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Research and development tax incentive

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QC 70860

About the R&D tax incentive program

About the program, changes since its introduction, our compliance measures and the charter.

Last updated 13 May 2026

Aims of the R&D program

The R&D tax incentive is a tax offset that aims to boost competitiveness and improve productivity across the Australian economy by:

- encouraging industry to conduct R&D that may not otherwise have been conducted
- improving the incentive for smaller firms to undertake R&D
- providing business with more predictable, less complex support.

Program administration

The ATO and the Department of Industry, Science and Resources (DISR) jointly administer the R&D tax incentive. Your R&D activities must be [registered with DISR](#) before claiming the tax offset.

We're responsible for:

- checking you are entitled to offsets for R&D expenditure you claim in your tax return
- paying or applying the offsets.

The R&DTI program is a self-assessment regime. Receiving a registration number from DISR means the application has been received and is complete. It doesn't mean the R&D activities meet the [eligibility requirements](#). R&D entities may be subject to [compliance action](#) by DISR or the ATO before or after they receive the offset.

Changes since 1 July 2021

The following changes to the R&D tax incentive have been made and applied to income years starting from 1 July 2021:

- The refundable offset rate of 43.5% was replaced with a rate of 18.5% above the company's tax rate.
- The flat non-refundable rate of 38.5% was replaced with a progressive marginal tiered R&D intensity threshold. Increasing rates of benefit apply for incremental research and development expenditure by intensity, as follows
 - 0 to 2% intensity: an 8.5% premium to the company's tax rate
 - greater than 2% intensity: a 16.5% premium to the company's tax rate.
- The expenditure threshold increased from \$100 million to \$150 million. For notional deductions above \$150 million, the R&D tax incentive offset rate is the corporate tax rate (the R&D premium doesn't apply).
- A uniform clawback rule was introduced for feedstock, R&D recoupments and assessable balancing adjustments and a catch-up rule for deductible balancing adjustments.
- The general anti-avoidance provisions of Part IVA of the *Income Tax Assessment Act 1936* now includes an R&D tax incentive offset as a tax benefit from 1 July 2021.
- We are now required to publish a company's claimed R&D expenditure, with the first publication to be 2 years after the end of the financial year, and as soon as practicable after 1 July 2024.

Anti-avoidance rules

From 1 July 2021, the general anti-avoidance rule of Part IVA of the *Income Tax Assessment Act 1936* includes R&D tax incentive offsets as a tax benefit for Part IVA.

A tax benefit arising out of on R&D claim may be summarised as follows:

- The R&D entity entered into a scheme to access the R&D tax offset.
- A tax benefit is received in connection with the scheme.

- The dominant purpose of the R&D entity entering into the scheme is to either:
 - enable it to get the R&D tax offset
 - get a **refundable** R&D tax offset where it would have or reasonably be expected to have obtained a **non-refundable** R&D tax offset.

If Part IVA applies to an arrangement, the tax benefits obtained from the arrangement can be cancelled.

Publishing a company's R&D expenditure

We are required to publish R&D expenditure claimed by an R&D entity 2 years after the end of the financial year.

Publishing this information will improve public accountability for R&D claimants and encourage voluntary compliance with the R&D program.

See [R&D tax transparency reports](#) for more information.

The R&D charter

The [R&D tax incentive program charter](#) [↗](#), which we jointly developed with DISR, clearly explains:

- the roles of DISR and the ATO in the context of the R&DTI program
- what you can expect when you interact with us
- what we ask from you.

The joint charter also details the options available to you if you are unsatisfied with your interactions with us.

When you deal with us, however, your interactions will be guided by our own [Charter](#). Our Charter:

- explains what you can expect when you interact with us
- applies to everyone who works with us
- is based on laws, codes and principles we both must follow.

QC 70867

R&D tax incentive transparency reports

About the annual R&D tax incentive transparency reports, including their purpose and what data is included.

Last updated 13 May 2026

We're required by law to publish certain data about Research and Development (R&D) tax incentive claims reported to us by companies (R&D entities). Publishing this information will:

- provide transparency on the benefits received by R&D entities
- encourage voluntary compliance with the requirements of the R&D tax incentive (R&DTI) program
- increase public awareness of which companies have claimed the tax incentive.

Publication of this report is a legal requirement under section 3H of the *Taxation Administration Act 1953* (TAA). It came into effect in July 2021, following reforms to the policy and administration of the R&DTI program, as a result of [Treasury Laws Amendment \(A Tax Plan for the COVID-19 Economic Recovery\) Act 2020](#) [↗](#).

Each year, the transparency report will be made up of 2 parts. These are the:

- [Report of data about Research and Development tax incentive entities](#) [↗](#) (data report), published on [data.gov.au](#) [↗](#)
- *Research and development tax incentive – transparency report*, which provides an analysis of the data.

When we publish the report

We're required to publish the R&D data 2 years after the end of the financial year that the data relates to. The delay in publishing this information is designed to address any perceived commercial sensitivity of the data.

We published the first data report in early October 2024, and we'll continue to publish it annually.

What R&D data we publish

The data we publish in the report is specific and limited to the:

- name of the R&D entity claiming the R&DTI
- entity's Australian business number (ABN) or Australian company number (ACN)
- 'total R&D expenditure' – total notional deductions claimed (label **Z** in Part **A** of the R&DTI schedule) less any feedstock adjustments (label **B** in Part **B** of the R&DTI schedule).

We base this on what the R&D entity provided in its company tax return.

If an R&D entity amended its company tax return, we report both the original information provided by the entity and the last client-initiated amendment lodged with us. This includes any voluntary disclosures provided during a review or audit.

Commissioner-initiated amendments won't be published. If, during a review or audit, the Commissioner amended the labels, we're required to publish the total expenditure on R&D based on the company return lodged before the Commissioner-initiated amendment.

You're unable to opt out of having your R&D information published in the report. There are no exclusions.

Due to tax law confidentiality provisions in the TAA, we can't disclose any further information beyond what will be published in the report.

Data notes

Labels in the data report

There will be 5 labels in the data report on data.gov.au:

- **Name** – this is the name of the R&D entity on the date we extracted the data
- **ABN** or **ACN** – if the R&D entity had a valid ABN when we extracted the data, then we've published the ABN; if not, we've published its

ACN

- **Total R&D expenditure** – this is based on the first information the R&D entity provided to the Commissioner and is the total notional deductions (label **Z** at Part **A** on the R&D schedule) less feedstock adjustments (label **B** at Part **B** on the R&D schedule)
- **Adjusted total R&D expenditure** – this is based on the last amendment the R&D entity provided to the Commissioner and is the total of notional deductions (label **Z** at Part **A** on the R&D schedule) less feedstock adjustments (label **B** at Part **B** on the R&D schedule)
- **Income year** – this is the income year for the R&D claim.

Notes about the total R&D expenditure amounts

Generally, we round the total R&D expenditure amounts in the data report, so you may see differences between the totals in the data report and the amounts we've used in the information and charts in our analysis.

There are also R&D entities that we report a 'Nil' dollar amount for. This could be because the:

- feedstock adjustments are more than the notional deductions
- R&D entity adjusted the amount in their tax return
- R&D entity didn't provide information regarding total R&D expenditure.

Consolidated groups

Where an R&D entity is part of an income tax consolidated group or multiple entry consolidated (MEC) group, the subsidiary members are treated as part of the head company for income tax purposes, for as long as they remain part of the group for income tax purposes.

The published total R&D expenditure amounts are those disclosed by the head company of the consolidated group or MEC group.

Data sources

We get the data for the data report from the company tax return and R&D schedule labels.

Company tax return

We include the entity in the data report if they've reported an amount at label **21A** or **21U**.

R&D schedule

The total R&D expenditure in the data report is the amount of total notional deductions less any feedstock adjustments. If notional deductions less feedstocks adjustments are negative or zero, the figure is reported as Nil.

We use Part **A** label **Z** to obtain the total notional R&D deduction amounts we include in the data report – this amount is worked out by adding together items **1** to **9** in Part **A** of the R&D schedule for both Australian-owned R&D (label **X**) and foreign-owned R&D (label **Y**).

We use Part **B** label **B** to obtain the feedstock adjustment amount.

Amendments

If you've reviewed your R&D claims and believe that there's an error in the information that we'll publish, you're able to correct any errors by lodging an amendment with us in writing.

If you've submitted an amendment and it's not processed before we extract the data, we'll publish the updated information in the next year's report. If you've amended your R&DTI claim, we publish both the original R&D expense amount and the amended R&D expense amount. If you've withdrawn your claim in full, we publish the original R&D expense amount with the amended R&D expense amount published as Nil.

Data assurance process

When preparing the data for publishing, we review and confirm the data in accordance with the information contained on our systems as at the date we extracted the data.

If you are an R&D entity (or their nominated representative) with data included in the report and there is an error, you can [contact us](#).

What's not in the report

The information in the transparency report does **not** include:

- the R&D activities conducted by the entity
- the calculations behind notional deductions and feedstock adjustments
- [clawback amounts](#) other than feedstock adjustments
- the amount of tax offset the entity received
- whether the tax offset received was refundable or non-refundable
- the extent and nature of any ATO activity, including any past or ongoing audit or compliance activities
- whether the R&D entity was entitled to or received the tax offset.

The report doesn't contain information collected by Department of Industry, Science and Resources (DISR) on behalf of Industry Innovation and Science Australia (IISA) as authorised under the *Industry Research and Development Act 1986*.

Communication approach

Since September 2023 we have:

- engaged with key external stakeholders to inform them of the reporting requirement and to get their input into our approach
- communicated directly with affected R&D entities or their registered tax agents ahead of the release of a report to inform them of the reporting requirement and encourage them to review their information and amend any errors
- issued broader communications to the community to inform them about the data report and provide them with access to comprehensive information about it.

Visibility for future applicants

To ensure future applicants are aware that the data they lodge in their R&DTI schedule will be included in R&DTI transparency reporting, we've added a notice to the paper and digital versions of the R&DTI schedule for the [R&D tax incentive schedule 2024](#) and [R&D tax incentive schedule 2025](#) income years.

Administration of the R&DTI program

The R&DTI program is jointly administered by the:

- Department of Industry, Science and Resources (DISR on behalf of IISA)
- ATO.

DISR manages the registration process for the R&DTI program. We review the eligibility of the expenditure incurred on the registered activities. We leverage the skills of each agency to:

- reduce compliance costs for business
- increase certainty while maintaining program integrity.

The ATO and DISR regularly conduct engagement activities, including compliance reviews and audits of R&D entities to safeguard the integrity of the R&DTI program. Information on these activities is not included in this report.

The R&DTI program is a self-assessment regime. Receiving a registration number from DISR doesn't mean the R&D activities meet the eligibility requirements. A registration number means the application has been received and is complete. R&D entities may still be subject to compliance action by DISR and the ATO.

[About the R&D program](#) contains further details, including the aim of the program and our joint charter with DISR.

Innovation success stories

DISR provides information on its website about [How the R&D tax incentive has helped companies](#) .

R&D tax incentive transparency report 2022–23



Read our Research and development tax incentive (R&DTI) transparency report 2022–23 for recent data and observations.

R&D tax incentive transparency report 2021–22



QC 73799

Eligibility for the R&D tax incentive

Work out whether your entity is eligible to register R&D activities and claim offsets under the R&D tax incentive.

Last updated 13 May 2026


Eligible entities

Broadly speaking, your eligibility to claim tax offsets under the research and development (R&D) tax incentive will depend on whether you:

- are an R&D entity
- incurred [notional deductions](#) of at least \$20,000 on [eligible R&D activities](#).

R&D entity

You are an R&D entity if you are a corporation that is either incorporated under:

- an Australian law
- a foreign law but you are an Australian resident for income tax purposes
- a foreign law and you are both
 - a resident of a country with which Australia has a [double tax agreement](#)  that includes a definition of 'permanent establishment'
 - carrying on business in Australia through a permanent establishment as defined in the relevant double tax agreement.

You are **not** eligible for an R&D tax offset if you are either:

- an individual

- a corporate limited partnership
- an exempt entity (where your entire income is exempt from income tax).

Trusts are not generally R&D entities, except a body corporate in the capacity of trustee for a public trading trust.

If you are an R&D entity, you may also need to consider the special rules applied to [consolidated groups](#) and [R&D partnerships](#).

For the definition of:

- 'R&D entity', refer to [section 355-35](#) of the *Income Tax Assessment Act 1997* (ITAA 1997)
- 'Australian law', 'foreign law' and 'Australian resident', refer to [section 995-1](#) of the ITAA 1997.

For more information, see:

- Taxation Ruling [TR 2018/5](#) *Income tax: central management and control test of residency*
- [Permanent establishments](#).

Consolidated groups

If you are the head company of a consolidated group or MEC group, your subsidiary members are treated as part of you (the head company) for as long as they remain part of the consolidated or MEC group for income tax purposes.

Therefore, the R&D tax incentive applies to your consolidated group or MEC group as if it is a single entity conducting all R&D activities within the group. This means only the head company of the group should register for, and claim, the tax incentive for these R&D activities. See [Consolidated group or a multiple entry consolidated \(MEC\) group](#) for more information.

R&D partnerships

An R&D partnership is one where each partner meets the definition of an R&D entity. The partnership itself is not eligible to claim the R&D tax incentive for the R&D activities it undertakes because it is not an R&D entity. However, the **partners** may be able to claim for R&D activities

the partnership has undertaken. For more information, see the special rules that apply if you are a partner in an [R&D partnership](#).

Who R&D activities are conducted for

In most cases, you can only claim the R&D tax incentive for expenditure on R&D activities conducted for you (and not to a significant extent for some other entity. See [Who R&D activities are conducted for](#) for more information.

Eligible activities

Your eligibility to claim the R&D tax incentive will also depend on:

- where you are conducting your R&D activities
- what those activities are.

R&D activities must meet certain criteria to be eligible for the R&D tax incentive. They must be classified as either [core R&D activities](#) or [supporting R&D activities](#).

Core R&D activities

[Core R&D activities](#) [↗](#) are experimental activities:

- whose outcome can't be known or determined in advance on the basis of current knowledge, information or experience
- which can only be determined by applying a systematic progression of work that
 - is based on principles of established science
 - proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions
- that are conducted for the purpose of generating new knowledge (including about creating new knowledge or improved materials, products, devices, processes or services).

Some types of activities are specifically excluded from being core R&D activities. See the [List of excluded activities](#) [↗](#).

Supporting R&D activities

A [supporting R&D activity](#) is one that is directly related to core R&D activities or, for certain activities, has been undertaken for the dominant purpose of supporting core R&D activities.

Activities that must satisfy the dominant purpose requirement are those that either:

- produce – or are directly related to producing – goods or services
- are excluded from being core R&D activities.

Where you are conducting your R&D activities

Generally, only R&D activities conducted in Australia qualify for the R&D tax incentive. However, R&D activities conducted overseas also qualify if the Department of Industry, Science and Resources (DISR) makes a finding that your activities meet the conditions specified in section 28D of the *Industry Research and Development Act 1986* (IR&D Act).

If parts of an R&D activity conducted for you are in Australia or an Australian external territory and parts are overseas, you must have a relevant finding from DISR for the parts conducted overseas.

You can't claim R&D activities conducted overseas in either of the following circumstances:

- the activities are conducted for an [associated foreign corporation](#)
- you are a foreign corporation carrying on your business through a [permanent establishment](#) in Australia and the R&D activities are conducted for you and not for the permanent establishment.

Example: Overseas R&D activities conducted for an R&D entity

Under the terms of an agreement, Company U – a company incorporated in the United States of America (USA) – agrees to conduct R&D activities solely in the USA for Company A, an Australian company. Company A and Company U are not connected or affiliated with each other. The agreement specifies that Company A will benefit from all of the intellectual property obtained from the activities and will control how the activities are conducted.

Before the agreement begins, Company A obtains a favourable finding from DISR that those R&D activities could not be conducted in Australia, under paragraph 28C(1)(a) of the *Industry Research and Development Act 1986*.

As Company A will benefit from all of the intellectual property obtained from the activities, and controls the conduct of those R&D activities, the activities are being conducted solely for Company A. Therefore, if Company A meets the other eligibility criteria, they will be able to claim a notional deduction under the R&D tax incentive because the:

- R&D activities are conducted for Company A
- the company also has an overseas finding for the overseas R&D activities.

Eligible notional deductions

You may be entitled to an R&D tax offset if your total notional deductions for an income year are at least \$20,000. Eligible notional deductions are also used to calculate your R&D tax offset.

If your total notional deductions are less than \$20,000, you will only be able to obtain the tax offset for:

- [contracted expenditure incurred to a Research Service Provider](#) (RSP) for services within a research field for which the RSP is registered under the IR&D Act. The RSP can't be an associate of the R&D entity.
- expenditure incurred as a monetary contribution under the [Co-operative Research Centre \(CRC\) program](#).
- Before making a claim for the R&D tax incentive, you need to determine whether your expenditure is [eligible](#) or [ineligible](#) under the R&D incentive.

Eligible expenditure

If you are an R&D entity, the notional deduction [amounts you can claim](#) may be for:

- [expenditure incurred on R&D activities](#), including

- [expenditure incurred on overseas activities](#) covered by an [Advance Finding](#)  from DISR
- amounts paid to associates and expenditure incurred to an RSP
- the [decline in value of assets](#) used for conducting R&D activities (including R&D partnership assets)
- expenditure incurred in relation to goods and materials transformed or processed during R&D activities to produce marketable products ([feedstock expenditure](#))
- monetary [contributions under the CRC program](#).

You are entitled to a [notional R&D deduction](#) in relation to expenditure described above to the extent that:

- your expenditure is of a kind eligible for the R&D tax incentive
- you incur expenditure during the income year on one or more registered R&D activities. This does not include amounts you incur to an associate but do not pay until a later income year.

