization.

