R&D Tax Incentives: Australia, 2021

Design of R&D tax relief provisions

Australia provides R&D tax relief through a volume-based R&D tax credit. A number of changes in the design of the R&D Tax Incentive were recently introduced with enhanced reforms to the R&D Tax Incentive announced as part of the 2020-21 Budget. These changes apply from 1 July 2021.

Table 1. Main design features of R&D tax incentives in Australia, 2021

		R&D tax incentive
Tax incentive		Tax credit
Type of instrument		Volume-based*
Eligible expenditures†		Current, depreciation (machinery and equipment)
Headline rates (%)		**Until 30 June 2021:** Large 38.5 (SME*: 43.5); **From 1 July 2021**:** Large: 33.5/38.5 (i.e. CIT + 8.5) + a 16.5 premium rate above CIT for R&D expenditure over 2% intensity; SME: 43.5 (i.e. CIT + 18.5)
Refund	SME*	Yes
	Large	No
Carry-over (years)		Indefinite carry-forward
Thresholds & ceilings	Floor	AUD 20 000 (with limited exceptions)
	Ceiling (R&D expenditure)	**Until 30 June 2021:** AUD 100 million **From 1 July 2021:** AUD 150 million

*****Entities with aggregated turnover of less than AUD 20 million. **From 1 July 2021 onwards, for larger companies (aggregated turnover of $20 million or more), the non-refundable R&D tax offset base rate is the claimant's company tax rate (25% or 30%) plus 8.5% for R&D expenditure up to 2% R&D intensity (i.e. R&D expenditure as a % of total expenses). A premium rate of 16.5% above the claimant's company tax rate applies to R&D expenditure above 2% R&D intensity. For smaller companies (aggregated turnover below $20 million), the refundable R&D tax offset rate is the claimant's company tax rate (25%) plus 18.5%. In 2021-22, the Australian company tax rate is 25% for companies with an aggregated turnover below $50 million, and 30% for companies with an aggregated turnover of $50 million or more.

Note: For more details, see OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

Key features:

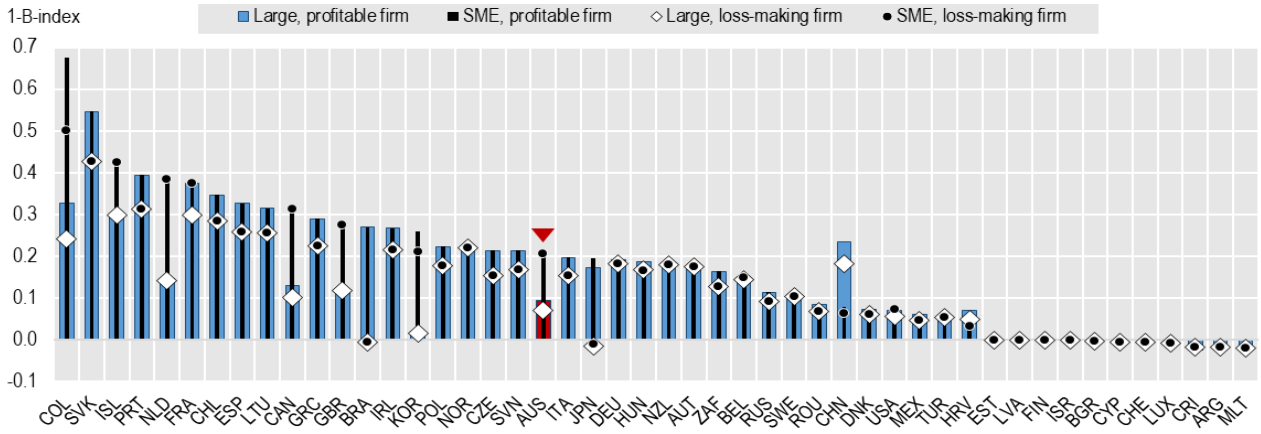
- In case of insufficient tax liability, unused credits can be carried-forward indefinitely and are refundable for firms with a turnover of less than AUD 20 million (1 AUD = 0.624 EUR, Q3 2021).
- A minimum floor of AUD 20 000 applies to R&D expenditures. Until 30 June 2021, a ceiling of AUD 100 million applied to qualifying R&D expenditures, raised to AUD 150 million from 1 July onwards.

Generosity of R&D tax support in 2021

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Australia** is estimated at 0.21 (0.21), above to the OECD median of 0.20 (0.18). The implied R&D tax subsidy rate for large enterprises is equal to 0.10 (0.07) in the profit (loss)-making scenario, below the OECD median of 0.17 (0.15). These estimates do not capture the design changes introduced with the 2021 R&D Tax Incentive reform in Australia (for post-reform estimates, see Figure 2).