As a result, the general rule is that expenditure on R&D activities is claimable in the income year it is incurred. The exceptions to this rule are when:

- an amount of expenditure is incurred but not paid to an associate
- the prepayment rules apply in relation to expenditure for services to be provided over a period.

Eligible expenditure on your R&D activities must be claimed under the R&D tax incentive. If you choose not to claim eligible expenditure under the R&D tax incentive, you can't claim it elsewhere in your tax return. This is different to the former R&D tax concession, where you could choose to claim an amount under another deduction provision.

For more information about notional deductions and the requirements you must meet, see [amounts you can claim](#).

Ineligible expenditure

You can't notionally deduct expenditure under the R&D tax incentive that is:

- interest expenditure (within the meaning of interest in the withholding tax rules)

- expenditure that is not at risk. [Taxation Ruling TR 2021/5](#) *Income tax: research and development tax offsets – the 'at risk' rule sets out the provisions that prevent an entity from notionally deducting expenditure that is not 'at risk'.*
- core technology expenditure
- expenditure included in the cost of a depreciating asset. Decline in value notional deductions may apply however.
- expenditure incurred to acquire or construct a building, or part of a building or an extension, alteration or improvement to a building.

These types of expenditure do not warrant the enhanced tax benefits available under the R&D tax incentive. However, they should be considered under the normal deduction provisions of the income tax law because you may still be able to deduct these amounts from your assessable income.

For more information, see [Expenditure you can't claim](#).

Who R&D activities are conducted for

Understand who is entitled to the R&D tax incentive resulting from incurring expenditure on R&D activities.

Consolidated groups and R&D partnerships

There are special rules for the R&D tax incentive for consolidated groups and R&D partnerships.

QC 70871

Who R&D activities are conducted for

Understand who is entitled to the R&D tax incentive resulting from incurring expenditure on R&D activities.

Who R&D activities are conducted for

In most cases, you can only claim the R&D tax incentive for expenditure on R&D activities conducted for you (and not to a significant extent for some other entity), with some exceptions regarding foreign corporations as outlined below.

Working out for whom the R&D activities are conducted involves determining who receives the major benefit from carrying out the activities, for example, who effectively owns the results of the activities, controls the conduct of the R&D activities and bears the financial risk.

Usually, you won't be able to claim for expenditure on R&D activities you conducted to a significant extent for another entity. However, provided all other eligibility requirements are met, the entity receiving the major benefit from the R&D activities may be able to claim these amounts.

If you meet certain conditions, you may also qualify for the R&D tax incentive if either:

- your R&D activities are conducted for an [associated foreign corporation](#) that is a resident of a country with which Australia has a comprehensive double tax agreement
- you are a foreign corporation carrying on your business through a [permanent establishment](#) in Australia, and the R&D activities are conducted for you and not for the permanent establishment.

For more information, refer to [section 355-210](#) of the ITAA 1997.

If you are claiming the R&D tax incentive for a monetary contribution you have made under the [Cooperative Research Centres \(CRC\) program](#) [↗](#), it is **not** necessary to determine for whom R&D activities are conducted in order to determine eligibility to the R&D tax incentive for that expenditure. Refer to [section 355-580](#) of the ITAA 1997 for notional deductions for the CRC program.

When determining who activities are conducted for, special rules apply if you are a partner of an [R&D partnership](#) or are part of a [consolidated or MEC group](#).

Assessing if R&D activities are conducted for you

To claim notional deductions the [R&D activity must be conducted for you](#). In some cases, the activity can be conducted for a foreign entity that is connected or affiliated with you. This requirement prevents duplication of claims by different entities for the same R&D activities.

You can't claim the expenditure if the activity is conducted, to a significant extent, for another entity that wouldn't be eligible to claim expenditure on the activity. For example, where the R&D activity is conducted for you but is also conducted to a significant extent for a trust, you can't claim. Whether or not that other entity is entitled to claim the R&D tax incentive will depend on whether it satisfies the various eligibility and expenditure conditions.

An R&D activity is considered to be conducted for the entity that receives the major benefit of the activity. This is assessed by considering who:

- [effectively owns the results](#), that is, the 'know how', intellectual property or other similar results arising from your company's expenditure on the R&D activities
- [has appropriate control](#) over the way the R&D activities are conducted
- [bears the financial risk](#) of carrying out the R&D activities.

Whether an R&D activity is conducted for your company is a question of fact. It is determined by whether the activity is conducted, in substance, to provide the majority of knowledge benefits resulting from the activity (such as access to intellectual property) to your company.

For more information about this requirement, see [section 355-210](#) of the ITAA 1997.

Example: R&D activities conducted for an R&D entity

Company Z is an R&D entity undertaking its business and R&D activities solely in its factory in Adelaide, South Australia. It is

conducting R&D activities for itself solely within Australia and may be entitled to the R&D tax incentive.

Due to commercial reasons, Company Z decides to outsource its R&D activities to Company B, an R&D entity based in Melbourne, Victoria. Under the terms of the agreement between Company Z and Company B, Company B agrees to carry out the R&D activities for Company Z. The agreement provides Company B with broad direction about the specifications Company Z wants achieved by the work.

Company Z is obliged to pay Company B for the cost of these services, irrespective of the results obtained. Company Z receives the major benefit of the R&D expenditure it has incurred through being the only entity which can access intellectual property arising from the R&D activities for its own commercial purposes. Company B does not benefit at all.

Although Company B is not an agent for Company Z, Company B conducts the R&D activities for Company Z and not to any extent for its own purposes.

Therefore, Company B can't claim the R&D tax incentive. If Company Z meets the other eligibility criteria, they will be able to claim a notional deduction under the R&D tax incentive.

Effective ownership of results

To decide whether a company has effective ownership you must look at:

- the circumstances in which R&D activities are conducted
- what practical, as well as formal, rights the company has to the results (such as know-how and intellectual property) from those activities.

For more information, see [Effective ownership of results](#).

Control of R&D activities

R&D activities may often be carried out under contract by experts in a particular field. A company may still have an appropriate degree of control over the conduct of the R&D activities in these circumstances.

For more information, see [Appropriate degree of control](#).

Who bears the financial risk

If R&D activities are carried out for a company, we would generally expect that the company would bear the financial risk of the R&D activities.

For more information, see [Financial risk for more information](#).

Foreign corporations and permanent establishments

Under [subsection 355-210\(1\)](#) of the ITAA 1997, you may also qualify for the R&D tax incentive, if certain conditions are met, if:

- your [R&D activities are conducted for an associated foreign corporation](#) that is a resident of a country with which Australia has a comprehensive double-tax agreement
- you are a foreign corporation carrying on your business through a [permanent establishment](#) in Australia and the R&D activities are conducted for you and not for the permanent establishment.

R&D partnerships

If you are a partner in an R&D partnership:

- special rules apply when working out who the R&D activities of the partnership are carried out for
- the R&D tax incentive rules treat
 - R&D activities conducted by or for the R&D partnership as if they were conducted by or for the partner in a corresponding way
 - relationships that the R&D partnership has with other entities that relate to the R&D activities as if the partner had corresponding relationships with those other entities
 - things done by or for the R&D partnership that relate to the R&D activities as if they were instead done by or for the partner.

The R&D activities are also treated as if they are not conducted by or for the R&D partnership, or for any other partner of the R&D partnership.

These deeming rules mean an R&D entity that is a partner of an R&D partnership can satisfy the requirement that the R&D activities are conducted for that R&D entity and not for another.

For more information about:

- who the R&D activities can be conducted for, see [subsection 355-210\(1\)](#) of the ITAA 1997
- R&D partnerships and who the R&D activities are conducted for, see [section 355-515](#) of the ITAA 1997.

R&D activities conducted for you



Learn the eligibility conditions for R&D activities conducted by an R&D entity for an associated foreign corporation.

R&D activities conducted for an associated foreign corporation



Learn the eligibility conditions for R&D activities conducted by an R&D entity for an associated foreign corporation.

R&D activities conducted by a permanent establishment



Requirements when R&D activities are conducted by permanent establishment for other parts of the body corporate.

QC 81725

R&D activities conducted for you

Learn the eligibility conditions for R&D activities conducted by an R&D entity for an associated foreign corporation.

Effective ownership of results

To work out whether you have effective ownership of the results you must look at the circumstances in which the R&D activities are conducted and what practical, as well as formal, rights you have to the results from those activities, such as the intellectual property, the know-how, or similar results arising from your R&D activities.

This does not necessarily mean that you must be the proprietor of a piece of intellectual property in any formal sense. These rights may not be available, or the formal owner of the resulting intellectual property may hold it on terms that you have all the advantages of ownership. For example, you may not be the formal holder of the patent but have the right (without further fee or payment) to:

- use a patent
- require the patent to be licensed
- restrict or direct further development based on the patent.

In most cases, a company with all those rights would have effective ownership of the results in question.

You may give some nominal rights of ownership to intellectual property or results to others without denying your effective ownership of them. For example, you might completely control results of R&D activities yet permit the contract researcher some exclusive scientific publication rights.

In some cases, use of results may only be possible in limited ways or for limited purposes, so that limited rights may amount to effective ownership. For example, exclusive rights of commercial use and development for only a few years might amount to full effective ownership in an area of R&D that is short-term.

Example: effective ownership of results

Company C is an R&D entity carrying out its business and R&D activities solely in Australia. Company C enters into a contract with a buyer, Company Z, to supply a new product meeting

certain specifications. Both companies know that Company C will need a program of R&D to fulfil its contract. In fulfilling the supply contract, Company C is under no obligation to supply working papers or background research to Company Z.

Even if Company Z is the sole purchaser, or one of only a few potential purchasers, of the intended product, Company C effectively owns the results of the R&D. This is because Company C alone controls and uses the R&D results. Therefore, Company C can claim the R&D tax incentive, subject to meeting other requirements.

Funding a project with other R&D entities

If you fund a project of R&D together with other eligible R&D entities as an R&D partnership, there are special rules about who the R&D activities of the partnership are conducted for.

If you are one of a number of entities that funds an R&D project as a group, but not as an R&D partnership, in order to satisfy the effective ownership test it is essential for each contributor to the project to have a proper and effective interest in the R&D results. Examples of situations where a number of entities may fund a R&D project include members of industry associations or members of certain a joint ventures.

Each member of the group eligible to claim the R&D tax incentive must separately register with the Department of Industry, Science and Resources.

Contributions to R&D activities can take many forms. For example, a contribution may be of money, services (provided free or for less than a proper fee), or the use of depreciating assets or premises. A contribution may also take the form of existing research results. The key to comparing contributions in money and in-kind is that contributions in-kind are valued when contributed, not in hindsight after the contributions have been used in R&D activities.

If you and a number of other entities share results of an R&D project or their use, when working out if the effective ownership test is satisfied you must consider whether each party's individual share in those results equates to their contribution made.

Whether each party's individual share in those results equates to their contribution made is a question of fact which will depend on the individual circumstances of the arrangement.

Example 1: R&D conducted jointly

Company X and Company Y both operate in the same industry and decide to pool their resources and undertake R&D activities jointly in a field of common interest. They both contribute equally to a pool of funds to fund the R&D activities. They agree that they will both have the same right to use the results of those activities in their businesses on completion of the activities.

Despite conducting R&D activities jointly, Company X and Company Y are not partners for income tax purposes. They do not carry on a business in common and are not in receipt of any income jointly.

The interests of Company X and Company Y in the 'know-how' (developed from the expenditure on the R&D activities) are the same and equate with their respective expenditures. As a result, both entities have effective ownership of the results arising from their own expenditure.

The expenditure of each company is not a recoupment or reimbursement of the other's expenditure, so Company X and Company Y each bear their share of the financial burden of the R&D activities. While the R&D activities might be said in one sense, to be conducted for them both, their joint input into what activities are carried on, their sharing of the financial burden and the nature of their respective interests in the results, where neither can restrict use by the other, means that their individual contributions are not on R&D activities conducted to a significant extent for the other.

Example 2: members of industry associations

Members of industry associations may effectively be co-owners of the R&D results obtained on their behalf. Free individual use of results is practical for them. Co-ownership of this kind is

consistent with the R&D having been carried out for the members, with each having a proper and effective separate interest in the results. If each member makes a contribution, even if the contributions vary somewhat, those contributions would not usually be regarded as having been made for the purpose of carrying out R&D activities for another.

Example 3: shareholders of a company conducting R&D activities

A number of Australian companies establish and become shareholders of another company (also incorporated in Australia). This jointly owned company conducts R&D activities, or has them carried out. Those activities may be funded by the shareholder companies. The fact that shareholders expect an indirect benefit by way of dividends does not mean that the shareholder companies effectively own the results of the R&D. Further, it does not mean that the company in which they hold shares conducts its R&D activities for them.

Appropriate degree of control

An appropriate degree of control over the conduct of R&D activities exists where you can:

- choose the project of R&D activities
- decide on major changes in direction of those activities
- stop an unproductive line of research
- decide whether to follow up (or not) an unexpected result
- decide to end a project.

If a researcher carries out a program of R&D activities for several companies as a group, these companies must maintain control over the conduct of the R&D activities. Any terms of the arrangement between the companies and the researcher that regulate how control is exercised must not preclude the companies' control in practice.

In some circumstances, activities undertaken for a group of companies are overseen by a committee. Where companies have R&D activities carried out for them, they may be able to exercise proper control over the conduct of those activities through a committee they have chosen (which includes people selected by each company to represent their interests).

Financial risk

If R&D activities are carried out for you, we would generally expect that you would bear the financial risk of the R&D activities. An example of an R&D entity bearing the financial risk in relation to R&D activities is where both of the following apply:

- The activities are merely incidental to the supply of a saleable product for a fixed price.
- That price bears no relationship to the extent of R&D activities the entity may need to conduct to produce the product.

Loans from related parties could also indicate that the entity is not bearing the financial risk, see [Taxpayer Alert TA 2023/4 Research and development activities delivered by associated entities](#). If you do not bear the financial risk, but effectively own the results of R&D activities and control the way the activities are carried out, we may still regard the activities as being carried out for you (and not to a significant extent for someone else). In these cases however, if the 'expenditure not at risk' provisions apply to you it may not be possible for you to claim all or part of the R&D tax incentive. You may also need to apply the [clawback adjustment provisions](#), resulting in additional income. For more information, see:

- [section 355-405](#) *Expenditure not at risk*
- [section 355-440](#) *Clawback of R&D recoupments*.

You are not entitled to a notional deduction under Division 355 of the ITAA 1997 for R&D expenses you incur if all of the following apply:

- you conduct the R&D activities under contract for another entity.
- you do not effectively own the results of the R&D activities.
- you do not bear the financial risk of the R&D activities you conduct because your expenditure is reimbursed by another party or

recouped (including for example, by a government grant) This is irrespective of whether you produce successful results.

Example: contract to conduct R&D activity

Company A Pty Ltd and Company B Pty Ltd are both R&D entities. They both enter into a contract under which Company B Pty Ltd is to carry out specified services that qualify as R&D activities under Subdivision 355-A of the ITAA 1997.

Company A Pty Ltd has no expertise in the particular R&D field but has given broad direction in the contract to Company B Pty Ltd about the specifications it wants achieved by the services. Company A Pty Ltd is obliged to pay Company B Pty Ltd for the cost of those services, irrespective of the results obtained.

Company A Pty Ltd receives the major benefit from the R&D expenditure it has incurred because only it can access intellectual property arising from the R&D activities to use for its own commercial purposes. Company B Pty Ltd does not benefit at all in relation to this intellectual property or any other knowledge benefits gained. Company B Pty Ltd conducts the R&D activities for Company A Pty Ltd and not to any extent for its own purposes.

Example: supply of a product for a fixed price

Company G is an Australian company that carries on business in Australia. Company G carries out R&D activities that are incidental to the supply of a saleable product for a fixed price. The fixed price bears no relationship to the extent of the R&D activities the company may need to conduct in order to produce the product. Company G bears the financial risk for R&D activities.

Example: fee for design and testing of a product

Company E is an Australian company that carries on business in Australia. Company E supplies a saleable product to another company, Company F. Company E receives a fee for the design and testing of the product. The associated R&D expenditure is recouped wholly or in part by this fee. In these circumstances, Company E does not bear the financial risk for the R&D activities.

For more information, see:

- [section 355-405](#) of the ITAA 1997 for expenditure not at risk
- [section 355-435](#) of the ITAA 1997 for clawback
- [Clawback of recoupments \(government grants and reimbursements\)](#).

QC 81726


R&D activities conducted for an associated foreign corporation

Learn the eligibility conditions for R&D activities conducted by an R&D entity for an associated foreign corporation.

Last updated 13 May 2026

Conducting R&D activities for an associated foreign corporation

To be eligible to claim the R&D tax incentive for R&D activities conducted for an associated foreign corporation, the following conditions must apply:

- The foreign corporation must be a resident of a foreign country that has a [double tax agreement with Australia](#) .

- The R&D activity must be conducted solely in Australia or an external territory of Australia.
- If the R&D activity is a [supporting activity](#), each corresponding [core activity](#) must be
 - conducted solely within Australia or an external territory and
 - an activity for which you have registered or could register for the R&D tax incentive for the income year.
- When the R&D activity is conducted, each foreign resident must be either
 - connected with you
 - an affiliate of you or you must be an affiliate of each foreign resident.
- The R&D activity must be conducted in accordance with a written agreement binding only on you and each foreign resident. The agreement must specify that the R&D activities are to be conducted either
 - directly by you
 - indirectly by another entity under an agreement binding on you (for example conducting the R&D activity under a subcontract). Any R&D entities conducting these activities as a subcontractor under a contract with a related R&D entity are ineligible for the R&D tax incentive.

These conditions are in addition to other requirements that must ordinarily be satisfied in order to claim the R&D tax incentive (for example, those about [notional deductions for expenditure](#), [registration](#) and having [eligible R&D activities](#)).

