

TAX BULLETIN

AN UPDATE PUBLICATION
FOR OUR CLIENTS

1 April 2011

REMINDER – R&D APPLICATIONS DUE 30 APRIL 2011

Clients are reminded that registration applications for the R&D Tax Concession for the year ended 30 June 2010 must be lodged with AusIndustry by 30 April 2011. As always, Pitcher Partners is able to assist with the preparation of your application. Please call your relevant contact person to discuss.

The following is a list of the information and documentation that is ordinarily required for the application with AusIndustry:

1. Completed R&D Plan on file. The R&D tax concession can only be claimed in respect of activities which are covered by an R&D Plan. The plan must be prepared and signed off by the Board (or other authorised officer) prior to the activities being commenced. It is recommended that clients check the details of their own plans against the AusIndustry proforma (attached here). Whilst there is no requirement that your Plan be identical in format to the proforma, your Plan at a minimum should contain all the information listed in the proforma.
2. A brief summary of each of the R&D activities/projects conducted during the year including:
 - a summary of the activities conducted
 - the budgeted costs
 - the commencement date and proposed completion date
 - details of the high level of technical risk and/or innovation involved in the project activities conducted during the year
3. In addition to the above, when completing the relevant company's tax return, details will need to be kept of all expenditure related to each project (split on a project by project basis) including:
 - contracted R&D costs (including copies of all invoices);
 - details of direct wages that relate to R&D projects (eg time of laboratory technicians etc). The allocation of hours to projects should be supported by timesheets or diary entries. This cost would be the hourly wage of the relevant staff multiplied by the number of R&D hours;
 - details of any consumables etc used in the R&D activity;
 - details of whether any plant and equipment is used in the R&D activities and if so, the percentage of such use (as supported by log books or other records). This will enable an allocation of depreciation to the R&D claim; and
 - details of the proportion of eligible overheads you are allocating to the R&D project. This should be supported by a detailed P&L which identifies all the relevant overheads, together with a documented formula for determining the percentage (eg R&D wages/total wages and eligible overheads).

Does the relevant company have a Substituted Accounting Period?

If the company that is conducting the R&D has a substituted accounting period ending 31 December 2010 the relevant application cut off date is 31 October 2011. In respect of any other substituted accounting period, the relevant registration lodgement date is the end of the tenth month following the substituted period end.



Update on Future Changes to the R&D Tax Concessions

The Tax Laws Amendment (Research and Development) Bill 2010 has already been modified three times since it was originally proposed and at the time of writing, we are still waiting to hear whether the Senate will accept the latest version of this R&D tax offset system.

The new R&D tax offset will replace the current system of enhanced deductions. The tax offset will be offered in one of two forms subject to the aggregate turnover of the entity claiming the offset ("R&D entity") together with its connected entities/affiliates:

- a 45% refundable offset will be available for R&D entities with an aggregate turnover <\$20 million; or
- a 40% non refundable offset will be provided for larger R& D entities. Unused tax offsets are potentially able to be carried forward to later income tax years.

The "in principle" start date of the new law is 1 July 2010.

Given it is over 9 months since this proposed start date, and the Bill introducing the regime is yet to be passed, we expect that Government will apply the changes from 1 July 2011. Pitcher Partners will continue to lobby for this later start date.

Until the Bill is passed, clients should continue to maintain R&D records in keeping with their current practice



FURTHER INFORMATION

Please ask either your regular Pitcher Partners tax contact or any of the contacts in the Pitcher Partners firms below for further details on the issues raised in this Tax Bulletin:

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