

Research & Development

FedBud Fast Facts

Key takeaways

R&D intensity threshold reduced from 2% to 1.5%

- Businesses will now be able to access the higher R&D tax offset at a lower level of R&D spend relative to total company expenditure.
- This broadens eligibility for companies with moderate R&D activity (typically traditional manufacturing) and may improve cash flow outcomes for mid-sized innovators that previously fell below the 2% threshold.

Turnover threshold for the highest offset rate increased from \$20m to \$50m

- Companies with annual turnover between \$20m and \$50m will now qualify for more favourable R&D tax incentive rates previously only available to smaller businesses.
- This may particularly benefit scaling technology, manufacturing, biotech and software companies transitioning into larger commercial operations.

Refundability limited to firms under 10 years of age

- Businesses older than 10 years will no longer be eligible for refundable R&D

tax offsets, even if turnover remains below \$50m. Mature businesses may therefore receive reduced cash refunds and instead rely on non-refundable offsets carried forward against future taxable income. Potentially a disadvantage for continual innovators.

Maximum R&DTI expenditure threshold increased from \$150m to \$200m

- Large corporations undertaking significant R&D investment will be able to claim incentives on an additional \$50m of eligible expenditure annually. This increases support for major industrial, pharmaceutical, advanced manufacturing and technology development projects.

Minimum expenditure threshold increased from \$20,000 to \$50,000

- Smaller businesses and early-stage innovators with low levels of annual R&D expenditure may no longer qualify for the program unless spending exceeds the higher threshold or activities undertaken through an RSP.
- This could reduce access for startups or businesses undertaking smaller experimental projects.

Increased emphasis on core activities

- Increase in R&D offset rate, however businesses will no longer be able to claim certain indirect or supporting costs associated with R&D activities unless they are directly linked to core eligible R&D activities.
- This may narrow the scope of claimable expenditure in the early stages of R&D activities and increase documentation and compliance requirements for taxpayers.

Did the Budget measure up?

The changes are broadly viewed as:

- positive for mid-market and large innovation businesses
- mixed for startups and smaller R&D claimants
- more targeted toward economic productivity and commercial outcomes than broad-based innovation support
- And, changes to CGT changes could negatively eclipse R&D changes, particularly for start-ups and smaller innovators.

We score it: **3/5**



“Gold for the Giants” – Bigger businesses gain broader access, while smaller innovators face tighter entry hurdles.



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