



YOUR PARTNER
IN INNOVATION

MJ&A update

R&D Tax Concession

WINTER 2002

175% Premium and R&D Tax Rebate Open for Business

Maximise benefits to your business by taking advantage of two new value-adds to the R&D Tax Concession: the 175% Premium Tax Concession and the R&D Tax Rebate.

The first claims for the 175% Premium Tax Concession can be made from 1 July 2002. The Premium applies to increases in R&D expenditure by a company group against a 3 year rolling average, based on previous claims. The increases can be deducted at 175%, resulting in an after-tax saving of 22.5 cents in the dollar (cf. 7.5 cents for the general concession). Companies who have recently been making claims or receiving R&D Start grants may be eligible for the Premium for their 2001/02 R&D spend. They should be assessing their scope for claiming immediately. Other companies should be establishing a 3-year history as a matter of priority.

R&D Start

R&D Start Suspension Seen as a Severe Blow to Industry

Australian industry is still recovering from the severity of the Federal Government's decision to suspend the R&D Start grants program until further notice.

A recent national briefing session held by AusIndustry for advisers confirmed that the decision not to fund any new applications was made in January 2002. Despite this, the program remained open for business until the formal announcement of the program's suspension on April 23.

Officially, the reason for the delay in the announcement was the need to confirm funding arrangements for existing grant recipients. This will be cold comfort for the dozens of applications that were deferred or rejected in the January – April 2002 period and will not receive funding.

In addition, the Federal Government has written to 115 companies whose applications were in the "pipeline" inviting them to withdraw their current applications. Ministerial directions were gazetted on 7 May 2002 stating that the Industry Research & Development Board will be deemed to have refused any current applicants that do not accept or respond to the invitation.

The suspension has been attributed to unprecedented demand for grant funds and a rapid increase in expenditure drawdowns by existing contract holders in the 2001/02 year, with expenditure in the first contract year by new recipients more than doubling the previous average.

AusIndustry has confirmed that all existing grant contracts will be honoured. An additional \$40 million has been taken from forward allocations to service this. Total program funds to 2005/06 have also been confirmed.

There is no timeframe for the re-commencement of the program though AusIndustry is confident that it will resume at some point in the 2002/03 financial year.

There is every indication that the program conditions and the application process will be changed significantly. AusIndustry has flagged that

The R&D Rebate is aimed at fostering the growth of innovative small companies and providing them with timely cashflow support. The Rebate provides small companies in tax loss with a cash cheque equivalent to the value of the R&D Tax Concession ie. 37.5 cents in the dollar. The Rebate is available to companies with a group turnover of less than \$5 million and grouped R&D expenditure of up to \$1 million. Eligible companies must opt to receive the Rebate in their tax return and must be registered for the R&D Tax Concession at the time of lodging their tax return. Companies can claim the Rebate for eligible R&D expenditure incurred in their first year of income ending after 30 June 2001 and in subsequent years. Claims for the 175% Premium can also be subject to the Rebate. If your business can benefit from the Rebate for the 2001/02 financial year, you could expect a cheque from the ATO before Christmas 2002. Companies seeking to access the Rebate this year should be considering their position as a matter of urgency.

For further information, contact Kris Gale on (02) 9810 7211 or krisg@mjassoc.com.au

there will be equity considerations given to the 115 companies who were invited to withdraw. This equity could be reflected in terms of providing these applicants with the earliest opportunity to re-apply. However, these applicants would only be able to submit projects with a start date on or after the program's resumption date.

The R&D Start program has been highly successful to date and the fact that the Federal Government is attributing the suspension to this success has mystified the business community.

At the time of writing, pressure continues to be applied to the Government to provide redress for all applicants directly affected by the January decision. More than 150 companies have invested months of time, energy and resources in applying for funds that are now said to be unavailable.

If R&D Start is to be launched with credibility in the 2002/03 financial year, the interests of these companies must be addressed immediately.

For further information, contact Kris Gale on (02) 9810 7211 or krisg@mjassoc.com.au

R&D Tax Concession

R&D Plans Deadline Imminent

A reminder to all companies that R&D activities continuing or commencing after 1 July 2002 will need to be the subject of an R&D Plan in order to be eligible for the R&D Tax Concession.

The Government hopes that by encouraging companies to plan R&D activities, the likelihood of successful outcomes will be increased. This policy intent is hard to argue with. However companies must appreciate the "sting in the tail" which is that activities not the subject of an R&D Plan after 1 July 2002 will be deemed not to comply with the definition of R&D activities.