You can't claim a notional deduction for R&D activities conducted for a foreign entity that is not a foreign corporation.

When working out whether the R&D activity is conducted for one or more foreign corporations, you must also consider the extent to which the R&D activity is conducted for the benefit of any other entity to whom the conditions in [subsection 355-210\(1\)](#) do not apply. If the R&D activity is also conducted to a significant extent for such another entity, then it is ineligible for the purposes of the R&D tax incentive (refer to [subsection 355-210\(2\)](#)).

You can assess the extent the R&D activity is conducted for the benefit of the foreign corporation by considering the extent the foreign corporation has:

- [effective ownership of the results](#) from the R&D activities
- [an appropriate degree of control](#) over the R&D activities
- [borne the financial risk](#) arising from the R&D activities.

Expenses incurred on overseas R&D activities

Expenses incurred on overseas R&D activities can't be claimed if the R&D activities are conducted for a foreign resident corporation.

Australian supporting R&D activities also can't be claimed if the corresponding core R&D activity was conducted overseas. If a subsidiary incurs these kinds of R&D expenses, it is essential to correctly identify if the R&D is conducted for the subsidiary, for its foreign parent or for another related entity.

These expenses can't be claimed where:

- contractual arrangements show a foreign corporation has the major benefit of the R&D
- in substance, a foreign corporation will benefit from the ownership or exploitation of the results of the R&D, and funds or controls the conduct of the R&D activities.

[Taxpayer Alert TA 2023/5](#) has also issued advice regarding R&D activities conducted overseas for foreign related entities.

Aggregated turnover

If you have foreign residents that are connected or affiliated with you, their income must be taken into account when you calculate your aggregated turnover to determine if you can claim the refundable or non-refundable tax offset. For more information see [Step 3 – Calculate your aggregated turnover](#).

Example 1: R&D activity for a foreign company

Company J is a company incorporated in the UK. Company J establishes an Australian subsidiary. The subsidiary, Company K, is an Australian company wholly owned by Company J and qualifies as an R&D entity.

Under an agreement between the 2 parties, Company K agrees to undertake R&D activities in its Perth office solely for the benefit of Company J. The consideration is at arm's length and will be paid even if the R&D is not successful. Company J is legally entitled to all intellectual property arising from the R&D activities.

Company J is a foreign resident incorporated under foreign law and a resident of the UK, which is a country Australia has a double tax agreement with. Company J is also connected with Company K, as Company J controls Company K.

The R&D activities are being conducted solely for Company J. Therefore, Company K may be able to claim the R&D tax incentive provided all other requirements for claiming the R&D tax incentive are also satisfied.

Example 2: R&D conducted for a foreign corporation

Company O is a large company incorporated in the UK with an annual turnover that exceeds \$50m. Company O establishes an Australian subsidiary on 1 July 2024. The subsidiary, Company A, is an Australian company wholly owned by Company O and qualifies as an R&D entity. Most directors of Company A are also directors of Company O.

Under an agreement between the 2 parties:

- Company A agrees to undertake R&D activities for Company O
- Company O funds the R&D activities
- Company O legally owns all intellectual property arising from the R&D activities and benefits from the use and exploitation of the R&D results

- key decisions regarding the conduct of the R&D activities are to be made by Company O.

Core R&D activities 1 and 2 and supporting R&D activity 3 are undertaken in Australia and other activities are undertaken overseas.

Expenditure incurred on the R&D activities by Company A in the 2025 income year are as follows:

- Australian core R&D activities – \$2,500,000
- Australian supporting R&D activity – \$20,000
- Overseas activities – \$800,000.

Company O is incorporated and a resident of the UK, with which Australia has a double tax agreement. Company O is also connected with Company A, as Company O controls Company A.

The R&D activities are being conducted solely for the benefit of foreign Company O because Company O has effective ownership of the results, controls the conduct of the R&D activities and bears the financial risk of the R&D activities. Company A can claim the R&D tax incentive for core R&D activities 1 and 2 undertaken in Australia provided all other requirements for claiming the R&D tax incentive are satisfied.

As the R&D activities are conducted for a foreign company:

- Company A can't claim the R&D tax incentive for expenditure incurred on overseas activities.
- The expenditure incurred on the Australian supporting activity can only be claimed if
 - it corresponds to the Australian core R&D activities
 - other requirements for claiming the R&D tax incentive are met.

When working out Company A's aggregated turnover to determine if it can claim the refundable or non-refundable R&D tax offset, Company A must include:

- Company A's annual turnover
- Company O's annual turnover – as it is a connected entity

- the annual turnover of any other connected or affiliated entities.

This results in Company A's aggregated turnover being greater than \$20 million. Therefore, it can't claim the refundable R&D tax offset. Instead, Company A can claim the non-refundable R&D tax offset for expenditure on eligible R&D activities.

For more information about:

- who R&D activities can be conducted for, see [section 355-210](#) of the ITAA 1997
- conditions that must be satisfied for R&D activities to be conducted for one or more foreign entities, see [section 355-220](#).

For the definition of:

- 'connected with' refer to [section 328-125](#) of the ITAA 1997
- 'affiliate' refer to [section 328-130](#) of the ITAA 1997.

QC 81728

R&D activities conducted by a permanent establishment

Requirements when R&D activities are conducted by permanent establishment for other parts of the body corporate.

Last updated 13 May 2026

Eligibility to claim

If R&D activities are conducted for you, as an R&D entity that is a foreign body corporate carrying on business through a permanent establishment in Australia, but the activities aren't for that permanent establishment, you must consider your eligibility to claim. Certain

conditions apply for claiming R&D activities conducted by a permanent establishment for other parts of the body corporate.

These conditions are as follows:

- The R&D activity must be conducted solely within Australia or an external territory of Australia.
- If the R&D activity is a supporting R&D activity, each corresponding core activity (that you, the body corporate has registered for an income year) must be an activity conducted solely within Australia or an external territory.
- There must be written evidence that the R&D activity is conducted for you (the body corporate) and not for the purposes of the permanent establishment.

These conditions are in addition to other requirements that must be satisfied in order to claim the R&D tax incentive (for example, those about [notional deductions for expenditure](#), [registration](#) and having [eligible R&D activities](#)).

Who the activities are conducted for

When working out whether the R&D activity is conducted for you (the foreign body corporate), you must also consider the extent to which the R&D activity is conducted for the benefit of any other entity to whom the conditions in [subsection 355-210\(1\)](#) do not apply. If the R&D activity is also conducted to a significant extent for such another entity, the R&D tax incentive can't be claimed (refer to [subsection 355-210\(2\)](#)).

You can assess if the R&D activity is conducted to a significant extent for the benefit of another entity by considering the extent to which that other entity:

- has [effective ownership of the results](#) from the R&D activities
- has [an appropriate degree of control](#) over the R&D activities
- [borne the financial risk](#) arising from the R&D activities.

For more information about:

- who R&D activities can be conducted for, see [Section 355-210](#) of the ITAA 1997

- conditions that must be satisfied for a permanent establishment carrying out R&D activities for other parts of the body corporate, see [Section 355-215](#) of the ITAA 1997.

QC 81727

Consolidated groups and R&D partnerships

There are special rules for the R&D tax incentive for consolidated groups and R&D partnerships.

Last updated 13 May 2026

Consolidated groups

If you are the head company of a consolidated group or multi entry consolidated (MEC) group, your subsidiary members are treated as part of you (the head company) while they are part of the consolidated or MEC group for income tax purposes. Therefore, the R&D tax incentive applies to your consolidated group or MEC group as if it is a single entity.

This is known as the **single entity rule**. It has the following implications for you as the head company:

- The actions and transactions of a subsidiary member are treated as having been undertaken by you.
- Dealings that are solely between members of your consolidated or MEC group will **not** result in ordinary or statutory income or a deduction to you.
- Expenditure a subsidiary member incurs on R&D activities is taken to be incurred by you.
- R&D activities conducted for your subsidiary member by a third party are taken to have been conducted for you.

- R&D activities conducted by your subsidiary member for another member of the same group (or vice versa) are taken to have been conducted for you.
- You (and not your subsidiary member) may be entitled to the R&D tax incentive for expenditure on R&D activities undertaken by a subsidiary member while it was in your consolidated or MEC group.

For more information about consolidation and the single entity rule, see:

- [Consolidation](#)
- [Section 701-1](#) of the ITAA 1997
- [Taxation Ruling TR 2004/11](#) *Income tax: consolidation: the meaning and application of the single entity rule in Part 3-90 of the Income Tax Assessment Act 1997*

Registration for the head company

You must register your own R&D activities undertaken, **including** those undertaken by subsidiary members of your consolidated or MEC group while they were part of your consolidated or MEC group.

Subsidiary members should **not** register if they were members of your consolidated or MEC group for the **full income year**.

If you are a subsidiary member:

- that joined a consolidated or MEC group during the income year, you may be entitled to claim the R&D tax incentive for expenditure incurred on R&D activities undertaken in the period before joining the group
- for only part of the income year – because you left that group during the year – you may be entitled to claim the R&D tax incentive for expenditure incurred on R&D activities undertaken in the period after you left the consolidated or MEC group.

Registration for subsidiary members for a partial income year

In order to qualify for the R&D tax incentive for R&D activities undertaken while you were **not** part of a consolidated or MEC group,

you must register your R&D activities undertaken in the period that you were not a member of that group.

R&D partnerships

Generally, a partnership is an association of persons (other than a company or limited partnership) that is:

- carrying on business as partners or
- in receipt of ordinary or statutory income jointly.

A limited partnership is also a partnership, although it is not an eligible R&D entity.

For information to help you to work out whether a business is carried on in partnership refer to [Taxation Ruling TR 94/8](#) *Income tax: whether business is carried on in partnership (including 'husband and wife' partnerships)*.

There are special rules in Subdivision 355-J of the ITAA 1997 regarding the R&D tax incentive for certain types of partnerships known as R&D partnerships. If you are in a partnership, and you and each of the other partners are R&D entities, then the partnership is an R&D partnership.

An R&D partnership **can't** register for the R&D tax incentive. Instead, each partner wishing to claim the R&D tax incentive must register separately prior to claiming.

Applying partnership 'proportions'

If you are a partner of an R&D partnership, the amount you can claim is based on your 'proportion', as a partner, of the notional R&D deductions of the partnership. This proportion is based on your interest as a partner in the net income or loss of the R&D partnership, unless the partners have agreed that the partners should bear or be entitled to a different proportion.

Similarly, as a partner you may also have to pay your proportion of extra tax or include your proportion of additional amounts in your assessable income in certain circumstances. Examples of these circumstances may be where:

- recoupments are received that relate to expenditure on R&D activities by the R&D partnership and you have claimed the

R&D tax incentive for these activities (clawback adjustment)

- amounts are received by the R&D partnership for the disposal of any R&D results.

In addition, any R&D activities conducted by or for the R&D partnership are taken to be conducted by or for each partner instead of the partnership.

The R&D partnership does not take into account any of the following when working out its net partnership income or loss:

- R&D expenditure taken to be incurred by you and the other partners as a result of subdivision 355-J of the ITAA 1997
- an amount you and the other partners can deduct as a result of subdivision 355-J of the ITAA 1997
- a recoupment taken to be received by you and the other partners as a result of subdivision 355-J of the ITAA 1997.

Subdivision 355-J of the ITAA 1997 gives information about R&D partnerships and the R&D tax incentive. Refer to:

- [section 355-505](#) for the definition of R&D partnership
- [section 355-510](#) for the treatment of R&D partnership expenditure on R&D activities
- [section 355-520](#) for the decline in value of depreciating assets of the R&D partnership
- [section 355-535](#) for disposal of R&D results of an R&D partnership
- [section 355-540](#) for R&D partnership recoupment rules
- [section 355-545](#) for net income or partnership loss calculation rules.

QC 81724


Steps for claiming R&D tax offset

Steps to help you work out if you are eligible for the R&D tax incentive, how much you can claim and records to keep.

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If you are conducting R&D activities, you may be eligible to claim a tax offset under the R&D tax incentive.

You should assess for yourself whether you, and the activities you are conducting, qualify for a claim under the R&D tax incentive. To help you do this, we have set out the 6 steps you need to take to work out if you can claim and, if so, how much. We have also provided a [checklist](#).

If you plan on [using a tax agent](#) to help you lodge your returns or complete your registration with DISR, you need to make sure they are registered. You can search the [Tax Practitioners Board website](#)  to confirm the registration is current.


Registering your R&D activities

If your company is an R&D entity and you want to claim the R&D tax incentive in your company's tax return, you must first register your R&D activities with the Department of Industry, Science and Resources (DISR) (who act on behalf of Industry Innovation and Science Australia).

You must register your R&D activities:

- for every income year you want to claim the incentive
- within 10 months of the end of your company's income year
- prior to claiming the R&D tax incentive in your company tax return.

Research Service Providers (RSPs) must also register annually with DISR.

For information on registering your R&D activities visit [DISR's website](#) .

Step 1 – Check that you meet the 4 initial eligibility requirements

There are 4 questions you must answer 'yes' to in order to meet the initial eligibility requirements for an R&D tax incentive offset.

Question 1: Are you an eligible R&D entity?

Only [R&D entities](#) can claim the R&D tax incentive.

Question 2: Have you carried out eligible R&D activities?

You can only claim the R&D tax incentive if you have carried out [eligible R&D activities](#) in an income year.

To claim, activities must usually also be conducted [for you](#) and not to a significant extent for another entity (unless special rules in section 355-210 of the ITAA 1997 apply about permanent establishments or R&D conducted for a foreign entity). For more information see [Who R&D activities are conducted for](#).

Question 3: Have you registered your activities?

You must [register](#) each of your R&D activities with DISR before you lodge your claim.

Question 4: Do your notional deductions qualify?

You need to work out whether your expenses have been properly incurred, are [eligible as notional R&D deductions](#) and are greater than \$20,000.

If you can answer yes to all of these questions, then steps 2, 3 and 4 will help you work out which offset you can claim.

If you can't answer 'yes' to all of these questions, you can't claim the R&D tax incentive.

Step 2 – Work out if you are controlled by any exempt entities

You need to work out if you are controlled by one or more exempt entities, as this will affect which tax offset you can claim.

An exempt entity is either:

- an entity whose ordinary and statutory income is exempt from income tax
- a Commonwealth entity that does not pay tax.

To work out if your company is controlled by one or more exempt entities, you will need to consider if one or more exempt entities, their affiliates or both have either:

- shares and other equity interests in your company that give them or their affiliates at least 50% of the voting power in your company
- the right to receive at least 50% of any income or capital your company distributes.

If you:

- are controlled by one or more exempt entities, you can't claim the refundable tax offset. However, you can claim the non-refundable tax offset instead. In this case, you don't need to take your aggregated turnover into account (Step 3) and you can go to [Step 4 – Work out which tax offset you can claim.](#)
- aren't controlled by one or more exempt entities, you may be entitled to claim the refundable tax offset if your aggregated turnover is less than \$20 million (see [Step 3](#)).

Step 3 – Calculate your aggregated turnover

If you aren't controlled by an exempt entity, you must work out your aggregated turnover to identify which tax offset you can claim.

The rules for calculating aggregated turnover are the same as those for the [small business entity concessions](#).

Aggregated turnover is the sum of the following:

- your [annual turnover](#) for the income year
- the annual turnover of [any entity connected with you](#), for that part of the income year that the entity is connected with you
- the annual turnover of [any entity that is an affiliate of yours](#), for that part of the income year that the entity is affiliated with you.

Both Australian entities and foreign entities can be connected or affiliated with you. This means your aggregated turnover includes the annual turnover of both Australian and foreign entities for the period they are connected or affiliated with you.

When you calculate aggregated turnover for an income year, do **not** include:

- the annual turnover of other entities for any period of time that the entities are either not connected with you or are not your affiliate
- amounts resulting from any dealings between you and your connected entities or affiliates for that part of the income year that each entity is connected or affiliated with you
- amounts resulting from any dealings between your connected entities or affiliates for that part of the income year that each entity is connected or affiliated with you.

Annual turnover

Your annual turnover is the total ordinary income you derive in the income year in the ordinary course of carrying on a business. This includes income on a worldwide basis, regardless of whether it is subject to tax in Australia. If you aren't carrying on a business at any time during the income year, your annual turnover is nil.

If you are a partner in an [R&D partnership](#) at some time during an income year, then your aggregated turnover includes your proportion of the R&D partnership's annual turnover for that year.

Once you have calculated your annual turnover, you will need to calculate the annual turnover for each entity connected or affiliated with you.

Connected entities

To work out your aggregated turnover for the income year you also need to determine if there are any entities 'connected with you'.

You are connected with another entity if either:

- you control the other entity
- you are controlled by the other entity
- you and the other entity are controlled by the same third entity.

Both Australian and foreign entities can be connected entities.

You control a company if you, your affiliates, or you together with your affiliates have either:

- shares and other equity interests in the company that give you or your affiliates at least 40% of the voting power in the company (or both)
- the right to receive at least 40% of any income or capital the company distributes.

You control a partnership if you, your affiliates, or you together with your affiliates have the right to 40% or more of the partnership's net income or capital.

Different rules apply for a [discretionary trust](#).

You may also be connected with another entity as a result of the [indirect control test](#).

Your affiliates

You need to determine if there are any entities that are affiliates of yours in order to work out your aggregated turnover.

An individual or company is your affiliate if, in relation to the affairs of their business, they act, or could reasonably be expected to act, either:

- in accordance with your directions or wishes
- in concert with you.

Your affiliates can be Australian and foreign individuals and companies.

An individual or company is not your affiliate merely because of the nature of the business relationship you or the individual or company share.

You can read more about the [grouping rules](#) to work out whether your entity is:

- an R&D entity that meets the aggregated turnover threshold to qualify for the refundable tax offset, as this is calculated on a 'group' basis
- controlled by one or more exempt entities, again to see if it qualifies for the refundable tax offset.

