



Eligibility of activities (core and supporting R&D activities)

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The R&D Tax Incentive is the Australian Government's principal measure to encourage industry investment in research and development.

It is a broad-based, market-driven program that aims to boost company competitiveness, improve productivity and deliver economy-wide benefits to Australia.

For activities to be eligible under the program they must satisfy the definition of core R&D activities. Other activities may be eligible as supporting R&D activities.

As a self-assessment program, companies assess for themselves whether their activities satisfy the definition. Companies can then seek to register activities that they determine are likely to be eligible.

At registration, companies will need to describe their core R&D activities and supporting R&D activities. They will need to maintain adequate records of their activities.

What are core R&D activities?

The definition of core R&D activities is as follows:

Core R&D activities are experimental activities:

- a. *whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience but can only be determined by applying a systematic progression of work that:*
 - *is based on principles of established science; and*
 - *proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and*
- b. *that are conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services).*

In determining eligibility of core R&D activities, companies need to consider the following questions:

- Was an experiment (or set of related experiments) carried out?
- Could the outcome of the experiment have been known or determined in advance?
- Did the experimental activities employ the scientific method?
- Was the experiment's purpose to generate new knowledge?

An explanation of these questions follows.

Was an experiment (or set of related experiments) carried out?

An experiment (or a set of related experiments) needs to be taking place.

Experiments involve tests being undertaken to investigate a proposition about something unknown, or the effectiveness of something previously untried. They may take place in a range of settings, from a separate laboratory to a normal production run.

When registering activities companies will need to describe the experimental activities they undertook.

Could the outcome of the experiment have been known or determined in advance?

The definition requires that the outcome of the experiments could not have been known or determined in advance on the basis of current knowledge, information or experience.

This requirement will not be satisfied if:

- experiments merely confirm what is already known; or
- the outcome of the experiments could be deduced or determined by a competent professional in the field on the basis of current knowledge, information or experience.

'Current knowledge, information or experience' refers to what is available in the public arena on a reasonably accessible worldwide basis at the time the activities were conducted. This gap in the current knowledge is often referred to as the knowledge gap.

Companies should be able to indicate how they established that the outcome could not have been known or determined in advance.

Did the experimental activities employ the scientific method?

The definition requires that a systematic progression of work is employed. This work must:

- be based on principles of established science; and
- proceed from hypothesis to experiment, observation and evaluation, and leads to logical conclusions,

as the only way to address the knowledge gap. This systematic progression of work is often referred to as the scientific method.

The scientific method is required because a knowledge gap exists and a significant level of uncertainty is associated with resolving this gap.

Experimentation involving less rigorous knowledge discovery and problem solving techniques, such as 'trial and error', are unlikely to meet this requirement.

When describing the experiments, companies should indicate how the scientific method was applied.

Was the experiment's purpose to generate new knowledge?

Experimental activities must be conducted for the purpose of generating new knowledge or information. This includes new knowledge in the form of new or improved materials, products, devices, processes or services.

The knowledge sought needs to be more than:

- a simple progression from what is already known; or
- applying existing knowledge in a different context or location.

Core R&D activities in a production environment

Core R&D activities may occur in a production environment. Activities that also serve a production or commercial objective are not precluded from qualifying as a core R&D activity.

If experiments that form part of a production run satisfy the definition, they will be eligible up until the point when the new knowledge has been generated.

Activities excluded from being core R&D activities

Certain activities are excluded from being considered as core R&D activities. These excluded activities may however be eligible as supporting R&D activities.

A complete list of excluded activities is included in the *R&D Tax Incentive Overview*.

What are supporting R&D activities?

Activities that are not core R&D activities may be eligible as supporting R&D activities.

The definition of supporting R&D activities is as follows:

Supporting R&D activities are activities directly related to core R&D activities.

However, if an activity:

- is an activity specifically excluded from being considered as a core R&D activity; or*
- produces goods or services; or*
- is directly related to producing goods or services;*

the activity is a supporting R&D activity only if it is undertaken for the dominant purpose of supporting core R&D activities.

In determining eligibility of supporting R&D activities, companies need to consider whether:

- the activity is directly related to a core R&D activity; or
- for certain activities, they have been undertaken for the dominant purpose of supporting core R&D activities.

What is the meaning of directly related?

Directly related requires an activity to have a direct, close and relatively immediate relationship with the core R&D activities.

Supporting R&D activities are usually required in order for core R&D activities to take place. They can occur at a different location or time to the core R&D activities so long as they maintain the required relationship.

What is the meaning of dominant purpose?

Dominant purpose means the prevailing or most influential purpose for conducting an activity.

Activities may be conducted for more than one purpose. The fact that an activity has a commercial objective does not preclude it from qualifying as a supporting R&D activity.

Companies need to consider:

- the extent to which the supporting R&D activities also achieve commercial or production outcomes in addition to assisting the conduct of the core R&D activities; and
- the importance of those non-R&D outcomes.

Not all activities are required to meet the dominant purpose part of the definition. Activities subject to the dominant purpose requirement are those that:

- are excluded from being core R&D activities; or
- produce, or are directly related to producing, goods or services.