Figure 1. Implied tax subsidy rates on R&D expenditures: Australia, 2021

1-B-Index, by firm size and profit scenario



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2021, **Australia** undertook **a number of changes** to the R&D Tax Incentive.

- Reforms made to give the Board of (Industry) Innovation and Science Australia the power to make determinations that set out how it will apply legislation, exercise powers, or administer the program. These determinations are then binding on the Board or its delegate.
- From 1 July 2021, the existing annual R&D expenditure ceiling has been increased from AUD 100 million to 150 million.
- From 1 July 2021, the refundable R&D tax offset for small companies, those with aggregated annual turnover of less than $20 million, has been set at 18.5 percentage points above the claimant's company tax rate. The rates of the non-refundable tax offset have been tied to a company's incremental R&D intensity, which is R&D expenditure as a proportion of total expenses for the year. The marginal R&D premium will be the claimant's company tax rate plus:
  - 8.5 percentage points for R&D expenditure between 0 per cent and 2 per cent R&D intensity
  - 16.5 percentage points for R&D expenditure above 2 per cent R&D intensity
- From 1 January 2021, the Industry Innovation and Science Australia Board's ability to grant an extension of time in filing applications for the R&D Tax Incentive for a further period is subject to a cap of 3 months on the total extension available. This is unless the extension is granted to allow an applicant to wait for the outcome of a separate pending decision.

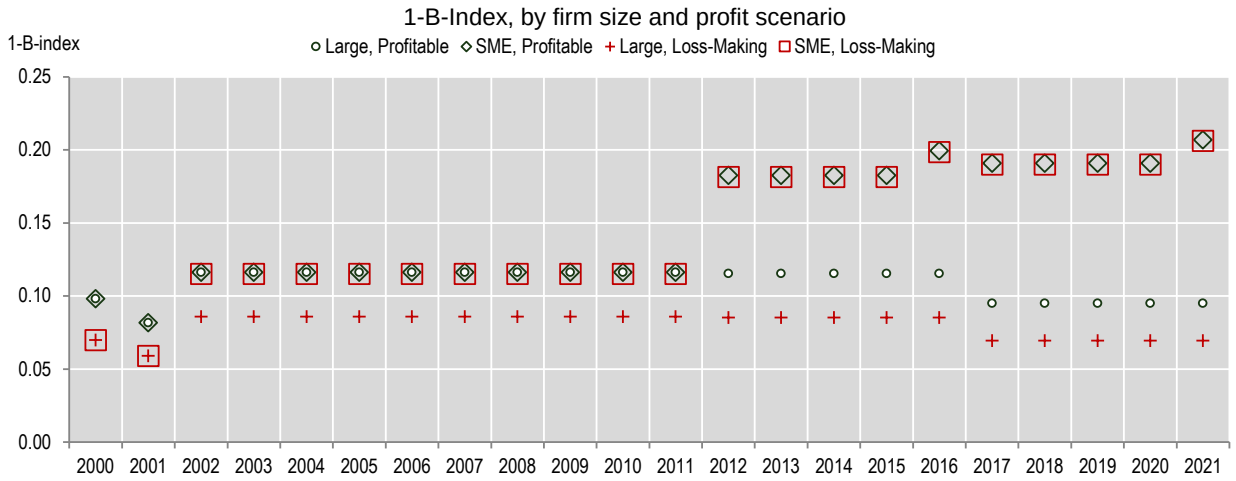
Trends in the generosity of R&D tax support

Across the four scenarios considered, the generosity of R&D tax incentives has increased in **Australia** from 2000 to 2021. As the value of the R&D tax allowance is directly linked to the rate of corporate income tax (CIT), a reduction in the CIT rate in 2001 explains the short-term drop in implied tax subsidy rates in 2001, followed by an increase in R&D tax subsidy rates in 2002. In this year, the volume-based R&D tax concession was extended to include an incremental component, and the tax allowance became refundable for SMEs. As loss-making SMEs are entitled to a cash refund for the remainder of the tax offsets exceeding their tax liability, there are no distinctions between loss-making and profitable SMEs in terms of their marginal subsidy rate.

Another marked increase in marginal R&D tax subsidy rates is observable in 2012, following the replacement of the R&D tax concession by the R&D tax incentive from 1 July 2011 with more generous tax offset rates for SMEs. The rates of this R&D tax offset were reduced commencing on or after 1 July 2016, leading to a slight drop in the marginal R&D tax subsidy rates estimated for 2017. With the reduction of the CIT rate for SMEs (entities with aggregated turnover of less than AUD 20 million) from 27.5% in 2020 to 26% 2021, implied marginal tax subsidy rates for SMEs increase from 0.19 to 0.21 in the profit and loss case, owing to the lower taxation of R&D tax benefits (firms must forego baseline tax deductions when using the R&D Tax Incentive).

