

GOVERNMENT GRANTS & THE R&D TAX INCENTIVE

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NATIONAL INNOVATION & SCIENCE AGENDA

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The Australian Government released a number of initiatives worth \$1.1B over 4 years as part of its National Innovation and Science Agenda. Many of these initiatives are still undergoing significant stakeholder engagement prior to being enacted.

Some of the most relevant for your clients may include:

- **Tax Incentive for early stage investors (TIFESI)**
- **Better access to company losses to help companies innovate and grow**
- **Attracting more venture capital investment into high potential start-ups**
- **Improved insolvency laws to encourage entrepreneurship**
- **Intangible Asset Depreciation**
- **Reforms to Employee Share Schemes**

NATIONAL INNOVATION & SCIENCE AGENDA

Tax Incentive for early stage investors (TIFESI) - The Australian Government will promote investment in innovative, high-growth potential start-ups by providing concessional tax treatment for investors, including:

- a 20% non-refundable tax offset on investments, capped at \$200,000 per investor per year (50,000 for non-sophisticated investors); and
- a 10 year exemption on capital gains tax, provided investments are held for more than one year

The incentive will be available for investments in companies that:

- undertake an eligible business (largely overlaps with R&D law)
- that were incorporated during the last three income years
- are not listed on any stock exchange
- have expenditure and income of less than \$1 million and \$200,000 in the previous income year respectively

RESEARCH & DEVELOPMENT TAX INCENTIVE

R&D Tax Incentive – what you can hope to learn today

- **Details** - Specific intricacies and considerations
 - Aggregated turnover
 - What can you claim?
 - What is supporting R&D / dominant purpose?
 - Advance Findings
- **Process** . How to apply? How is it monitored? How can we help?
- **Q&A**

Aggregated turnover / associates – what does this mean?

- Associates goes by Corporations Law definition
- 45% Refundable Tax Offset for <\$20m *aggregated* turnover
- 40% Non-Refundable Tax Offset for >\$20m *aggregated* turnover

R&D TAX INCENTIVE – WHAT CAN YOU CLAIM?

What may be claimed

Expenditure which has a direct nexus to the R&D activities, including:

- Salaries and Wages;
- Contractors (domestic and international in some circumstances);
- Depreciation of assets used for R&D;
- Overheads (rent, electricity, etc.); and
- Cost of production trials (including feedstock input costs)

What are supporting R&D activities?

- Directly related
- Dominant purpose test

Expenditure on supporting R&D activities can be claimed.

Overseas Findings

- Eligibility for R&D activities being conducted overseas
- Must be less than 50% of total R&D expenditure for the year
- Only available in specific circumstances (access to personnel, facilities, quarantine, environmental conditions etc)

Some other considerations

- IP ownership and who is at risk
- Audit Processes by AusIndustry and the ATO
 - Requests for Information (RFI)
 - Other

Phases of an R&D Tax Incentive claim:

- Phase 1 . Identification of Eligible Projects
- Phase 2 . Preparation of Technical Documentation
- Phase 3 . Calculation of R&D Expenditure
- Phase 4 . Lodgements
 - AusIndustry . Application for Registration of R&D Activities
 - ATO . R&D Schedule for lodgement in Income Tax Return
- Phase 5 . Review/Audit

Broadly, four questions:

- Is your project with the aim of generating new knowledge?
- Is it based on principles of established science? (this includes computer science)
- Is experimentation involved?
- Can the outcome only be known or determined in advance by applying a systematic progression of work that proceeds from hypothesis to experiment, observation and evaluation leading to logical solutions?

- Full outsource service designed to:
 - Alleviate documentation burden
 - Minimise time investment whilst maximising eligible benefit
- Success only fee
- Professional grant writing team made up of scientists and engineers

Deadline is 10 months following year end (30 April 2016 in respect of 30 June 2015 financial year)

DISCUSSION TIME / Q&A

EXPORT MARKET DEVELOPMENT GRANT

EMDG Scheme– what you can hope to learn today

- Introduction to the EDMG scheme
- Understanding how the EDMG scheme works and who is eligible
- How to identify a company's export marketing activities and the associated expenses
- Benefits of applying for EDMG

- The EMDG Scheme exists to reimburse export marketing expenses- Austrade is the assessing body
- Encourages businesses to increase international marketing and promotion expenditure
- Applications open on 1 July 2016 and closes on 30 November 2016
- Reimbursed up to 50% of eligible export promotion expenses above \$5,000, up to a maximum of \$150,000, provided total eligible expenses incurred amount to at least \$15,000

- Marketing products/services/IP/know-how by the company . not sales or after sales or training costs.
- Marketing expenses must be incurred . you have engaged services for export market expansion.
- Marketing expenses must be accounted for . they have been taken into the accounts of the claiming entity.
- Marketing expenses must be acquitted . you have paid for them (cash or credit card) . not just accrued them.

- Australian-based businesses, individuals, partnerships, companies, statutory corporations, co-ops, trusts that have:
- Carried on an export business in Australia during the grant year
- Annual income < \$50M
- Exported or promoted for export eligible goods, intellectual property or know how; Tourism Services and Non Tourism Services

- ✓ Overseas Representatives
- ✓ Marketing Consultants
- ✓ Marketing Visits
- ✓ Free Samples
- ✓ Patents, Trademarks, Registrations
- ✓ Trade Fairs, Seminars, In-store Promotions
- ✓ Promotional Literature and Advertising
- ✓ Overseas Buyers

- Product development, Production, Certification or Distribution
- Third party grant/ Another government grant
- Expenses incurred by a related business entity
- Business with New Zealand & North Korea
- Expenses that were incurred by you when you were not a resident of Australia
- Expenses incurred in payment of an Australian tax, levy or charge (except Australian departure tax)

What can you claim? - Salary, fees, rent, motor vehicle costs of the representative

Things to consider-

- ” Long term regarded as >12 months
- ” \$200,000 total cap for representatives
- ” Fees/ salaries that are not sales related

Any marketing visit made outside Australia by the applicant or associates for an approved promotional purpose

Some Examples include:

- Air fares
- Daily allowance of \$350 per day and (max 21 days) for overseas visits

Things to consider:

- Travel MUST be for export promotion
- Allowance based on % working days+

What is eligible IP?

Some things to consider:

- “ Trademarks must have been used firstly in Australia.
- “ Other rights of use resulting from substantial research or development in Australia.
- “ Insurance premiums . Eligible; Legal costs in defence of IP .
Non eligible
- “ Limit of \$50,000

Exclusions?

- “ Costs relating to IP in Australia, New Zealand, Iran* & North Korea not eligible and In house costs (salaries etc.) not eligible

- “ Grants Entry+requirements
- “ Ceiling and Second Tranche Payout Factor
- “ Overseas Representatives expenses are capped at \$200,000
- “ Marketing Consultants expenses are capped at \$50,000
- “ IP registration expenses are capped at \$50,000
- “ **Supporting documents must be kept and not just journal entries**

- “ Allows your clients to recoup some of your overseas marketing expenses - Up to 50%
- “ This includes IP protection costs

DISCUSSION TIME / Q&A

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