Step 4 – Work out which tax offset you can claim

You can claim the:

- non-refundable tax offset if either
 - you are controlled by any exempt entities (as worked out at Step 2)
 - your aggregated turnover is \$20 million or more (worked out at Step 3)
- refundable tax offset if your aggregated turnover (as worked out at Step 3) is less than \$20 million. You can't claim the refundable offset if you are controlled by any exempt entities.

Step 5 – Calculate your tax offset

To work out the amount of **your** tax offset you need to work out:

- the amount of your notional deductions
- your total expenses for the income year (if you're claiming the non-refundable tax offset).

Notional deductions

Your notional deductions are the amounts you can claim in working out your tax offset. It includes the:

- [R&D expenditure](#) that you can claim
- [decline in value on your R&D assets](#)
- [contributions made under the CRC Program](#).

Total expenses

Your total expenses are worked out in accordance with accounting standards and commercially accepted accounting principles. The amount reported at Item 6 on the company's tax return is likely to show this amount.

Total expenses includes the notional deduction amount. If an amount of notional deduction is not otherwise included in an entity's total expenses, an adjustment is made to include it.

Rules apply to prevent any double counting of amounts recognised at different times as notional deductions and total expenses.

Example: total expense and notional deductions

On 1 July 2021, XYZ Pty Ltd (XYZ) acquires an asset for \$30,000 that it uses exclusively in its R&D activities. XYZ uses the straight-line method to work out the depreciation for accounting purpose. As the asset has a useful life of 4 years, XYZ records an expense of \$7,500 ($\$30,000 \div 4$) for each of the 2021–22 to 2024–25 income years in its accounting records.

XYZ claims an upfront notional deduction of \$30,000 in the 2021–22 income year.

XYZ adds a further \$22,500 to the total expense amount calculated for R&D purposes in the 2021–22 income year to reflect the entire amount of \$30,000 of notional deduction claimed in that year.

XYZ does not include any amount in relation to this asset in its total expenses for the 2022–23 to 2024–25 income years as the entire amount has been included in the total expense amount in the 2021–22 income year.

Calculating the offset

Once you have worked out which offset you are eligible for, you calculate the amount of your tax offset.

To calculate your claim for the refundable R&D tax offset, you multiply the total of your notional deductions by your corporate tax rate plus 18.5%.

Follow these steps to calculate your claim for the non-refundable R&D tax offset:

1. Multiply your total expenses by 2% to obtain the amount that your notional deduction is claimed at the lower premium.
2. Multiply the amount of your notional deductions up to the amount obtained in Step 1 by your corporate tax rate plus a premium of 8.5%.

3. Multiply the remaining amount of your notional deductions that exceeds the Step 1 amount by your corporate tax rate plus a premium of 16.5%.
4. If your notional deductions exceed \$150 million, the premium worked out at Step 2 and Step 3 is instead worked out on notional deductions of \$150 million. The remainder of your notional deductions that exceed \$150 million are multiplied by the corporate tax rate.
5. Add the total of the amounts determined under steps 2, 3 and 4 to get your non-refundable offset amount.

Examples to help calculate the tax offset

The examples below will help you work out your R&D tax offset.

Example 1: refundable tax offset

Company X is an R&D entity entitled to notional deductions of \$1.5 million for R&D expenditure. Their aggregated R&D turnover for the 2024–25 income year is \$16 million. Company X is not controlled by any exempt entities and has a corporate tax rate of 25%.

Company X is entitled to the refundable R&D tax offset, which is calculated as follows:

$$43.5\% \times \$1,500,000 = \$652,500$$

Company X can claim a refundable offset of \$652,500 for the 2024–25 income year.

Example 2: non-refundable tax offset

Company Y is an R&D entity entitled to notional deductions of \$9 million for R&D expenditure and its total expense for the 2021–22 income year is \$30 million. Company Y's aggregated turnover for the income year is \$40 million and its corporate tax rate is 25%.

As Company Y's turnover is greater than \$20 million it is entitled to the non-refundable R&D tax offset, which is calculated as follows:

1. Multiply the total expense amount of \$30 million by 2% ($\$30,000,000 \times 2\% = \$600,000$).
2. Work out the claim on the first \$600,000 of R&D expenditure using the corporate tax rate of 25% plus the 8.5% premium ($\$600,000 \times 33.5\% = \$201,000$).
3. Work out the claim on the remaining \$8,400,000 of your R&D expenditure using the corporate tax rate of 25% plus the 16.5% premium ($\$8,400,000 \times 41.5\% = \$3,486,000$).
4. Add up the amounts worked out at Step 2 and Step 3 ($\$201,000 + \$3,486,000 = \$3,687,000$).

Company Y can claim a non-refundable offset amount of \$3,687,000 for the 2024–25 income year.

Example 3: refundable tax offset

Company Z is an R&D entity entitled to a notional deduction for monetary CRC contributions made, which total \$18,000 in the 2024–25 income year. These contributions can be claimed even though the total amount is less than \$20,000. Company Z has aggregated turnover for the income year of \$4 million and its corporate tax rate is 25%. Company Z is not controlled by any exempt entities.

The company can claim the refundable R&D tax offset, which is calculated as follows:

$$43.5\% \times \$18,000 = \$7,830$$

Company Z can claim a refundable offset amount of \$7,830 for the 2024–25 income year.

Example 4: non-refundable tax offset

Company XYZ is an R&D entity entitled to notional deductions of \$170 million for R&D expenditure and its total expense for the 2024–25 income year is \$250 million. Company XYZ's aggregated turnover for the income year is \$400 million and its corporate tax rate is 30%.

As Company XYZ's turnover is greater than \$20 million it is entitled to a non-refundable tax offset which is calculated as follows:

1. Multiply the total expense amount of \$250 million by 2% ($\$250,000,000 \times 2\% = \$5,000,000$).
2. Work out the claim on the first \$5,000,000 of notional deduction using the corporate tax rate of 30% plus the 8.5% premium ($\$5,000,000 \times 38.5\% = \$1,925,000$).
3. After subtracting the \$5 million claimed at Step 2 from \$150 million, a further \$145 million of notional deduction is claimed using the corporate tax rate of 30% plus the 16.5% premium ($\$145,000,000 \times 46.5\% = \$67,425,000$).
4. The remaining amount of the \$170 million notional deduction in excess of \$150 million is claimed using the corporate tax rate of 30% ($\$20,000,000 \times 30\% = \$6,000,000$).
5. Add up the amounts worked out at steps 2, 3 and 4 ($\$1,925,000 + \$67,425,000 + \$6,000,000 = \$75,350,000$).

Company XYZ can claim a non-refundable offset amount of \$75,350,000 for the 2024–25 income year.

Claims must be accurate

Ensure you only include expenditure in an R&D claim that is actually incurred on R&D activities. Don't include other non-R&D activities.

It is important that the information you supply to both DISR and us is accurate, consistent and supported by [evidence and records](#). Significant discrepancies in the information provided will increase the likelihood of your company's claim being reviewed.

Step 6 – Lodging your claim

Once you have determined you can claim the R&D tax incentive, the final step is to lodge your claim for the income year. You can claim by completing:

- a [research and development tax incentive schedule](#)
- the relevant labels of the [company tax return](#).

The instructions will help you to complete the forms.


The [research and development tax incentive calculator](#) will help you complete the research and development tax incentive schedule. You can print a PDF version of the R&D tax incentive schedule when you have finished your calculations.

Make sure you have included your unique DISR registration number for the year on your R&D tax incentive schedule before you lodge the form with your company tax return.

Keeping R&D records

To access the R&D tax incentive you need records showing you're entitled to your claim. This is a legal requirement.

You must keep records showing:

- you're claiming [eligible core or supporting R&D activities](#) 
- your claim for the offset is correct and you can verify the amount of expenditure that is incurred on R&D activities.

You must create records at the time you conduct your R&D activities (called contemporaneous records). Your usual business and [tax records](#) may help, but often won't cover everything you need.

For more information, see [Keeping records and calculating your notional deductions](#).

Keeping records and calculating your notional deductions

Records you need to keep and how to apportion your expenditure between R&D activities and non-R&D activities.

Last updated 23 March 2023

A guide for what records you need to keep to show what R&D activities you are undertaking and to support your claims.

Records you need to keep

Your business and tax records must show what research and development (R&D) activities you are undertaking and support the amounts you claim.

You must keep records that:

- specify and explain all transactions - including any documents that are relevant for the purpose of working out your tax liabilities
- are made as soon as transactions occur or as soon as possible after they occur
- relate to all taxes for which you are liable - including income tax, goods and services tax, pay as you go taxes, capital gains tax, and fringe benefits tax
- relate to any election, choice, determination or calculation made under a tax law, including the basis on which any were made.

A valid record for the purposes of claiming the R&D tax incentive is any record that verifies or contributes to calculating your claim.

Your records must be in English (or easily translated into English) and you must keep them for 5 years after you make a claim as we may ask to see them. You can store records in either paper or electronic form. You do not need to send your records to us unless we ask you to.

If you are having difficulty maintaining your records you could talk to an experienced bookkeeper or accountant about setting up a good record-keeping system to keep track of your business records.

Records that are backdated or contain non-specific details of the work undertaken are not appropriate records.

The following products and guides will help you meet good record keeping practices:

- [Manage your invoices, payments and records](#)
- [Valid tax invoices and GST credits](#)
- [Record keeping evaluation tool](#)
- [Accountability for business record keeping](#)

Information about the types of records you need to keep is also available in the following taxation rulings:

- Taxation Ruling [TR 96/7](#) *Income tax: record keeping - section 262A - general principles*
- Taxation Ruling [TR 2018/2](#) *Income tax: record keeping and access - electronic records*

Specific records

Although your usual business and tax records may provide enough information to support your R&D claim, some aspects of the R&D tax incentive may require additional or more detailed records. You may need specific records to show all the following apply:

- The amounts you are claiming relate to your registered R&D activities.
- You receive the major benefit from your R&D activities.
- You have correctly apportioned between eligible R&D activities and non-eligible activities.

R&D record keeping

To work out your notional R&D deduction and support your claims, you need to keep records to show **all** of the following:

- how the expenditure you have incurred relates to the R&D activities you have registered

- how you have apportioned your expenditure between eligible R&D activities and ineligible activities
- that you received the major benefit from the R&D activities
- when amounts have been paid to associates
- how you have calculated adjustments required because of either
 - receiving a government recoupment (clawback)
 - producing a marketable product (feedstock adjustments).


These records must be relevant to the year you are claiming your R&D tax offset. However, if you need to make changes in a later year, these records may also be relevant in future years.

You must keep up-to-date records for each R&D activity, so you are ready to calculate and claim your R&D tax offset in your company tax return at the end of the year.

The records you currently keep for your business will generally be enough to support your R&D tax offset claim, if they show:

- you incurred the expenditure (and if incurred to an associate the amount(s) paid)
- the expenditure was eligible for the R&D tax incentive
- you received the major benefit from your expenditure on R&D activities
- the amount of your expenditure that relates to the R&D activities you have registered with AusIndustry.

You must also be able to support your methodology for apportioning your expenditure between eligible R&D activities and non-eligible activities.

- For examples of records you may need to keep in relation to your R&D activities refer to business.gov.au 

Note: It is your responsibility to show us that the basis for calculating your notional R&D deduction produces, as far as practicable, accurate claims consistent with the law and its interpretation. You must be able to substantiate your claims for R&D expenditure with your records.

Linking your expenditure to your R&D activities

The expenses you can claim as R&D expenditure are limited to the extent they are incurred on R&D activities. Therefore, you must show that the amounts you are claiming on your tax return have been incurred on the activities you have registered with AusIndustry. The type of expenditure that qualifies for a notional deduction under [Division 355](#) of the *Income Tax Assessment Act 1997* depends on the facts of each particular case. Administrative costs and overheads may be incurred on R&D activities if there is a direct link between the R&D activities and the expenditure incurred.

Ineligible expenses are those without sufficient link to the R&D activities, particularly if they relate to general company operations or marketing expenditure that would be incurred regardless of the R&D activities.

In these circumstances, prior to claiming the amount, you should ensure that you have carefully considered the extent to which this expenditure has been incurred on R&D activities. If you are unsure if an amount is eligible for the R&D tax incentive, you should seek guidance from us or a registered tax professional

Claims under review

If we review your claim, we may request a full description of your R&D activities to ensure that they have the required relationship to the expenditure incurred.

We jointly administer the R&D incentive with AusIndustry (on behalf of Innovation Australia). AusIndustry determine if a particular activity is a 'core R&D activity' or a 'supporting R&D activity' – but this only covers the eligibility of the R&D activity itself. It is your responsibility to ensure that you have appropriate records to demonstrate the connection between your expenditure and the R&D activities you have undertaken. Your records must also be sufficient to demonstrate to AusIndustry that the claimed R&D activities took place and that they met all aspects of the legislative definition of 'core R&D activities' or 'supporting R&D activities'.

The records needed for specific expenditure types will vary and you may need to keep different records to show the connection between the amounts claimed and the registered R&D activities.

Salary expenditure for employees carrying out your R&D activities

You must substantiate the time spent on eligible R&D projects by your employees (that is, the researchers and technicians who carry out the R&D project). How you substantiate this depends on your specific circumstances.

Appropriate records for salary expenditure

The most accurate and effective method of allocating time is to maintain timesheets or job cards. If you don't use these methods, it may be more difficult to show that the allocation of time is accurate. It is your responsibility to make sure you keep sufficient records to support your claims.

However, we acknowledge that it may not always be practical for you to retain timesheets or job cards. If so, a summary sheet may be acceptable if the information is accurate and as reliable as a timesheet.

Situations where timesheets may not be practical include:

- having a large number of employees making it difficult to retain individual timesheets
- when an employee works exclusively on eligible R&D activities
- when an employee works on long term projects which are mostly eligible R&D activities and the ratio of time between eligible and non-eligible activities is fairly constant – in this case, the employee could maintain a diary of activities.

Note: If you use project hours as a basis of apportionment for other expenditure types, you may need to retain timesheets for this purpose, even if you do not need them to help support the salary component of your claim.

If your employees do not work a standard number of hours each day, you may need to establish how much time they spent on non-R&D activities. You need to calculate an employee's hourly rate of pay to work out the cost of employing that person on R&D activities.

Where a portion of a staff member's time is allocated to R&D as a component of 'other' expenditure, it would be useful for that staff member to keep a detailed timesheet. If it is unreasonable to keep detailed timesheets for these staff, you must still use a reasonable

basis of apportionment for their time and be able to demonstrate how it relates to your R&D activities.

If salary amounts for R&D activities relate to your associate, you must calculate the amount on an arm's length basis and only amounts paid are eligible for a notional R&D deduction.

Note: If you choose to use any method of apportionment to calculate your claim, you must be able to explain why this is the most reasonable basis. You may need to keep additional records to do so.

Feedstock expenditure records

If a feedstock adjustment is triggered, you must include an amount in your assessable income. This may be in the current or in a future income year, depending on when the output is sold or applied.

It is important to keep detailed records of your feedstock expenditure to help work out your feedstock adjustment, especially if the feedstock adjustment may be triggered in a year after the R&D activities are conducted.

Specifically, records you may need to keep for this purpose are:

- invoices from the sale of the marketable products
- working papers documenting
 - the market value of products you apply to your own use
 - valuations of all goods and materials subject to processing or transformation and feedstock outputs
 - calculation of feedstock expenditure and resulting feedstock adjustment
- records showing energy usage input directly into the transformation or processing
- records of the R&D process, including the flow-through of materials or goods, subject to processing or transformation, to the marketable product
- records that describe the processing or transformation activities.

For more information refer to [Feedstock adjustments](#).

Records to show you receive the major benefit from the R&D activities

Expenditure on R&D activities conducted to a significant extent for another entity will not be notionally deductible by you under the R&D tax incentive. These amounts may instead be deductible by the entity receiving the major benefit. Some special rules and exceptions apply if the R&D activities are conducted for associated foreign corporations or by an R&D partnership.

Your eligible expenditure must be on R&D activities conducted for yourself and not (to a significant extent) for some other entity. This is intended to limit claims to cases where you receive the major benefit from your expenditure on those activities. It will also prevent duplication of claims by different entities where essentially the same R&D activities are involved.

Whether an R&D activity is conducted for you is a matter of fact. You need to work out if the activity is conducted, in substance, to provide the majority of knowledge benefits resulting from the activity to you.

If someone is conducting R&D activities (in whole or part) for you under contract, or you are under contract to produce a specific product for someone else (and R&D activities will be required to meet the contract), it is particularly important to ensure you maintain records to support this requirement.

For more information refer to [Who R&D activities are conducted for](#).

Work performed for you under contract

If the R&D activity is undertaken for you by a contractor, documents relating to the contract and the R&D activities (for example, the project report and invoices) must contain:

- the dates the R&D activities are undertaken
- sufficient detail to ascertain the amount of expenditure incurred on the R&D activities as opposed to other goods or services being provided under the contract
- ownership of results – ownership of or rights to the resulting intellectual property as opposed to an end product.

If the contract is with your associate, the fee must be charged on an arm's length basis and only amounts paid are eligible for a notional

R&D deduction.

To establish the relationship between your R&D activities and the expenditure you have incurred under the contract, we may need to look through the contract to establish the extent of the work done by the contractor on your behalf, particularly if you are not contracting at arm's length. You must keep sufficient records for this purpose. This may be required where the broad nature of the agreement makes it difficult to determine the extent to which your expenditure has been incurred on R&D activities.

Supporting records

Records to support this requirement generally relate to the contracts and other agreements between yourself and any parties involved. On review of these documents we should be able to work out who:

- 'effectively owns' the know-how, intellectual property or other similar results arising from your company's expenditure on the R&D activities
- has appropriate control over both the day-to-day management and the overall direction of the R&D activities
- has the financial burden of carrying out the R&D activities.

