

Federal Budget 2020 – R&D Tax Incentive

Snapshot

All applicants

- Changes apply from **1 July 2021** (no impact on FY2020 claim)
- Increase of R&D expenditure threshold from \$100M to **\$150M**

Applicants with turnover < \$20M

- Refundable tax offset set to **18.5%** above the company tax rate
- **No cap** on refundable tax offset amount

Applicants with turnover > \$20M

- Simplified intensity test (2 tiers)
- Tier 1 (Baseline rate)
8.5% above the company tax rate for R&D expenditure between 0% – 2% R&D intensity
- Tier 2 (Enhanced rate)
16.5% above the company tax rate for R&D expenditure above 2% R&D intensity.

Analysis

The Federal Budget announced on Tuesday (6 October 2020) saw approximately \$2 billion committed to the R&D Tax Incentive program – indicating the government’s support on R&D initiatives in Australia. The recognition of the critical role R&D will play in the recovery of the Australian economy is welcomed, particularly after the protracted consultations arising from the government’s earlier plans to reduce spending on the program.

For small business applicants (SBA) with aggregated annual turnover less than \$20 million, the refundable tax offset under the 2020 Federal Budget will be set at 18.5% above the company tax rate. For the SBA’s in a **tax loss position**, the maximum refundable amount would remain at 43.5%. SBA’s that are in a **tax payable position** will be slightly better off, where the net benefit would increase from the current 16% to 18.5% from 1 July 2021. The removal of the \$4 million cap on refundable amount is another welcomed move announced in the budget.

For large business applicants (LBA) with aggregated annual turnover above \$20 million, an R&D intensity test will still apply. However, the test is now simplified to 2 tiers:

- **Base rate** of 8.5% for R&D expenditure with R&D intensity between 0% to 2%
- **Enhanced rate** of 16.5% for R&D expenditure with R&D intensity above 2%

This is great news for the LBAs, as the intensity test will no longer penalise LBAs with under 2% R&D intensity, but will reward them instead if the R&D intensity is above 2%.

The implementation of the changes from 1 July 2021 will allow applicants to plan and prepare for the proposed changes. Also worth noting is the extension of the **\$150,000 instant asset write off** until 30 June 2022, which would now be available for applicants with annual aggregated turnover of up to \$5 billion. This will be beneficial for claimants purchasing R&D equipment or developing assets as a result of their R&D activities.

For a more detailed discussion around the Federal Budget measures and how it will impact your R&D claim, please do not hesitate to contact us.

Quasar Consulting Pty Ltd

www.q-con.com.au

Quasar Consulting Pty Ltd ABN: 66 641 758 661

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