**Title: What you need to know about R&D in the technology industry**

**By: Niftyforms**

**H1: Introduction**

The technology industry is always evolving. Businesses and startups within the industry seek to innovate and take part in Research & Development projects (R&D) to stay ahead.

If your tech company works on innovative projects, you may be eligible for a tax offset under the R&D Tax Incentive.

**H2: Summary of R&D Tax Incentive**

The Australian government supports innovation by encouraging local businesses to develop new or improved products and original solutions. This support is offered through the Research & Development (R&D) Tax Incentive, reducing the financial risk involved in undertaking R&D activities. By reducing the risks and costs associated with conducting R&D, the incentive seeks to boost productivity, innovation and economic growth for the nation.

The R&D Tax Incentive offers a targeted tax offset of up to a 45% refund of costs for eligible Research & Development activities that benefit Australia.

Many businesses in Australia are already completing eligible R&D activities without realising. In fact, only 30% of eligible small businesses conducting R&D currently claim this tax incentive. You don’t need to be conducting experiments in a lab to qualify for R&D incentives. If your business prides itself on innovation or is considering new developments, read on to find out more about how the R&D Tax Incentive could provide cash back to your company.

**H3: What is R&D?**

Research & Development, or R&D, involves conducting an experiment or trial to gain new knowledge. This new knowledge could be used to develop new or improved materials, products, devices, processes, software, or services. An experiment doesn’t have to be scientific, all it means it that at the start of this process you’re unaware of what the outcome will be and need to conduct further research, testing and trialling in order to overcome this uncertainty. The results seek to bridge the gap in knowledge that you started with.

A wide range of businesses and industries conduct R&D activities including (but not limited to):

* Professional services
* Manufacturing
* Agriculture
* Retail
* Fashion
* Science
* Technology

**H4: Benefits of conducting R&D activities**

Research and Development helps to improve workforce skills and knowledge, venture capital opportunities, and technical proficiencies within a business. Innovation and cutting-edge solutions not only puts your company at the forefront of competition, it also supports the development of the Australian workforce and economy.

**Financial benefits of R&D Tax Incentive**

Undertaking R&D involves significant technical and financial risk. The R&D Tax Incentive was introduced to encourage businesses in Australia to take on R&D activities. Unlike a grant, you are not applying for funding or competing with other businesses for this financial incentive. Instead, the financial benefit is received in the way of tax offsets against expenses and is available to all eligible businesses.

Small businesses (turnover below $20 million) can receive a 45% R&D tax offset against expenses in a financial year. Larger companies (over $20 million aggregated turnover) can receive a 40% R&D tax offset.

Companies that have experienced a tax loss can also benefit from the R&D Tax Incentive and could be eligible to offset 45cents for every dollar spent on R&D activities.

**H5: Eligibility to claim the R&D Tax Incentive**

More than 20,000 small businesses are currently eligible for the R&D Tax Incentive, yet only 7,000 currently apply for this program.

When you hear R&D, you might be thinking of large corporations developing new products in laboratories. This is a common misconception, but almost every type of business conducts R&D in one form of another, regardless of their size or industry.

Your business is likely to be eligible if it is:

* Incorporated as a company
* A for-profit entity
* Registered in Australia
* Spent more than $20,000 on eligible R&D expenses

However, you are not eligible to apply your business is:

* An individual sole trader
* A corporate limited partnership
* An exempt entity (where your entire income is exempt from income tax).

Your business can only benefit from the program if your initiatives are considered eligible R&D activities and meet the legal requirements. This is to ensure that companies do not take advantage of the program solely for the purpose of gaining additional income.

**H6: Claiming the R&D Tax Incentive in the Technology sector**

When it comes to R&D in the tech industry, there are some important factors to consider.

**R&D for software and web/mobile applications**

R&D in the technology industry often involves code development to improve or create new software that offers unique features.

Unfortunately, it can be challenging to identify if code writing and development can qualify as eligible R&D. This is because most of the activities for code development are similar and not considered unique or ‘new knowledge’.

Approximately 20% of the code for web applications and platforms are original. The remaining 80% is considered to be conventional and easily accessible by other developers. To justify that your code is new and innovative, it must enable a software and/or application to complete a complex feature. This feature could not be developed without first trialling because the step-by-step knowledge is not publicly known.

Examples of complex features include (but are not limited to):

* **Image and video processing**

This is complex because image and video processing requires processing of bigger data size as compared to text file

* **Analysing of data between dissimilar applications**

There is complexity in translating a specific format into another

* **Utilisation of GPS data**

This is complex because there is only a certain degree of accuracy when it comes to GPS data. Data integrity is also influenced by remoteness of the area and internet connection stability

**Determining core R&D activities in technology**

When developing new tech, it’s also important that R&D activities have a customer-facing element.

Examples of customer-facing technology developments include:

* Developing an app that lets customers determine what light fittings are needed based on room dimensions
* Automating responses to customer reviews and product ratings across online channels
* Developing software for tracking people via 3D video and determining the probability of a crime
* Developing Augmented Reality and Virtual Reality applications that incorporate continuously changing GPS coordinates
* Improving cloud computing in a manufacturing environment with erratic internet connection

The activities listed above would be considered ‘core R&D activities’. Other R&D activities that benefit your business internally may be ineligible or considered to be supporting activities that assist the core research and development process.

**Determining supporting R&D activities**

There may be some internal administration costs that can qualify as eligible R&D expenses. Internal administration generally covers things like HR, payroll, and billing administration.

R&D activities that involve developing, modifying or customising computer software for the purpose of internal administration of your business will not be regarded as a core R&D activity.

What this means is that even if your business conducted an experimental activity for developing the software/application that assists with your internal administration, it still can’t be regarded as your main R&D activity. Instead, it can only be registered as a supporting activity.

If you are developing this software/application for another company however, provided that the other company is not affiliated with your business, it can be registered as a core R&D activity.

**H7: Registration of R&D activities**

Before you can apply for the R&D Tax Incentive, you need to register your activities.

When registering R&D activities, you need to ensure that you:

* Only register R&D activities that have been carried out and meet the legal requirements for eligibility
* Only include expenditure that has been incurred on R&D activities and do not include ordinary business activities
* Maintain sufficient records that support your claim

AusIndustry provides a form for the purpose of carefully assessing and evaluating your R&D activities against the required criteria. Once your activities have been evaluated, you are ready to apply.

When using Niftyforms to apply for the R&D tax incentive, we register your activities directly with AusIndustry on your behalf.

**H8: Applying for the R&D Tax Incentive**

Important things to note when applying for the R&D Tax Incentive:

* You need to register for every income year you want to claim the offset
* Ensure that a new version of the application form is downloaded each time you apply
* Submit your application no later than 10 months after the end of the income year in which the activities were conducted (on or before April 30 for standard Australian financial year ending June 30)

The application form can only be submitted once, so ensure details are accurate and checked carefully. If you’re unsure where to start or would like assistance with handling your R&D Tax Incentive application, contact one of our R&D tax specialists, we are here to help.

**Getting assistance with your application**

Determining whether your innovation within the technology industry qualifies for tax offsets can be tricky. For assistance, please contact one of our helpful R&D Tax specialists, who will be more than happy to help navigate the complexities of the tech industry. We can also discuss any current initiatives that you have in mind to determine if they could be eligible.

The Nifty R&D team can review your eligibility at any time, with no upfront fees or obligation. If we find that your business is ineligible, we won’t charge you a cent.

Niftyforms

Email: [support@niftyforms.com](mailto:support@niftyforms.com)

Phone: 1800 778 939