If the commercial contracts you have entered into do not clearly show this, you will need to keep additional records or include additional clauses in your contracts to clearly show the arrangement between yourself and other parties.

When contracting with a related party, verbal contracts are made. Verbal contracts are recognised contracts under law in relation to commercial transactions. However, it may be difficult to remember the specific details of the agreement for the length of your two or four year review period under tax laws. For this reason, you could make a detailed written record, including (but not limited to) the parties involved, time, place and specific details of your agreement.

Apportionment

You can only claim a notional deduction under the R&D tax incentive to the extent that the expenditure has been incurred on R&D activities. In the case of expenditure to an associate it must be paid within the income year you want to claim the R&D tax offset in. The words 'to the

extent that' mean that a method of apportionment may be required if you cannot specifically identify the value of expenditure incurred on R&D versus non-R&D activities.

There are many ways and methods you can use to apportion your expenditure. It is up to you to determine the most reasonable basis with the information you have at the time. You need to take into account your circumstances, accounting methods and the type of expenditure.

For some types of expenditure incurred on R&D activities it may be difficult to examine each invoice received and calculate the amount of expenditure applicable to the R&D activity. You may need to apportion the expenses to achieve the best degree of accuracy. The method you chose to use will depend on the internal accounting procedure adopted by your company and the type of expense involved.

Under the R&D tax incentive, it is not accepted that one apportionment method or formula will be suitable for all expenditure types you may have. You need to consider each expenditure type separately to ensure that the method of apportionment you have used is reasonable and provides the most accurate measure of R&D expenditure.

To obtain certainty about the method of apportionment you have used, you can apply for a private binding ruling. [Helping you get R&D claims right](#) provides information about different ways we can help.

Methods of apportionment

Preferably, your accounting and record keeping processes should enable the tracking of expenditure to your R&D activities on a 'real time' basis, so apportionment methodologies are only used in limited situations. However, we recognise that this is not always practical for companies, especially smaller companies where R&D activities only make up a small portion of the company's activities.

The appropriate basis of apportionment needs to be determined for each expenditure type based on all of the following:

- the type of R&D activities you are conducting
- how you are conducting your R&D activities
- the type of expenditure you have incurred.

If the expenditure is incurred over a period of use (for example, utilities such as electricity, decline in value of R&D assets), an apportionment

based on the time spent by employees on R&D activities over total company employee hours may be more appropriate than a dollar value of R&D salary over total company salary. A dollar value can inflate or deflate an amount you can claim, because employees within a company are unlikely to be remunerated consistently. A dollar value is unlikely to be representative of time spent.

Expenses such as rates, land taxes, rent and lease costs which are mainly for the area used for R&D activities, may be best apportioned on a basis that reflects the area of use. How many staff and time spent is irrelevant for determining the extent to which this type of expenditure has been incurred on your R&D activities and would therefore not represent a reasonable basis of apportionment.

The apportionment basis of R&D salaries over total company salaries, for expenditure, will only be considered reasonable under the R&D tax incentive where the expenditure is based on how much an employee earns (for example, payments of super, worker's compensation and payroll taxes) and if these amounts can not be separately determined by reference to a company's accounts.

Using the decline in value costs for assets used in R&D activities as a proportion of total company decline in value, to apportion all expenditure (including expenses unrelated to the use of the R&D asset), is not an appropriate apportionment methodology.

Choosing the correct apportionment method

When working out your basis of apportionment for each expenditure type, you can ask yourself if the apportionment method best reflects the extent to which the expenditure has been incurred on my R&D activities.

If the answer is yes and you can explain why it is the best method of apportionment for this type of expenditure, then it is likely that you have chosen a reasonable basis of apportionment.

If you are unable to answer yes to this question, you should not use this basis of apportionment.

If you are still unsure and would like certainty from us, we can provide you with a private binding ruling. For more information about the individual advice we offer, refer to [Helping you get R&D claims right](#).

Examples of acceptable records

The types of records kept for tax or business purposes generally, may help you to substantiate your R&D claim. These can include:

- project plans and design specifications
- contracts between yourself and people conducting work for you
- contracts between yourself and a third party for which you have agreed to develop a product
- progress reports
- sales and purchase tax invoices
- receipts
- bank statements
- diaries
- expenditure journals and cash books
- R&D working papers
- financial statements
- apportionment based log books
- credit card statements
- bank deposit books and cheque butts
- bank account statements employee records such as copies of tax file number declarations, wage books, time sheets and super records
- motor vehicle expenses, including logbooks
- debtors and creditors lists
- records of depreciating assets
- stocktake records
- records of any private use in relation to assets or other purchases
- timesheets.

Compliance and monitoring

We work together with AusIndustry to undertake complementary risk assessment and compliance work. AusIndustry's compliance work focuses on the eligibility of R&D activities and our compliance work focuses on the R&D tax offsets allowable for those activities.

It is your responsibility to show us that the basis for calculating your notional R&D deduction produces, as far as practicable, accurate claims consistent with the law and its interpretation. You must substantiate a claim for R&D expenditure by reference to reliable source documents.

If you make incorrect claims, you may incur penalties. For more information about our compliance and monitoring, refer to [Compliance model](#).

Refer to business.gov.au [↗](#) for more information about AusIndustry's compliance work.

Contact us

For information on eligible entities and how to claim the incentive:

- phone us on **13 28 66** between 8:00 am and 6:00 pm Monday to Friday.

Contact AusIndustry

For information on registration, eligibility of R&D activities and findings, you can contact AusIndustry by:

- phone on **13 28 46**
- submitting an [email enquiry](#) [↗](#)

QC 71853

Helping you get R&D claims right

Our areas of concern and advice to avoid making an incorrect R&D tax incentive claim.

Last updated 13 May 2026

Joint administration

We and the Department of Industry, Science and Research (DISR) jointly administer the R&D tax incentive (R&DTI) as follows:

- DISR administers registration and compliance of R&D activities
- we are responsible for administering matters relating to the R&D tax incentive tax offsets, including ensuring the correct expenditure is claimed on eligible R&D activities.

The R&D tax incentive is a self-assessment program, which means the responsibility for compliance rests with the taxpayer.

We and DISR undertake complementary risk assessment and compliance work.

DISR 's compliance work focuses on the eligibility of R&D activities, while our compliance work focuses on the tax offsets allowable in respect of those activities.

We and DISR have identified a number of [common registration errors](#) and [areas of concern](#) and that you should consider when registering and claiming.

Common registration errors

DISR has identified the following common errors made during registration. To avoid delays in processing your application, check the following items in your application.

Incorrect income year

Check you are applying for the correct income year. The income year needs to match the income period on the company's tax return submitted to us. You **can't** amend this by a variation.

Incorrect entity


Make sure the correct entity is applying. Only the [head company of a consolidated or multiple entry consolidated group](#) can apply to register R&D activities. The head company must register R&D activities performed by any member of the group. You **can't** amend this by a variation.

Wrong primary contact

The **primary contact** must be a company representative with their correct email address. Do **not** provide the email for a tax agent or other adviser.

You can provide contact details for tax agents elsewhere in the application form.

Variations

If you need to make any amendments after submission, you must complete a [variation](#) . This will delay your registration.

Getting help

If you have any concerns about your R&D registration, contact DISR by:

- emailing rdtaxincentive@industry.gov.au
- phoning **13 28 46**.

Avoid delays

To avoid delays in processing your company tax return and R&DTI schedule with us, check that:

- the **DISR – IISA number** is correct on the R&DTI schedule and corresponds to the income year of the return
- **label D – preliminary calculation** on the R&DTI schedule is correct and matches **item 7 label D** on the company tax return
- **Part D – reporting entity annual turnover** has been correctly calculated and placed under the correct label on the R&DTI schedule. Remember, you must include the annual turnovers of connected and affiliated entities in the calculation of aggregate turnover of the reporting entity.
- **Part E label R** tax rate is correct.

Areas of concern

Our areas of concern include:

- Ordinary business activities vs eligible R&D activities

- Apportionment of overheads
- R&D activities delivered by associated entities
- Expenditure that isn't at risk
- R&D activities conducted overseas by related foreign entities
- Record keeping
- Concerning practices
- Fraud.

Ordinary business activities vs eligible R&D activities

We and DISR have observed issues with R&DTI claims that include expenditure relating to ordinary business activities and are not eligible R&D activities. This includes where:

- no R&D activities have been undertaken
- the registered activities include a mixture of eligible R&D activities and ineligible ordinary business activities
- the R&D activities being carried out have transitioned into ordinary business activities
- the R&D activities are not concerned with the generation of new knowledge
- the R&D activities do not involve the application of the scientific method (proving or disproving a hypothesis through experiments)
- the R&D activities address commercial being rather than technical risks.

For more information, see [TA 2017/3](#) *Claiming the Research and Development Tax Incentive for ordinary business activities*.

Apportionment of overheads

Apportionment methodologies may be used in some instances, but the company can only claim notional deductions under the R&DTI to the extent that the expenditure has been incurred on eligible R&D activities. For example, it may be appropriate to use R&D salary over total staff to apportion personnel costs, but not for utilities.

It is commonly observed that the apportionment methodologies used by claimants can result in an unreasonable apportionment of overhead expenses to R&D activities over non-R&D activities.

The company must use a reasonable basis of apportionment. It must reflect the extent to which the expenditure has been incurred on R&D activities if there is no single apportionment method that can be used to apportion expenditure between R&D and ordinary business activities on a fair and reasonable basis.

The appropriate methodology to apportion an expense depends on the nature of the expense. The company should document the methodology adopted and the rationale for that methodology.

R&D activities delivered by associated entities

We have observed claims that incorrectly include notional deductions in relation to R&D activities delivered by associated entities, where the amount has **not** been incurred or paid. Notional deductions can only be claimed in relation to expenditure incurred to associates of the company where the amount has also been paid.

We have also seen incorrect claims where the R&D activities are not conducted for the claimant, but in substance are conducted for (or to a significant extent) for the associated entity.

For more information see [R&D expenditure incurred to associates](#) and [Taxpayer Alert TA 2023/4 R&D activities delivered by associated entities](#).

Expenditure that isn't at risk

You can't claim expenditure that isn't at risk. For example, if there is a guaranteed return (under a financing arrangement) on your expenditure, or an indemnity covers it, it isn't at risk and you can't claim it.

Expenditure isn't at risk if when it is incurred if you or your associate can reasonably expect to receive an amount of consideration:

- as a result of the expenditure being incurred
- irrespective of the results of the related activities.

For more information, see Taxation Ruling [TR 2021/5](#) *Income tax: research and development tax offsets – the 'at risk' rule*.

R&D activities conducted overseas by related foreign entities

We have identified incorrect R&DTI claims where Australian companies have claimed the tax offset for expenditure incurred on R&D activities conducted overseas by foreign related entities. An Australian company can't claim for expenditure incurred on overseas R&D activities if they weren't conducted for them (and instead conducted for the foreign related entity).

Note that if the R&D activities are conducted for the Australian company, the offset can't be claimed for expenditure that is not at risk.

For more information, see [Taxpayer Alert TA 2023/5 R&D activities conducted overseas by foreign related entities](#).

Record keeping

It is a requirement that companies maintain contemporaneous records to support their R&D claims. This view is supported by AAT Cases ([Tier Toys Limited v FC of T](#) [2014] AATA 156 and [Ozone Manufacturing Pty Ltd v FC of T](#) [2013] AATA 420). In these cases, contemporaneous records were not maintained so the taxpayer could not demonstrate that the expenditure was anything more than normal business expenses.

The taxpayer's business records must be sufficient to verify the:


- amount of the expenditure incurred on R&D activities
- nature of the R&D activities
- relationship of the expenditure to the activities.

Self-assessment requires evidence that substantiates that each and every part of the legislative requirements are met. A taxpayer can't succeed in establishing those requirements in the absence of detailed documentation recording the process of each activity as it develops.

The taxpayer has the responsibility to ensure that reasonable methods have been used to differentiate between expenditure on eligible R&D activities and other activities.

Documents created after the fact will generally not be adequate on their own without some contemporaneous records (that is, records of activities at the time they were conducted).

For more information see:

- [Keeping records and calculating your notional deductions](#)
- [Keeping records as evidence of your R&D activities](#) .

Concerning practices

Registered tax agents and advisors have an important role to play in providing R&D advice to taxpayers. However, we have concerns with some of the advice being promoted.

Concerning practices include:

- cold calling taxpayers and advising them that their business activities are eligible R&D activities
- using late registrations to amend claims to access the R&D refundable offset to provide funding for companies in financial difficulties
- charging excessive commissions that are a large percent of the refundable R&D tax offset
- advising companies to make incorrect R&D tax incentive claims. They may be referred to the Tax Practitioners Board to consider whether there has been a breach of the *Tax Agent Services Act 2009*.


Promoter penalty laws may apply under Division 290 of Schedule 1 to the *Taxation Administration Act 1953* for promoters of schemes to access the R&D tax incentive for ineligible activities.

Fraud

While most taxpayers and advisers generally do the right thing, we and DISR are working closely to identify those who may be involved in aggressive R&D arrangements. We are taking a coordinated approach to address these behaviours to ensure the integrity of the R&DTI program.

These arrangements:

- are inconsistent with the requirements of the R&D regime
- may have a feature of tax avoidance
- may be fraudulent.

For further information about compliance work, refer to Joint administration and [Help to self-assess my eligibility and register my activities](#) .

Concerns in specific industries

In the past we have issued taxpayer alerts regarding certain industries. We have also identified some companies in particular industries having issues, including:

- Agriculture
- Building and construction
- Mining
- Software development.

Agriculture

We and DISR have observed the following issues with R&DTI claims made in agricultural industries:

- No R&D activities are being conducted.
- The activities form part of, or all of, the entity's ordinary business activities.
- The activities involve the application of established products and existing methodologies where a competent professional could have worked out the outcome without conducting an experiment.
- The activities address a commercial rather than a technical risk.
- The scale of R&D activities is disproportionate with the scale of any data collection, observation and evaluation.
- The method employed to apportion overhead expenses allocates an unreasonably large amount to R&D.
- It is uncertain whether the activities are being conducted by the company on its own behalf or for the entity carrying on the agricultural business.
- It is uncertain whether amounts billed to related parties are paid.

For more information see:

- [Incorrectly claiming the wine grapes levy](#)

- Taxpayer Alert [TA 2015/3](#) *Accessing the R&D Tax Incentive for ineligible broadacre farming activities*
- Taxpayer Alert [TA 2017/4](#) *Claiming the Research and Development Tax Incentive for agricultural activities.*

Building and construction

We and DISR have observed the following issues with R&DTI claims made in the building and construction industries:

- Whole of project claims where the technical uncertainty is resolved by applying existing knowledge.
- Activities involving untested or novel elements where in effect they relate to fulfilling the building and construction contract.
- Expenditure that is subject to the [building exclusion](#).
- Advisers encouraging clients to make ineligible claims on the basis that their activity is unique.

For more information, see [TA 2017/2](#) *Claiming the Research and Development Tax Incentive for construction activities.*

Mining

We and DISR have observed the following issues with R&DTI claims made in the mining industry:


- The scope of the R&D activities in the context of extracting minerals is not clearly identified. Activities in R&D projects are too broad and there is an increased risk of over-claim of costs.
- Activities relating to modelling of mines are not R&D unless they are associated with a physical experiment. A feasibility study does not necessarily mean that R&D has or will occur.
- Claimants need to use simple terminology to explain the technical challenges and how they overcome them.
- Exploration activities are specifically excluded from being a core R&D activity.

Software development

We and DISR have observed the following issues with R&DTI claims made in the information technology and software development industries:

- R&D claims are made on whole of project basis. They are not considering each of the activities and applying the relevant legislation to determine which activities are R&D activities.
- Software experiments are not clearly articulated in the R&D registration forms.
- Technical uncertainties are not clearly identified.
- Expenditure is incurred in acquiring, or acquiring the right to use, technology that can't be claimed as a notional deduction.
- Expenditure is being apportioned between R&D activities and ineligible activities in an unreasonable manner.

For more information see:

- [Guidance material](#)  to clarify the eligibility of software development activities under the R&D tax incentive
- [TA 2017/5](#) *Claiming the Research and Development Tax Incentive for software development activities.*

Incorrectly claiming the wine grapes levy

We and DISR are warning about a scheme involving incorrectly claiming the wine grapes levy as R&D expenditure.

The levy is paid by wine producers to the Department of Agriculture, Fisheries and Forestry. It is calculated on the total number of tonnes of grapes used by the wine producer in a year.

Some promoters are incorrectly advocating that companies who pay the compulsory wine grapes levy can register the activity with DISR or simply claim the levy, as all or part of a notional deduction in calculating their entitlement to the R&D tax incentive.

The levy is applied to fund the marketing, and research and development programs undertaken by the Australian Grape and Wine Authority (Wine Australia). Wine Australia is not a registered research service provider (RSP) nor a Cooperative Research Centre under the R&D tax incentive program.

What are our concerns

We and DISR are concerned that some wine producers have been misled into thinking they are able to include the levy as eligible R&D expenditure which has been incurred on registered R&D activities.

The levy can usually be claimed by a wine producer as an ordinary business deduction against the wine producer's assessable income. However, the way R&D commissioned by Wine Australia is conducted, means that the levy can't be claimed in calculating a refundable or non-refundable R&D tax offset for the wine producer.

Levies paid to industry organisations can only be claimed in calculating an R&D tax offset if the industry organisation is a Levy Collecting RSP. Wine Australia is not a Levy Collecting RSP.

Generally, eligible R&D expenditure can only be claimed on R&D activities which are registered by the claimant with DISR. If the R&D activity is carried on for the claimant by a third party, the claimant also needs to be able to show that:

- it has effective ownership of the know-how, intellectual property, or other results arising from the R&D expenditure
- it has appropriate control over the conduct of the R&D activities
- it bears the financial burden of carrying out the R&D activities
- the R&D activity is not carried out to a significant extent for another entity, or entities.

