Reforming the R&D Tax Incentive

Tax Integrity

The Government is reforming the Research and Development Tax Incentive (R&DTI) to reward add
ensuring the integrity and fiscal affordability of the R&DTI.

The 2016 Review and the Government's reforms

The 2016 Review of the R&DTI (the Review) found that the R&DTI does not fully meet its stated polic
improve the effectiveness, integrity and additionality of the program. The cost of R&DTI was expecte
introduced in 2011-12; in 2016-17 it cost around $3 billion.

The Government's reforms will:

- improve the integrity of the R&DTI, helping ensure ineligible R&D claims are denied;
- continue to provide support for smaller companies that undertake R&D activities; and
- refocus support for larger companies towards those undertaking additional, higher intensity R&

Improve the integrity of the Research and Development

Although the majority of taxpayers do the right thing, some claimants, spread across all industry sect
incorrect self-assessment of eligible R&D activities, exaggerating their expenditure claims, 'pushing th
R&D definition and engaging in other forms of non-compliance.

The Government will implement a series of compliance, enforcement and administration changes to i

This will help maximise the returns to the Australian community from the investment of public money

Integrity: strengthening anti-avoidance rules in the tax law so the ATO can ensure taxpayers do not a
tax schemes involving the program;

Enforcement: additional resourcing so the Government can help ensure that ineligible R&D claims a

Transparency: publishing company names claiming the R&DTI and the amounts of R&D expenditure
accountability for R&D claimants;

Guidance: enabling Innovation and Science Australia to produce public findings similar to the ATO, a
on the scope of what is eligible R&D. This will help ensure taxpayers do not unintentionally misinterp

Administration: imposing a three month limit on extensions of time available from when applicatior

Smaller companies will continue to benefit from a refun

The R&DTI provides critical cash flow support for start-ups who are often unprofitable in early years.
sure taxpayer dollars are spent responsibly and the program is fiscally affordable.

To this end, the Government will, from 1 July 2018:

A key finding of the Review is that the R&DTI is not achieving its objectives of encouraging greater ac
to the community from companies that are R&D intensive.

The Government's reforms will support and reward higher, more intensive, additional R&D investmer

The Government will, from 1 July 2018, introduce a new research and development premium for com
$20 million or more, which provides higher rates of R&D support for higher R&D intensity (that is, the
annual expenditure). The research and development premium will provide multiple rates of non-refur
intensity of the claimant's incremental R&D expenditure.

The Review found that among larger companies, those with higher R&D intensity provide the greates
Encouraging more companies to increase their R&D intensity and undertake additional R&D activitie

The research and development premium has been developed in recognition that many larger compa
and that this should be afforded a baseline level of support, but stronger incentives are required for t

Consistent with this objective, the Government will also, from 1 July 2018 increase the $100 million R
allowing larger companies to continue to be rewarded for additional R&D they undertake as they grc

R&D premium example for a larger company

A company with a 30 per cent tax rate that has $120 million of R&D expenditure for the year and
an overall R&D intensity of 40 per cent. It claims R&D tax offsets at a rate of 34 per cent for the fir
cent for the next $9 million of R&D expenditure, 39 per cent for the next $15 million of R&D exper
million of its R&D expenditure. It also benefits from the increased $150 million R&D expenditure t
tax offsets for its R&D expenditure that exceeds $100 million, rather than claiming these offsets at

The new R&D tax offsets

R&D Tax offset	Rate of offset
Refundable R&D Tax offset(companies with aggregated annual turnover less than $20 million)	The claimant's tax rate for the year plus 13.5 percentage points.
Non-refundable R&D Tax offset(companies with aggregated annual turnover of $20 million or more)	The claimant's tax rate for the year, plus: • 4 percentage points for R&D expenditure between 0 per cent and 2 per cent R&D intensity (inclusive); • 6.5 percentage points for R&D expenditure above 2 per cent to 5 per cent R&D intensity (i.e. not including R&D expenditure falling within the first 2 per cent of the

Financial impacts

The package provides a net gain to the budget of around $2 billion over the forward estimates perio
the Government to reward those larger companies undertaking incremental, high intensity R&D, imp
fund other investments being made as part of the Budget.