The implied R&D tax subsidy rates estimates for 2021 do not yet reflect the effect of **Australia**'s recent policy reform, introduced through the 2020-21 Budget measure, which does not take effect until fiscal year 2021-22.

Figure 2. Implied tax subsidy rates on R&D expenditures: Australia, 2000-21



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

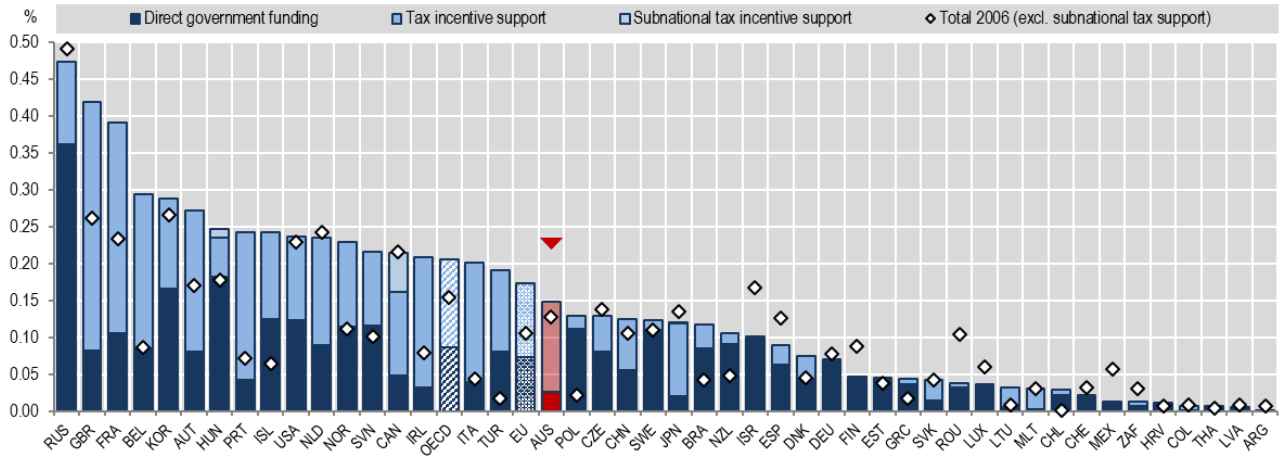
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

Policy support for business R&D: the policy mix

Australia is placed below the OECD average in terms of total government support to business R&D as a percentage of GDP, at a value equivalent to 0.15% of GDP in 2019.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

Key points:

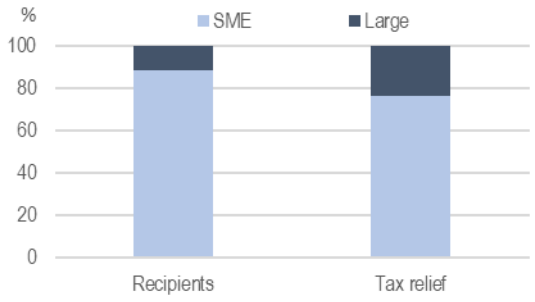
- From 2006 to 2019, government support for BERD as a percentage of GDP increased in **Australia** by 0.02 percentage point (pp), while the OECD average (2006-2019) increased by 0.05 pp.
- During this period, business R&D intensity in **Australia** declined from 1.16% to 0.92%.
- In 2019, R&D tax incentives accounted for 82% of total government support for BERD in **Australia**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2019

By firm size*, share in percent



Note: Figures refer to the R&D tax incentive. *SMEs are defined as firms with less than AUD 20 million annual aggregated turnover.

Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

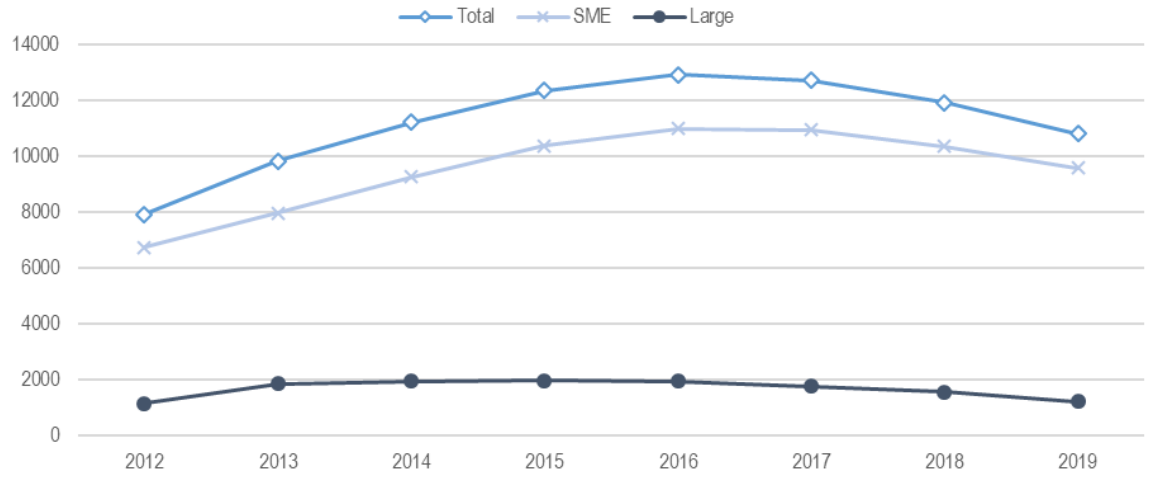
Key points:

- In **Australia**, SMEs accounted for 89% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to 76% in this year. 24% of R&D tax benefits were allocated to large firms, comprising 11% of the population of R&D tax relief recipients in 2019.
- Relevant data on the number of R&D tax relief recipients and value of government tax relief for R&D expenditures by main economic activity are currently not available.

Trends in the uptake of R&D tax incentives

Over the period 2012-2019 (for which relevant data are available), the number of R&D tax relief recipients increased in **Australia** from around 7 900 in 2012 to 10 800 in 2019 with a peak in 2016 (12 920) and slight decline in the number of R&D tax relief recipients thereafter. Throughout the 2012-19 period, SMEs accounted for the majority of R&D tax relief recipients in **Australia** with an average share of 85% during these years.

Figure 5. Number of R&D tax relief recipients, Australia, 2012-2019



Note: Figures refer to the R&D tax incentive scheme.

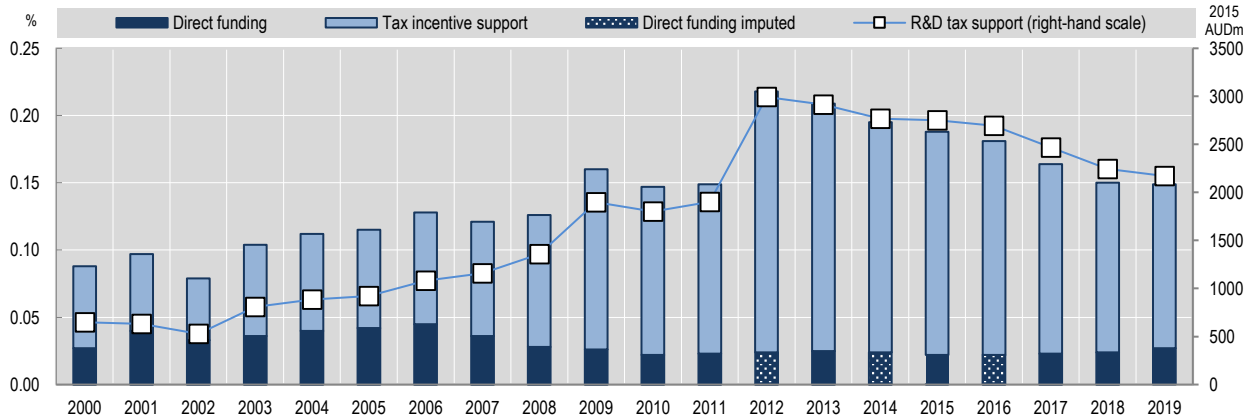
Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

Trends in government support for business R&D

Between 2000 and 2019, the importance of R&D tax support has increased significantly in **Australia**, both in absolute and relative terms, reaching a peak in 2012 and slightly declining from then onward.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Australia, 2000-19

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, http://oe.cd/rdtax, December 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) from AUD 650 million in 2000 to 2 170 million in 2019, with a sharp increase noticeable in 2012 following the replacement of the former R&D tax concession by the R&D Tax incentive for income years beginning on or after 1 July 2011.
- As a percentage of GDP, R&D tax support increased from 0.06% in 2000 to 0.12% of GDP in 2019.
- Direct funding of BERD oscillated between 0.02% and 0.04% of GDP during this period, and declined in more recent years from a peak value of 0.045% of GDP in 2006 to 0.03% of GDP in 2019.
- The share of R&D tax relief in total government support increased from 65% in 2006 to 82% in 2019.

Please cite this note as: OECD (2021). "R&D Tax Incentives: Australia, 2021", www.oecd.org/sti/rd-tax-stats-australia.pdf, Directorate for Science, Technology and Innovation, December 2021.