It follows that although a company that produces wine may have registered R&D activities with DISR, the company's expenditure on the levy bears no connection with the R&D activities it carries on.

In addition, the funds provided through the levy are used by Wine Australia to invest in R&D activities undertaken by research bodies based on the R&D provider's own project proposals and are conducted at the direction of Wine Australia. The know-how and intellectual property arising from the R&D activities is retained by the entities investing in the R&D, and as is the case with the financial risk, the results are broadly shared.

Finally, the R&D activities commissioned by Wine Australia are carried on for the benefit of the broader grape and wine industry, not just for individual companies that pay the levy.



We also note that many of the activities carried on by Wine Australia which are funded by levies, such as marketing and promotion, are expressly excluded from the definition of R&D activities and therefore related expenditure cannot be included in a claim.

What you should do

You should consider whether our concerns are applicable to your circumstances.

We are committed to maintaining the integrity of the R&D program. We deal firmly with those deliberately attempting to exploit the program but can help taxpayers who have unintentionally landed in an unlawful scheme.

If you think our concerns might be applicable, you can:


- contact us by phone or email to the contact details below
- seek independent professional advice
- ask us for a [private ruling](#), or in the case of verifying that your R&D activities are eligible, [apply for an advance finding](#)  from DISR
- apply to DISR to [amend or withdraw your registration](#) 
- make a [voluntary disclosure](#) to us or [amend your tax return](#).

[Penalties](#) can apply if you have incorrectly claimed the R&DTI. They will be significantly reduced if you make a voluntary disclosure. Generally, the reduction in penalties is greater if you make a voluntary disclosure before we notify you of an examination of your tax affairs.

Registered tax agents who advise or encourage companies to make incorrect R&D claims may be referred to the Tax Practitioners Board to consider whether they have breached the *Tax Agent Services Act 2009*. Promoter penalty laws may also apply to the promoters of schemes designed to inappropriately access the R&DTI.

To provide information about this or another arrangement, or about a promoter, you can:

- phone us on **1800 060 062**
- complete the [ATO Tip-off form](#).

For more information, see [Check if you're eligible for the R&D tax incentive](#) .

Further help and advice from us and DISR

We suggest you use our [Checklist for claiming the R&D tax incentive](#).

You can get further help and advice about the R&DTI from us and [DISR](#) [↗](#). The type of help and advice you receive will depend on:

- your specific needs and circumstances
- whether you want an answer in writing.

We and DISR administer the R&DTI jointly. You should seek help or advice from the agency that administers the aspect of the program that relates to your query.

DISR manages the registration of your R&D activities and [checks the comply with the law](#) [↗](#). They provide [public guidance and advance findings](#) [↗](#) about the program so that R&D entities are better informed about their entitlements and obligations. Their findings set out how their decisions apply to you and your specific circumstances.

We determine whether or not the R&D tax offset and expenditure you are claiming for your R&D activities is eligible. We offer different types of advice and guidance that give our view on how the laws we administer apply. These range from published guidance about how the law applies generally, to advice given to a taxpayer about how the law applies to their particular circumstances.

They include:

- [private rulings](#), which set out our opinion about the way a tax law applies to you in specific circumstances
- [public rulings](#), which deal with priority issues that require clarifying and include product rulings (which are intended to provide certainty to participants about an arrangement)
- [class rulings](#), which are intended to minimise the need for a group of participants to individually seek private rulings in relation to the same scheme.

For more information see our:

- [Research and development tax incentive calculator](#) to help work out your entitlement
- [Tailored technical assistance](#).

R&D expenditure incurred to an associate >

How the research and development tax incentive applies to expenditure you incur to an associate.

Checklist for claiming R&D tax incentive >

Use our checklist to make sure you claim the R&D tax incentive correctly.

QC 70873

R&D expenditure incurred to an associate

How the research and development tax incentive applies to expenditure you incur to an associate.

Last updated 13 May 2026

Expenditure to an associate must be both [incurred](#) and paid before it can be claimed as a notional deduction for the R&D tax incentive.

If you incur expenditure to an associate and you pay that amount in the same year, you can claim a notional deduction for that amount in that year. This is provided you meet all other eligibility requirements for the R&D tax incentive, including that the R&D activities are conducted for you and not for (or for a significant extent) for the associate.

Paying an amount to an associate can include making a constructive payment, where you apply or deal with the amount on their behalf or as they direct.

For more information see [Taxpayer Alert TA 2023/4 R&D activities delivered by associated entities](#).

If you don't pay the amount until a later year

If you don't pay the amount until a later income year, you can choose to either:

- claim a deduction under the normal income tax provisions (for example, the general deduction provision, [section 8-1](#) of the *Income Tax Assessment Act 1997*) for the income year in which the amount was incurred
- claim a notional R&D deduction in the year you make the payment.

If you claim the deduction (or obtain a non-R&D tax offset) for this expenditure under the first choice, you will no longer be entitled to claim a notional R&D deduction in the year you make the payment. This choice, which can be made in your return or as an amendment, must be made by the time you lodge your return for the income year before the one in which the payment is made. The choice can't be reversed – for example, you can't later request an amendment of the assessment to disallow the deduction you claimed.

Example: claiming notional deductions

Ingenious Plans Pty Ltd is a corporation incorporated in Australia that carries on a business in Australia. During the 2023 income year, Ingenious Plans incurs an expense of \$20,000 to an associate to carry out R&D activities on their behalf. However, they do not pay the \$20,000 until the 2024 income year.

Ingenious Plans is registered for the R&D activities for the income year in which they were conducted. The expenditure also satisfies the various eligibility requirements for the R&D tax incentive. However, Ingenious Plans can't claim a notional deduction for the expenditure to the associate under the R&D tax incentive in the 2023 income year because they did not pay the amount in that income year.

When preparing their income tax return for the 2023 income year, Ingenious Plans didn't take the expenditure incurred to their associate into account when they worked out the following:

- the amount they could claim as a deduction under any non-R&D provision
- their entitlement to a non-R&D tax offset.

Because of this, Ingenious Plans is entitled to a claim a notional R&D deduction for the expenditure of \$20,000 in the 2024 income year.

Amounts incurred by a member of a consolidated group to another member of the same group are not required to be paid before being claimed under the R&D tax incentive, provided the amounts meet all other eligibility criteria. The amounts are taken to have been incurred by the head company of the group.

Expenditure incurred while not at arm's length

Where expenditure on an R&D activity is incurred while not at arms length or to an associate, only the market value of those R&D services can be notionally deducted. Amounts above market value are not available for notional deduction.

Who an associate is

In broad terms, associates are those entities that, by reason of family or business connections, might appropriately be regarded as being associates of a particular entity. This is set out in [section 318](#) of the *Income Tax Assessment Act 1936*.

Some examples of an associate of a company, other than a company in the capacity of trustee, include:

- a partner of the company or a partnership in which the company is a partner
- a trustee of a trust estate under which the company or associate benefits
- another entity (including a natural person) that, acting alone or with another entity or entities, sufficiently influences the company
- an entity (including a natural person) that, either alone or together with associates, holds a majority voting interest in the company
- a second company that is 'sufficiently influenced' by the company or the company's associate

- a second company in which a 'majority voting interest' is held by the company or the company's associate.

What 'sufficiently influenced' means

Under the associate rules, a company is sufficiently influenced by an entity or entities if the company or its directors are accustomed or obligated to act, or might reasonably be expected to act, in accordance with the directions, instructions or wishes of that entity or entities.

The influence by another entity could be either formal or informal. The directions, instructions or wishes of the influencing entity can be communicated directly or through interposed companies, partnerships or trusts.

What 'majority voting interest' means

Under the associate rules, majority voting interest means the ability to cast, or to control the casting of, more than 50% of the maximum number of votes that may be exercised at a general meeting of the company.

QC 71966

Checklist for claiming R&D tax incentive

Use our checklist to make sure you claim the R&D tax incentive correctly.

Last updated 13 May 2026

Self-assess the eligibility of the R&D activities

To take advantage of the R&D tax incentive you must first be an [eligible R&D entity](#).

Once you've confirmed this, you need to ensure your [R&D activities are eligible](#) core or supporting R&D activities.

If you are unsure about the eligibility of your R&D activities, there are different types of [findings you can apply for](#) through DISR. Findings provide practical certainty to program participants and allow the regulators to determine the eligibility of activities.

For more information, see:

- [What's an advance finding](#)
- [Overseas findings](#).

Record keeping

To access the R&DTI you need records showing you're entitled to your claim. This is a legal requirement.

You must keep records showing:

- you're claiming [eligible core or supporting R&D activities](#)
- your claim amount is correct and based on an eligible type of expenditure.
- You must create records at the time you conduct your R&D (called contemporaneous records). Your usual business and [tax records](#) may help, but often won't cover everything you need.

See [Keeping records and calculating your notional deductions](#) for more information.

Apply for registration of activities

You must [register your R&D activities](#) with DISR and receive your unique registration number:

- for every income year you want to claim an offset
- within 10 months of the end of your company's income year
- prior to claiming the R&D tax offset in your company tax return.

Registration of activities by DISR is not a verification of eligibility or an approval of the payment of a tax offset.

Complete the R&D schedule and company tax return

Before lodging your claim with us, you will need to calculate the amounts you'll include in your R&D schedule and company tax return.

Key parts of this include calculating the add back of R&D accounting expenditure, calculating your offset and making any adjustments that are needed.

Calculate the add back of R&D accounting expenditure

You will need to complete add back labels at:

- Preliminary calculation, label D of the R&D Schedule.
- Item 7, label D of the Company Tax Return.

You must complete these to recognise that you are claiming amounts as notional deductions for the R&D tax incentive, rather than as a general deduction. These labels also prevent you from inadvertently claiming the same expenditure twice, as you cannot claim a general deduction for an amount you are claiming as a notional deduction for R&D.

For information about how to calculate the add back labels see:

- [Accounting expenditure subject to the R&D tax incentive](#) in the *Company tax return instructions*
- [Preliminary calculation Add back of R&D accounting expenditure](#) in the *R&D tax incentive schedule instructions*.

Calculate your R&D tax offset

The [R&D tax incentive calculator](#) will help you to calculate your R&D tax offset and any adjustments you may need to make. Other pages that may help include:

- [Eligibility for the R&D tax incentive](#)
- [Amounts you can claim](#) (about notional deductions)
- [Steps for claiming the R&D tax incentive](#) (helps determine which offset you can claim)
- [Clawback of R&D tax incentive offset and catch-up deductions.](#)
- [R&D activities delivered by associated entities.](#)
- [Keeping records and calculating your notional deductions](#)

The [R&D tax incentive schedule instructions](#) and [Company tax return instructions](#) also explain how the forms are completed.

Making adjustments

You may need to make [clawback adjustments](#) or a catch-up deduction to your tax return if:

- you have received a government recoupment
- your R&D activities have produced either marketable products or products that have been applied to your own use
- you have a balancing adjustment for an R&D asset.

If you are registered for GST, you will also need to take into account Division 27 of the ITAA 1997 when working out your R&D notional deductions.

Lodging your claim for the income year

After registration with DISR, you claim the R&D tax incentive by

- completing an R&D tax incentive schedule and relevant labels of the company tax return
- lodging them with the ATO.

See [Step 6 Lodging your claim](#) for more information.

Making incorrect claims may result in penalties. Ensure you only include expenditure in an R&D claim that is actually incurred on R&D activities, not other ordinary business activities. It is important that the information you supply to both DISR and us is accurate, consistent and supported by evidence and records.

Correcting mistakes and challenging decisions

Once you have lodged your registration, or your claim for the R&D tax incentive, you may find you need to:

- amend your tax return:
 - if you have made an error, for example, you've claimed normal business activities

- if you've entered into an arrangement you've later found to be ineligible, via a taxpayer alert. You may want to seek independent professional advice, and make a [voluntary disclosure](#) to us or [amend your tax return](#).
- if DISR makes a finding on your registration or the ATO conducts a review on your R&D claim, and it is determined that all or part of your R&D activities are not eligible, then your tax return will be amended and penalties and interest charges may be applied.
- vary your registration or claim

If you are dissatisfied with the amount of tax offset we have allowed you, you can [object to a decision](#).

When we or AusIndustry makes a decision on your registration or claim, we will tell you how you may request a review if you are dissatisfied with the decision. See [Correcting mistakes or disputing decisions](#) for more information.


Using a tax agent

If you are going to pay someone to help you with your tax return or R&D tax incentive schedule, you should first make sure they are a registered tax agent.

Only a registered tax agent can charge a fee to prepare and lodge your tax return, or provide other services described as 'tax agent services'. They must be registered with the Tax Practitioners Board and follow strict laws that ensure they act in a professional manner.

Advising and assisting you with tax concessions, where this involves applying the tax law, is a tax agent service.

If you aren't sure if your tax agent is registered, you can:

- ask to see their Certificate of Registration
- search the [Tax Practitioners Board register](#) .

Penalties may apply to participants and promoters of aggressive R&D arrangements. Registered tax agents involved in the promotion of any type of aggressive R&D arrangement may be referred to the Tax Practitioners Board to consider whether there has been a breach of the *Tax Agent Services Act 2009*.

Red flags of risky behaviour

We need your help to ensure the R&D tax incentive only benefits those who are eligible.

As a claimant you should ask your tax agent to check:

- your claim against the DISR eligibility guidelines
- the expenditure you have claimed is actually incurred on your registered R&D activities
- that you have kept adequate records.

Be wary if you are approached by a new tax agent or other type of adviser proposing a potential R&D claim that seems too good to be true. Examples include that they:

- can substantially increase your claim
- know how to get ordinary business expenses into an R&D claim
- suggest that all of the cost of developing your new products qualify as R&D.





Report any concerning behaviours to DISR or to us.

To report any concerns about an R&D arrangement, a tax agent or other type of adviser, you can:

- phone us on **1800 060 062**
- complete the [ATO tip-off form](#). This form is also available in the **Contact us** section of the [ATO app](#).


Useful tools and documents for your claim

DISR also provides the following guidance information on business.gov.au:

- [About the R&D tax incentive](#) 
- [Overview of the R&D tax incentive](#) 
- [Assess if your R&D activities are eligible for the R&D tax incentive](#) 
- [Claiming overseas R&D activities under the R&D tax incentive](#) 

Contacts

If you need more information about whether your **activities** are eligible, you can ask DISR for advice by:

- phoning the hotline on **13 28 46**
- emailing them or using Web Chat on their [Contact us](#)  page.

If you need more information about whether the **claimed expenditure** is eligible, you can phone us on **13 28 66** between 8:00 am and 6:00 pm Monday to Friday.

QC 70875

Clawback of R&D tax incentive offset and catch-up deductions

Check events that may cause clawback of your Research and development tax incentive tax offset.

Last updated 13 May 2026

What is a catch-up deduction?

You can claim a catch-up deduction if you have a deductible balancing adjustment for an R&D asset in a year. The catch-up deduction provides an additional deduction for the incentive component of the R&D tax incentive.

What is a clawback adjustment?

An amount of the R&D tax incentive offset you have claimed in any year is clawed back in the current year if one or more of the following clawback events happens during the year:

- You have received, or are entitled to receive, a [recoupment amount](#) from an Australian Government agency, or a state or territory body

source for expenditure for which you had previously received an offset.

- You have a [feedstock adjustment](#) for tangible products.
- You have an assessable [balancing adjustment](#) for an R&D asset.

The clawback includes an additional amount in your assessable income.

Clawback doesn't decrease the grant or offset you receive. Instead, it increases your assessable income. This is called a 'clawback adjustment'.

Recoupment amounts

A clawback adjustment arises in a year you, or an entity connected or affiliated with you, either receives or is entitled to receive a recoupment from an Australian Government agency, or a state or territory body. Examples of recoupment include:

- reimbursements relating to expenditure already incurred on certain activities
- grants provided to you which require expenditure to be (or have been) incurred on certain activities.

You must be eligible for the R&D tax incentive in relation to either the:

- expenditure
- decline in value of notional deductions, where the expenditure was for a depreciating asset used in those activities.

The clawback is worked out on the amount of the R&D expenditure recouped. See [Clawback of recoupment \(government grants and reimbursements\)](#) for more information.

Where you receive recoupments (including grants) for R&D expenditure for which you claimed the R&D tax incentive, the recoupment amounts must be included in your total assessable income.

Feedstock adjustments

A feedstock adjustment arises when both of the following occur:

- You received an R&D tax offset for your [feedstock expenditure](#) incurred on R&D activities.
- During an income year those activities produce products that you, or an entity connected or affiliated with you, supply to someone else or apply to your own use.

The feedstock adjustment applies to either:

- expenditure on goods or materials (feedstock inputs) that are transformed or processed during R&D activities in producing one or more tangible products (feedstock outputs)
- expenditure on energy that is input directly into that transformation or processing
- the decline in value of assets used in acquiring or producing the feedstock inputs.

Where a feedstock adjustment is triggered, you must include an amount in your assessable income. This may be in the current or in a future income year, depending on when the output is sold or applied.

See [Clawback of feedstock adjustments](#) for more information.

Balancing adjustments for R&D assets

A balancing adjustment happens when you stop holding a depreciating asset. A common example is when you sell the asset. The clawback is worked out on the termination value of the R&D asset at that time which exceeds its adjustable value (previously known as tax-written down value). The amount is capped to ensure the clawback does not apply to the extent that the asset has appreciated in value. If the asset was partially held for R&D purposes, the clawback amount is reduced in proportion to the non-R&D use of the asset.

A separate catch-up deduction arises instead if the adjustable value exceeds the termination value of the asset at the time of the balancing adjustment event. If you have a deductible balancing adjustment for an R&D asset, you can claim a catch-up deduction that mirrors the clawback for an assessable balancing adjustment. This provides a deduction in lieu of the amount of R&D tax offset which is forgone on the asset when the balancing adjustment event happens. The R&D tax offset is not available for a catch-up deduction balancing adjustment.