The R&D Plan must be largely in accordance with the IR&D Board Guidelines which were gazetted on 20 December 2001 and be in place before the commencement of substantive work on the project.

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R&D Plans Deadline Imminent cont.

The IR&D Board Guidelines envisage a two-stage planning process that encompasses both funding authorisation and the drafting of individual R&D project plans. The Guidelines offer small companies (those with fewer than twenty employees at the time the Plan is approved) the option of completing a simplified template for individual R&D project plans.

While the Plans do not need to be provided to AusIndustry at the time of registration of R&D activities, companies will be asked to make a declaration of their existence upon registration. R&D Plans should be presented for AusIndustry compliance monitoring visits (eg. TaxRED) or formal assessment.

MJ&A understand that some companies, and indeed industries, will be better placed to address the planning requirement than others. To view the IR&D Board Guidelines and the R&D Plan template on line, go to www.ausindustry.gov.au

For further information, contact Andrew Hills on (02) 9810 7211 or andrew@mjassoc.com.au

R&D Tax Concession

Changes to the Treatment of Plant Expenditure

Companies now need to take the Australian Tax Office's (ATO) latest interpretation of plant expenditure into consideration when claiming R&D costs associated with items of plant under the R&D Tax Concession program.

In January 2002, the ATO released the final Tax Ruling on plant expenditure (TR 2002/1) which explains the definition of 'plant expenditure' and 'prototypes' and outlines the application of the 'exclusive use' test.

According to the Tax Ruling, the following costs should now be claimed as plant expenditure:

- detailed design costs;
- costs associated with the preparation of plant blueprints or drawings;
- costs incurred for rapid prototyping programs;
- costs incurred for transportation and installation of items of eligible plant;

- salaries and wages for construction or installation of items of eligible plant.

Tax Ruling TR 2002/1 applies to expenditure incurred in years of income both before and after 16 January 2002.

The Ruling also specifies the principles to apply when making the distinction between a prototype and an item of plant. According to the Ruling, a prototype is considered plant only if it is expected that the prototype will not be destroyed or rendered useless as a result of the R&D testing and analysis.

The Ruling reinforces the legislative changes made late last year to the interpretation of the 'exclusive use' test for plant expenditure.

For further information, contact John Haining on (02) 9810 7211 or john@mjassoc.com.au

Innovation Services

Improve your Innovation Performance with MJ&A

The temporary suspension of the Federal Government's R&D Start scheme has placed greater emphasis on "getting investment ready" for smaller, start-up enterprises. To attract private sector investment for further product development or identify commercialisation partners, companies require a compelling business plan supported by a credible assessment of market opportunities for their products and services.

MJ&A has a unique approach that leads clients through the various strategic, market and resource issues that they need to address. We help facilitate and design appropriate management processes and organisational structures to support successful commercialisation.

We are assisting a variety of start-up clients with these activities through Federal or State-based support programs like COMET and the NSW State Government's Small Business Program. We cover a broad range of industry sectors and have clients with diverse needs. For example, we are currently working with:

- an inventor of a novel workplace seating system looking for a partner to manufacture and distribute under licence;
- a construction firm seeking industry accreditation for a building product based on waste tyres;
- a software developer hoping to attract investment for further product development;
- a surgeon needing to characterise market

potential for a novel instrument.

For further information, contact Dr Robin Stanley on (02) 9810 7211 or robin@mjassoc.com.au

Highlights

MJ&A Seminar Success

MJ&A wishes to warmly thank all who attended the MJ&A Seminar series held between November 2001 and February 2002. We enjoyed the chance to share with you our view that changes to the R&D Tax Concession are better for business and to impart ideas of how your company can implement effective innovation and R&D management systems. MJ&A particularly thanks the following guest speakers for their contribution: Brian Oldland, FTS Technology Services; Heather Ridout, Australian Industry Group; Mike Hefferan and Peter Crossman, Queensland Department of State Development.

MJ&A People

MJ&A are delighted to welcome Nimita Arora and Sandy Liu as new consultants to the team. MJ&A recently said goodbye to Meni Papahatzis, Senior Consultant, and we wish her all the best for the future.

AusIndustry On-line

Log on to AusIndustry's revamped website at www.ausindustry.gov.au for more information on Commonwealth Government products and services that support industry research and innovation.

Have you Moved?

If your company contact details change, please let us know so we can keep you up to date with the latest in innovation and Government R&D assistance programs. Please contact Jenine David on (02) 9810 7211 or info@mjassoc.com.au

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