See [Balancing adjustments for R&D assets](#) for more information.

Calculating the clawback amount

A clawback amount is included in your assessable income. The amount matches the incentive or premium component of the R&D tax incentive offset that relates to the clawback event.

Use the following steps to work out the clawback amount:

1. Start with each amount that is being clawed back in the current year.
2. Separate each amount into the notional deduction that is being clawed back for each claim year.
3. Add up the amounts being clawed back for each claim year.
4. Multiply the total amount being clawed back for each claim year by your corporate tax rate for that year. This is called your deduction amount.
5. Work out for each claim year the difference between your original R&D tax offset, and what your R&D tax offset would have been if notional deductions had been reduced by the total amount being clawed back for that year. This is called your offset differential.
6. Add up all your deduction amounts and add up all your offset differentials.
7. Subtract your total deduction amounts from your total offset differentials. This is the premium or incentive component of your R&D tax offset above your corporate tax rate for the amounts being clawed back.
8. Gross up the premium or incentive component to an equivalent amount of assessable income by dividing the amount by your corporate tax rate for the current year. This is the amount to be included in your assessable income.

Clawback of recoupments (government grants and reimbursements)



Information about clawback adjustments for research and development (R&D) tax incentive claimants.

Clawback of feedstock adjustments

Find out when feedstock adjustments are required under the research and development (R&D) tax incentive.

Balancing adjustments for R&D assets

When assets are used for R&D activities, adjustments may apply to your income tax position.

QC 70876

Clawback of feedstock adjustments

Find out when feedstock adjustments are required under the research and development (R&D) tax incentive.

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A feedstock adjustment may apply when your R&D tax offset includes amounts for feedstock expenditure incurred on R&D activities. You will need to include an amount in your assessable income if those activities produce tangible products that are either:

- supplied to others
- applied to your own use.

The feedstock adjustment applies to the following amounts claimed in any year as a notional R&D deduction:

- Expenditure on goods or materials (feedstock inputs) that are transformed or processed during R&D activities in producing one or more tangible products (feedstock outputs).
- Expenditure on energy that is input directly into that transformation or processing the feedstock input.

- The decline in value of assets used in acquiring or producing the feedstock inputs.

The feedstock provisions that apply to both core and supporting R&D activities that transform or process feedstock inputs are not confined to mass production or industrial activities. They can also apply to primary production and related biological processes. Examples include agriculture, livestock production, aquaculture, horticulture, and associated animal-based and plant-based processing.

If a feedstock adjustment is triggered, you must include an amount in your assessable income. This may be in the current or future income year, depending on when the output is sold or applied.

For more information, see [Taxation Ruling TR 2013/3](#) *Income tax: research and development tax offsets: feedstock adjustments*.

How the feedstock rules work

The feedstock rules work by increasing your assessable income, rather than by reducing the deductions or offset you can claim.

The feedstock rules effectively adjust the R&D tax incentive benefit you receive for your expenditure on certain 'inputs', reflecting the value of the related 'outputs'.

Why we have feedstock adjustments

The feedstock adjustment is intended to recover the 'incentive' component of the R&D tax offset you receive for your feedstock expenditure, that is, the amount you receive above the general tax deduction that would otherwise be available.

When a feedstock adjustment is triggered

A feedstock adjustment will not be triggered unless you have claimed the R&D tax incentive for expenditure on one or more of the following:

- acquiring or producing feedstock inputs, including the decline in value of depreciating assets
- energy inputs directly into the processing or transformation of the feedstock inputs.

The feedstock adjustment is triggered in the year in which you either:

- sell, or otherwise supply to someone else, the feedstock output, or a marketable product derived from it
- apply that output or product to your own use (unless it is for the purpose of transforming that product for supply to someone else).

The feedstock adjustment also applies where an [affiliate](#) or an entity [connected with](#) you supplies or uses the marketable product as if you had done so.

The feedstock adjustment can be triggered during the income year in which you claimed the R&D incentive, or a future income year.

What feedstock revenue is

Where the feedstock output is immediately sold or applied, the feedstock revenue will be its market value at that point. Where further expenditures are incurred on the feedstock output between the R&D activity and the point of sale or application to own use, then the feedstock revenue will be a proportion of the value of the marketable product that is sold or applied.

Feedstock revenue is calculated as follows:

$$\text{Market value of the marketable product} \times (\text{Cost of producing feedstock output} \div \text{Cost of producing marketable product})$$

How to calculate your feedstock adjustment

Your feedstock adjustment amount is calculated on the lesser of either:

- expenditure in acquiring or producing feedstock inputs and energy inputs for which you have claimed the incentive, to the extent that it is reasonably attributable to the production of the relevant feedstock output for the year (feedstock expenditure)
- feedstock revenue.

To calculate the amount to include in your assessable income for your feedstock adjustment in the trigger year, work out:

- the clawback amount, which is the lesser of the following 2 amounts
 - feedstock expenditure relevant to the feedstock output
 - feedstock revenue
- the grossed-up value of incentive component of the clawback amount obtained in the step above, using the following formula

$$\frac{(\text{Starting offset} - \text{Adjusted offset} - \text{Deduction amount})}{\text{Corporate tax rate for the present year}}$$

The 'starting offset' is the actual amount of R&D tax incentive offset that includes the feedstock expenditure being clawed back. The formula is used separately for each offset year that includes the feedstock expenditure being clawed back.

The 'adjusted offset' is the offset amount that the entity would have received for the offset year if its notional R&D deductions were reduced by the clawback amount.

The 'deduction amount' is the clawback amount multiplied by the R&D entity's company tax rate in the offset year. By subtracting this, the clawback only includes the incentive component of the tax offset.

The amount worked out above is then grossed-up for the entity's company tax rate for the current year to work out the equivalent amount to include in assessable income.

This formula calculates an amount on a year-by-year basis. The total of the amounts worked out for each offset year is included in assessable income for the trigger year.

This formula is also used to calculate the assessable income included in relation to other clawback amounts for [balancing adjustments](#), for depreciating assets and some government grants. The formula will be used repeatedly where there is more than one clawback amount.

For more tools to calculate the amount for your feedstock adjustment, refer to the:

- [R&D tax incentive schedule Instructions 2025](#)
- [R&D tax incentive calculator](#).

If you sell a feedstock output you applied to your own use

Where you have triggered a feedstock adjustment for an output you applied to your own use (other than use for the purpose of further transformation of the product for supply) and you later sell it (with or without further transformation), the sale will not trigger another feedstock adjustment.

If you use a feedstock output yourself on a recurring basis, only the first use can trigger the feedstock adjustment.

How feedstock adjustments apply to outputs used as inputs

Where a feedstock output from one R&D activity is used as a feedstock input for a later R&D activity, no feedstock adjustment will apply to it at that stage. The feedstock adjustment will only apply to the feedstock output from the final R&D activity in the chain.

However, there may be a feedstock adjustment for any by-products that are produced as feedstock outputs before the final R&D activity. The relevant feedstock expenditure would be the amount of any feedstock expenditure that is reasonably attributable to the by-product.

If the by-product is used as a feedstock input for a later R&D activity, it will not attract a feedstock adjustment at this time.

How feedstock adjustments apply to R&D with multiple outputs

Several feedstock inputs can be processed to create a single feedstock output and vice versa.

Where you produce multiple feedstock outputs from an R&D activity, a feedstock adjustment will apply to each of them. The relevant feedstock expenditure for each of those outputs is the amount of feedstock expenditure reasonably attributable to the production of each of them.

This means where your R&D activity produces multiple feedstock outputs that are:

- substantially identical, those outputs can be treated as a single feedstock output for practical purposes
- similar items of variable quality, you can treat the faulty items separately from the successful ones.

Example: feedstock adjustment clawback amount

Landscape Supplies Pty Ltd (Landscape Supplies) trials an experimental granite crushing process to produce marketable granite sand. The sand produced was sold for \$9,000 in the 2021–22 income year.

Landscape Supplies has aggregated turnover in that year of \$15 million. The company's tax rate is 25%.

The notional R&D deductions the company can claim for the related R&D activities in the 2024–25 income year are \$22,000, which includes \$10,000 in feedstock expenditure. The company has no other clawback amounts.

As all the granite sand produced is sold during the same year, the feedstock revenue is \$9,000. This means the Landscape Supplies will calculate the amount to be included in assessable income for their feedstock adjustment as follows:

Step 1: Landscape Supplies determines the lesser of feedstock revenue (\$9,000) and feedstock expenditure (\$10,000) to clawback, which is \$9,000.

Step 2: The company then determines the part of the clawback amount determined at Step 1 above to be included in assessable income by applying the following formula:

$$\frac{(\text{Starting offset} - \text{Adjusted offset} - \text{Deduction amount})}{\text{Corporate tax rate for the present year}}$$

The:

- starting offset is the notional deductions (\$22,000) multiplied by the refundable tax offset rate (43.5%) which is \$9,570
- adjusted offset is calculated by subtracting the clawback amount (\$9,000) from the notional R&D deduction (22,000)

and multiplying the result by the refundable tax offset rate (43.5%). That is $(\$22,000 - \$9,000) \times 43.5\% = \$5,655$.

- The deduction amount is calculated as the clawback amount (\$9,000) multiplied by the company's tax rate for the 2024–25 income year (25%) which is \$2,250.

Therefore, the clawback amount is calculated as $\$9,570 - \$5,655 - \$2,250 = \$1,665$.

This is the incentive component of the R&D tax incentive offset on the feedstock amount that is clawed back. This amount is divided by the company's tax rate to calculate the equivalent amount to include in assessable income ($\$1,665 \div 25\% = \$6,660$).

Landscape Supplies includes \$6,660 in its assessable income for the 2024–25 income year.

QC 70889

Balancing adjustments for R&D assets

When assets are used for R&D activities, adjustments may apply to your income tax position.

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Notional research and development (R&D) deductions can include the decline in value of tangible depreciating assets you use for R&D activities. When the asset stops being held there is a balancing adjustment event. Common examples are the sale or scrapping of the asset.

The balancing adjustment compares the economic value of the asset at that time (called its termination value) with its written-down tax value (called adjustable value). This can result in either an amount of

assessable income or an additional deduction against assessable income.

This adjustment ensures your final income tax position reflects the actual decline in value of the assets over time, rather than the estimates on which your decline in value deductions were based. The adjustment is reduced for the non-taxable use of the asset and other reductions that apply to the decline in value deductions for the asset.

For assets that were only used for R&D activities, the balancing adjustment is worked out under section 355-315 of the *Income Tax Assessment Act 1997* (ITAA 1997). For assets that were also used for other taxable purposes, the balancing adjustment is worked out under subdivision 40-D of the ITAA 1997 on the assumption that a taxable purpose includes using the asset for the purpose of conducting R&D activities.

A further clawback adjustment or catch-up deduction arises for the additional benefit of the R&D tax offset for these assets. The clawback adjustment or catch-up deduction for a balancing adjustment arises where:

- an R&D entity has used a depreciating asset for R&D activities
- it is or has been entitled to an R&D notional deduction for decline in value for the asset in any year
- a balancing adjustment event happens in the current year
- a balancing adjustment is included in assessable income or as deduction in the current year.

This further amount either:

- claws back the incentive component of the R&D tax offset claimed for the asset in relation to the balancing adjustment
- allows a further deduction to catch-up an equivalent amount to that incentive component that had not previously been claimed.

Basic balancing adjustment for R&D asset

When an asset is disposed of, or stops being held in another way, its value at the time of disposal may vary from its adjustable value (which is the original cost of the asset less its decline in value). Where this occurs for a depreciating asset used to conduct R&D activities, the tax

treatment for the gain or loss (balancing adjustment) on disposal must also be considered.

A balancing adjustment:

- **gain** is made when the value of the asset at the time of disposal (termination value) exceeds its adjustable value. This gain is included in assessable income to the extent that the asset was used in deriving assessable income or conducting R&D activities over its life.
- **loss** is made when the adjustable value exceeds its termination value. This loss is allowable as an additional deduction in the company tax return to the extent that the asset was used in deriving assessable income or conducting R&D activities over its life. A tax offset is not available for the loss.

Example: Basic balancing adjustment

A new item of equipment costing \$1,000,000 is used during the year for a taxable purpose described in subsection 40-25(7) of the ITAA 1997. Assuming that the effective life is 10 years, the decline in value allowable as a deduction for the year is calculated (using the prime cost method) as follows:

$$\$1,000,000 \times (365 \div 365) \times (100\% \div 10) = \$100,000$$

If the equipment is disposed of for the sum of \$850,000 at the end of the year, a balancing loss on disposal of \$50,000 is incurred, calculated as follows:

Cost (\$1,000,000) **minus** Decline in value (\$100,000) **equals**
Adjustable value (\$900,000) **minus** Termination value
(\$850,000) **equals** Balancing adjustment loss (\$50,000).

If the equipment had instead been disposed of for \$925,000, a balancing adjustment gain of \$25,000 would have been made.

Assets used partly for R&D purposes

If the asset was used for a taxable purpose as well as for R&D purposes, the balancing adjustment is worked out under section 40-285 of the ITAA 1997 on the assumption that a taxable purpose includes using the asset for the purpose of conducting R&D activities.

This assumption is made under section 40-292 of the ITAA 1997 (or section 40-293 in the case of an R&D partnership).

Assets used only for R&D purposes

If the asset was used only for R&D purposes, the balancing adjustment is worked out under section 355-315 of the ITAA 1997 (or section 355-525 in the case of an R&D partnership). In this situation, a balancing adjustment only applies if the company is registered for R&D with the Department of Industry, Science and Resources (DISR) for the year in which the balancing adjustment event happens.

Additional clawback adjustment or catch-up deduction for R&D assets

Where a basic balancing adjustment arises for an asset that has been used for R&D activities, a further adjustment may be required. The further adjustment claws back or provides a catch-up deduction for the incentive component of the R&D tax offset. This is in addition to the basic balancing adjustment to which the company's corporate tax rate is applied. These rules apply on an equivalent basis to [R&D partnerships](#) with a proportionate approach applying to each partner.

Clawback amount and catch-up amount

A clawback adjustment is included in assessable income if a gain arises on the balancing adjustment event. Unlike the basic balancing adjustment, the calculation of the amount of the gain to be clawed back (called the clawback amount) is limited to the termination value up to the cost of the asset. Any part of the gain in excess of the cost of the asset is not included.

A catch-up deduction is included as a deduction from assessable income if the balancing adjustment event gives rise to a loss (the catch-up amount). A tax offset is not available for the balancing adjustment.

For an asset partly used for R&D activities, the clawback amount or catch-up amount is reduced to that portion of the total decline in value for the asset that represents the total R&D decline in value deductions for the asset.

Calculating the clawback adjustment or catch-up deduction

A clawback adjustment included in assessable income is worked out as:

$(\text{Starting offset} - \text{Adjusted offset} - \text{Deduction amount}) \div \text{R\&D entity's corporate tax rate for the present year}$

A catch-up deduction on a catch-up amount is worked out as:

$(\text{Adjusted offset} - \text{Starting offset} - \text{Deduction amount}) \div \text{R\&D entity's corporate tax rate for the present year}$

The 'starting' offset is the actual amount of R&D tax offset the entity receives that includes an amount being clawed back. The formula is used separately for each offset year that includes an R&D decline in value claim for the asset.

The 'adjusted offset' is the offset amount that the entity would have received for the offset year if its notional R&D deductions were either reduced by the amount being clawed back or increased for the catch-up amount.

The difference between these two amounts is the 'offset differential'. This is the amount of tax offset on the balancing adjustment attributed to the offset year being clawed back or deducted. If the overall rate of tax offset is the same for the starting offset and adjusted offset, the calculation can for practical purposes be made directly by applying the tax offset rate to the balancing adjustment attributed to the offset year. This may not be possible for a tiered non-refundable offset or if expenditure exceeds the incentive cap.

The 'deduction amount' is the amount being clawed back or the catch-up amount multiplied by the R&D entity's company tax rate for the offset year. By subtracting this, the clawback only includes the incentive component of the tax offset. The additional amount reflects the enhanced benefit that you have obtained or could have obtained through the tax offset for the decline in value.

The amount worked out above is then grossed-up for the entity's company tax rate for the current year to work out the equivalent amount included in assessable income or deducted.

The formulas calculate an amount on a year by year basis. The total of the amounts worked out for each offset year is included in assessable

income or deductions for the year in which the balancing adjustment event happens.

Additional adjustment for depreciating assets used only for R&D activities

For assets used solely for R&D activities, the additional balancing adjustment only applies if the company is registered with DISR for any R&D activity for the year in which the balancing adjustment event happens.

This additional balancing adjustment results in either a further (catch-up) deduction or an additional amount being included in assessable income (to recover earlier notional R&D deductions).

Example: balancing adjustment for asset used only for R&D activities

B Pty Ltd was incorporated in Australia. It carries on a business in Australia that includes R&D activities that it conducts wholly in Australia. Its aggregated turnover for each income year is under \$20 million. B Pty Ltd has a standard income year ending on 30 June.

On 1 July 2020, B Pty Ltd purchases a mass spectrometer for use in its R&D activities. The unit costs \$30,000. B Pty Ltd assesses the effective life of the unit as 5 years and chooses the prime cost method for calculating its decline in value. B Pty Ltd is entitled to depreciate \$6,000 ($\$30,000 \div 5$) in each of the 5 income years.

During 2020–21 and 2021–22 income years, B Pty Ltd uses the unit only in carrying on its R&D activities. It sells the unit on 31 December 2021 for \$15,000.

Basic balancing adjustment loss

As B Pty Ltd only used the unit for R&D activities, it will work out a balancing adjustment under the R&D rules. This is worked out on the difference between its adjustable value and its termination value. The termination value is \$15,000. The adjustable value as at 31 December 2021 is equal to the opening adjustable value at 1 July 2021 **less** the part year decline in value during 2021–22 income year. The opening adjustable value for 1 July 2021 is

\$24,000. The part year decline in value is \$3,000. Therefore, the adjustable value is \$21,000.

B Pty Ltd has made a balancing adjustment loss (because the adjustable value exceeds the termination value) and the loss is allowable as an additional deduction. B Pty Ltd is entitled to a balancing adjustment deduction of \$6,000 (\$21,000 – \$15,000) in the 2021–22 income year.

Catch-up deduction

B Pty Ltd was registered for its ongoing R&D activities for the 2021–22 year. It is entitled to a further deduction for the catch-up amounts that relate to the 2 income years (each being an offset year) in which B Pty Ltd has claimed the R&D tax incentive offset in relation to the asset's decline in value.

The catch-up amount is the \$6,000 worked out previously as the balancing adjustment loss.

B Pty Ltd works out the portion of the \$6,000 catch-up amount that is attributable to each offset year. In this case, it follows the proportion of the decline in value claimed in each year. For 2020–21 this amount is \$4,000 and for 2021–22 it is \$2,000.

B Pty Ltd has total notional deductions of \$500,000 in 2020–21 and \$550,000 in 2021–22 income years. Its company tax rate is 26% for 2020–21 and 25% for 2021–22.

Calculating the catch-up deduction for the 2020–21 income year

For the 2020–21 income year, B Pty Ltd calculates the offset differential by multiplying the catch-up amount for that year by the tax offset rate for that year. It is calculated as the difference between the tax offset received for the year and the tax offset that would have been received had it included the catch-up amount for the year.

This represents the additional tax offset that would have applied to the balancing adjustment loss. In practice here it can be worked out directly on the catch-up amount for the year, as follows:

$$(\$504,000 \times 43.5\%) - (\$500,000 \times 43.5\%) = \$1,740$$

B Pty Ltd determines the deduction amount by multiplying the catch-up amount by the company tax rate for the offset year.

$$\$4,000 \times 26\% = \$1,040$$

The difference between these amounts (\$700) represents the premium or incentive component of the tax offset for that year. A catch-up deduction is calculated on this amount by grossing up for the company's tax rate for the year in which the deduction is claimed, as follows:

$$(\$1,740 - \$1,040) \div 25\% = \$2,800$$

Calculating the catch-up deduction for the 2021–22 income year

For the 2021–22 income year, the calculation is as follows:

- The offset differential is \$870. This is the part of the catch-up amount for the offset year (\$2,000) multiplied by the tax incentive offset rate for that year (43.5%).
- The deduction amount is \$500, calculated as the catch-up amount (\$2,000) multiplied by the company tax rate for the offset year (25%).
- The catch-up deduction is \$1,480, calculated as the difference between these amounts (\$370) and grossed up for the company's tax rate for the present year (25%).

Total catch-up deduction

The total catch-up deduction claimed in the 2021–22 income year is the sum of the amounts worked out for each year:

$$\$2,800 + \$1,480 = \$4,280$$

Alternative assessable clawback adjustment

If the termination value in the example above was \$27,000 rather than \$15,000, B Pty Ltd would make a balancing profit (the termination value exceeds the adjustable value of \$21,000).

Therefore, B Pty Ltd would be required to include the balancing adjustment gain of \$6,000 in its assessable income, plus a further assessable clawback adjustment of \$4,280.

Example: balancing adjustment for non-refundable tax offset

Ozzie Electric Pty Ltd has an aggregated turnover of over \$20 million and below \$50 million for each of the 2019–20 to 2021–22 income years. Its total expenses in the 2021–22 income year are \$15 million. Its notional deductions for these years are:

- 2019–20 – \$355,000
- 2020–21 – \$327,000
- 2021–22 – \$298,000.

On 18 April 2020, Ozzie Electric acquired a tangible depreciating asset for \$80,000 and used the asset entirely for R&D purposes. The asset has an effective life of 5 years and Ozzie Electric uses the prime cost (straight line) method to work out the asset's decline in value as follows.

Calculation of decline in value of a depreciating asset

Income year	Days asset used	Decline in value	Adjustable value
2019–20	73	\$3,200	\$76,800
2020–21	365	\$16,000	\$60,800
2021–22	365	\$16,000	\$44,800
Total decline in value	N/A	\$35,200	N/A

Ozzie Electric sells the asset on 1 July 2022 for \$34,900. It continues to be registered for R&D for the 2022–23 income year. When the asset is sold, there is a balancing adjustment event. As the asset's adjustable value of \$44,800 exceeds its termination value of \$34,900, Ozzie Electric is entitled to a deductible

balancing adjustment amount of \$9,900. This amount is allowed as a deduction against its assessable income in the 2022–23 income year.

Ozzie Electric is also entitled to a further deduction against assessable income on the balancing adjustment of \$9,900. The catch-up deduction is worked out on the incentive component of the R&D tax offset if it were increased for that balancing adjustment.

The balancing adjustment and the catch-up deduction are considered in calculating taxable income in the year the balancing adjustment event happened. They are not notional deductions and are not considered in calculating the R&D tax offset.

Calculating the catch-up deduction

The catch-up deduction is worked out on the total of the additional tax offset on the portion of the balancing adjustment attributable to each offset year, using the following formula on a year by year basis:

$$\frac{(\text{Adjusted offset} - \text{Starting offset} - \text{Deduction amount})}{\text{R\&D entity's company tax rate for the balancing adjustment year}}$$

A portion of the balancing adjustment (called the catch-up amount) is attributed to each offset year based on what the additional decline in value would have been for that year. The total catch-up amount of \$9,900 is attributed to each year as follows.

Calculation of decline in value of a depreciating asset

Income year	Original decline in value	Revised decline in value	Catch-up amount
2019–20	\$3,200	\$4,100	\$900
2020–21	\$16,000	\$20,500	\$4,500

2021-22	\$16,000	\$20,500	\$4,500
Total amount	\$35,200	\$45,100	\$9,900

The starting offset is the amount of the offset that was claimed each year. The adjusted offset and deduction amount are calculated considering the catch-up amount.

Calculating the catch-up deduction

Calculating the catch-up deduction

Income year	2019-20	2020-21	2021-22
Offset rate	38.5%	38.5%	Tiered rates
Company tax rate	27.5%	26%	25%
Notional deductions	\$355,000	\$327,000	\$298,000
Starting offset	$\$355,000 \times 38.5\% = \$136,675$	$\$327,000 \times 38.5\% = \$125,895$	All claimed at Tier 1 rate (company tax rate + 8.5%) $\$298,000 \times (25\% + 8.5\%) = \$99,830$
Catch-up amount	\$900	\$4,500	\$4,500
Increased notional deductions	\$355,900	\$331,500	\$302,500

Tier 1 offset (company's tax rate + 8.5%)	N/A	N/A	Applies to first \$300,000 of notional expenditure. $\$300,000 \times (25\% + 8.5\%) = \$100,500$
Tier 2 offset (company tax rate + 16.5%)	N/A	N/A	Applies to the remaining amount. $\$2,500 \times (25\% + 16.5\%) = \$1,037.50$
Adjusted offset	$\$355,900 \times 38.5\% = \$137,021.50$	$\$331,500 \times 38.5\% = \$127,627.50$	$\$100,500 + \$1,037.50 = \$101,537.50$
Deduction amount (catch-up amount \times company tax rate)	$\$900 \times 27.5\% = \247.50	$\$4,500 \times 26\% = \$1,170$	$\$4,500 \times 25\% = \$1,125$
Catch-up deduction	$(\$137,021.50 - \$136,675 - \$247.50) \div 25\% = \396	$(\$127,627.50 - \$125,895 - \$1,170) \div 25\% = \$2,250$	$(\$101,537.50 - \$99,830 - \$1,125) \div 25\% = \$2,330$

The total catch-up deduction for the 2022–23 income year for the balancing adjustment event for the asset is $(\$396 + \$2,250 + \$2,330 = \$4,976)$.

Additional adjustment for depreciating assets used for R&D activities and a taxable purpose

For assets that were used for a taxable purpose and also used for R&D activities, the additional balancing adjustment applies whether or not the company is registered with DISR for the year during which the

adjustment event happens. However, it only applies only on that portion of the gain or loss attributable to their R&D use.

The clawback amount or catch-up amount on which the additional balancing adjustment is calculated is using the formula:

$$\frac{(\text{Total R\&D deductions} \div \text{Total decline in value})}{\text{Section 40-285 amount}}$$

In this formula:

- **Total R&D deductions** is the total decline in value amounts for the asset for all income years included in notional R&D deductions.
- **Total decline in value** is the cost of the asset less its adjustable value.
- **Adjusted section 40-285 amount** is the balancing adjustment gain or loss on the balancing adjustment event. However, the gain is adjusted to exclude that part in excess of the cost of the asset. This means any assessable clawback amount is capped by the original cost of the asset using an adjusted section 40-285 amount.

Example: Balancing adjustment for assets used partly for R&D activities

C Pty Ltd was incorporated in Australia and carries on a business in Australia that includes R&D activities. Its aggregated turnover for each income year is under \$20 million. Its total R&D expenditure was \$150,000 in the 2020–21 income year and \$160,000 in the 2021–22 income year.

On 1 July 2020, C Pty Ltd purchases injection mould for use in its business at a cost of \$30,000. C Pty Ltd assesses the effective life of the unit as 5 years and chooses the prime cost method for calculating its decline in value. C Pty Ltd uses the unit:

- 50% of the time for carrying on ordinary business activities
- 50% of the time for carrying on R&D activities.

On 31 December 2021, C Pty Ltd sells the unit for \$28,800 (its termination value). C Pty Ltd includes in assessable income an amount equal to the termination value less the adjustable value. The adjustable value is equal to the opening adjustable value less the decline in value during 2021–22 income year. The opening

adjustable value is \$24,000. The decline in value during the year is \$3,000. Accordingly, the adjustable value is \$21,000. C Pty Ltd includes assessable income of \$7,800 (\$28,800 – \$21,000).

C Pty Ltd includes a further amount in assessable income as a result of the use of the asset in R&D activities for 50% of the time it has been held by C Pty Ltd. C Pty Ltd is entitled to total notional R&D decline in value deductions of $(50\% \times (\$6,000 + \$3,000)) = \$4,500$.

It will need to calculate the additional clawback amount for each offset year relevant to the R&D decline in value claimed. The total clawback amount is attributed based on each year's proportion of the total decline in value. The clawback amount that relates to each year is calculated as:

- 2020–21 income year: $(\$3,000 \div \$4,500) \times \$7,800 = \$5,200$
- 2021–22 income year: $(\$1,500 \div \$4,500) \times \$7,800 = \$2,600$

Calculating the offset deferential and deduction amount for the 2020–21 income year

For the 2020–21 income year, in this case C Pty Ltd can calculate the offset differential by multiplying the clawback portion for that year by the R&D tax offset rate for that year as:

$$\$5,200 \times 43.5\% = \$2,262$$

C Pty Ltd determines the deduction amount by multiplying the clawback amount by the company tax rate for the year it claimed the notional deduction.

$$\$5,200 \times 26\% = \$1,352$$

The clawback adjustment for that year to be included in assessable income is calculated on the difference between these amounts and grossed up for the company's tax rate for the year in which the balancing adjustment event happens, as follows:

$$(\$2,262 - \$1,352) \div 25\% = \$3,640$$

Calculating the offset deferential and deduction amount for the 2021–22 income year

For the 2021–22 income year, the amount is calculated as:

- Offset differential: $\$2,600 \times 43.5\% = \$1,131$

- Deduction amount: $\$2,600 \times 25\% = \650
- Clawback amount: $(\$1,131 - \$650) \div 25\% = \$1,924$.

Total catch-up deduction

The total clawback adjustment included as assessable income in the 2021–22 income year is the sum of the amounts worked out for each year:

$$\$3,640 + \$1,924 = \$5,564$$

QC 71266

Correcting mistakes and disputing decisions

Find out how to amend or vary your R&D tax incentive claim or dispute a decision.

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Once you have lodged your registration or your claim for the R&D tax incentive, you may find that you need to:

- vary your registration details with the Department of Industry, Science and Resources (DISR)
- amend or vary your claim with us
- dispute a decision made by either DISR or us.

If you need to correct or vary your tax return because you made a mistake or omitted to mention something you later realise you should have mentioned, you can also amend your tax return (within certain time limits).

If you want to dispute the law as we have applied it to your case, or if you are dissatisfied with the amount of R&D tax incentive we have allowed you, you can object to our assessment (within certain time limits).

For information about [varying your registration](#) details or [disputing decisions made by DISR](#), refer to the Research & Development tax incentive guidance on business.gov.au.

Amending your tax return

'Amendment' is the term we use for a change made to an income tax assessment. If you want us to change your assessment you need to [request an amendment](#) in writing.

Amendments are part of the self-assessment system. That is, just as we accept your tax return information at face value, in most cases we do the same with the information you provide on your amendment request.

If you need to complete a company tax return, refer to [Research and development tax incentive schedule instructions 2025](#).

Time limits for making amendments

There are time limits for making amendments to your tax return. This is generally 4 years for taxpayers who have R&D claims. A 2-year period may apply to assessments made for the 2021–22 or earlier income year.

To give you certainty about your tax affairs, in most circumstances the law does not allow amendments (initiated by us or by you) outside the time limit, but you may be able to lodge an objection instead.

Special rules vary these time frames for certain decisions made by DISR in relation to the R&D tax incentive. These rules allow us to amend outside the standard time frames in relation to:

- DISR giving the Commissioner of Taxation a finding, within certain time frames, about registration, activities outside Australia, or core technology
- an internal review decision by DISR, the Administrative Review Tribunal (ART) or a court on certain matters.

How to amend your claim

If you wish to amend your claim for the R&D tax incentive, you need to both:

- complete and lodge an amended [R&D tax incentive schedule](#) for the relevant year, showing the amended figures
- write us a letter to go with the amended schedule, requesting the amendment and specifying the labels on the company tax return that need amending.

You must then forward your amended R&D tax incentive schedule and letter requesting the amendment to:

AUSTRALIAN TAXATION OFFICE
PO BOX 3004
PENRITH NSW 2740

Objecting to our decisions

The law gives you the right to object to some decisions we make about your tax affairs, including most tax assessments. If you are dissatisfied with the amount of R&D tax incentive we have allowed you, you can [object to a decision](#).

You must lodge your objection in writing and within certain time frames. In some circumstances you can also lodge an appeal with the ART or Federal Court.

Time limits for lodging objections vary depending on whether you are objecting to an original income tax assessment, an amended income tax assessment, or a nil income tax assessment.

In most cases, the time limit is at least 60 days from when you receive the notice. In the case of income tax assessments including an R&D tax offset, it is 4 years after the lodgment date for the return. If the final lodgment day for the return falls on a non-business day, your objection can be lodged on the next business day.

Time limits for objecting to original income tax assessments

For original income tax assessments, you have 4 years from the date the notice of assessment was given to you to lodge an objection. If you are a small or medium business, a 2-year period may apply to assessments for the 2021–22 income year made before 9 December 2022, or an earlier income year.

Time limits for objecting to amended income tax assessments

For amended income tax assessments, the time limit for lodging an objection is the later of either:

- 60 days from the date the amended assessment was given to you
- 4 years from the date the original assessment was given to you (unless a 2-year period applies to amend your assessment for the 2021–22 or earlier income year).

Nil income tax assessments

A 'nil assessment' is an assessment ascertaining that there is either:

- no taxable income
- an amount of taxable income and no tax is payable.

Generally, you can't object against a nil assessment unless you are seeking to increase your tax liability. However, you can object against the total of your tax offset refunds for a year of income under the normal objection provisions.

If you wish to dispute the amount of a non-refundable R&D tax offset to be carried forward (where you have a nil assessment), you have to wait until you have an assessment for the year in which any part of the non-refundable R&D tax offset carried forward is first applied.

How to lodge an objection

Your objection must be lodged in writing. There is no fee for lodging an objection. See [Complete and lodge your objection](#) for more information.

If you are dissatisfied with the outcome of your objection, you can [seek an external review of the decision](#) by lodging an appeal with the ART or Federal Court.

How to lodge an appeal

Tax laws specifically give you the right to go to the ART or the Federal Court for a review of some of our actions or decisions about your tax affairs. Generally, you have to lodge an objection and be dissatisfied with the outcome before you can seek an external review. Certain time limits apply.

Effect of DISR findings on claims

Findings made by DISR bind us in making and amending assessments. We must use our amendment powers to give effect to findings. We must also give effect to any decision made by DISR on internal review, and any decision about a finding made by ART or a court.

If a finding removes entitlement to some or all of the R&D tax incentive you have already claimed, you should request a self-amendment to adjust for the amount that can't be claimed.

If you don't amend your claim, we will commence an audit to give effect to the finding. We will not commence an audit for 28 days to allow time for a self-amendment request to be made.

We are required to give immediate effect to a finding. This is not deferred by your request for an internal review by DISR, or any ART or court action. You should self-amend once you receive the finding.

Concerns about repaying a debt

If you have concerns about repaying an R&D debt, you can phone us on **13 28 66** so we can assist. This assistance is also available to those experiencing [debt concerns](#) while the original finding is under an internal review by DISR. We will consider assistance after you have requested a self-amendment.

QC 70877



R&D tax incentive contact information

Contact information for the research and development (R&D) tax incentive.

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For information on claiming the R&D tax incentive, including eligible entities, eligible expenditure and how to claim, phone us on **13 28 66** between 8:00 am and 6:00 pm Monday to Friday.

For information on registration, eligibility of R&D activities and findings, you can contact the Department of Industry, Science and Resources by:

- submitting an [email enquiry](#) 
- visiting [Contact us on business.gov.au](https://www.business.gov.au)  for a full list of contact details.

QC 70879

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

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