

R&D Tax Incentives: Australia, 2018

Design features

Australia provides R&D tax relief through a volume-based R&D tax credit.

- In case of insufficient tax liability, unused credits can be carried-forward indefinitely and are refundable for firms with a turnover of less than AUD 20 million (1 AUD = 0.7 USD, 31.12.2018).
- A ceiling of AUD 100 million and a floor of AUD 20 000 apply to qualifying R&D expenditures.

Table 1. Main design features of R&D tax incentives in Australia, 2018[†]

Tax incentive		R&D tax incentive
Type of instrument		Tax credit
Eligible expenditures [†]		Volume-based
Headline rates (%)		Current, depreciation (machinery and equipment)
Refund	SME	38.5 (43.5 SMEs)
	Large	Yes (entities with aggregated turnover of less than AUD 20 million)
Carry-over (years)		No
Thresholds & ceilings	Floor	Indefinite (carry-forward)
	Ceiling (R&D expenditure)	AUD 20 000
		AUD 100 million

[†]For additional information: [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)
Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

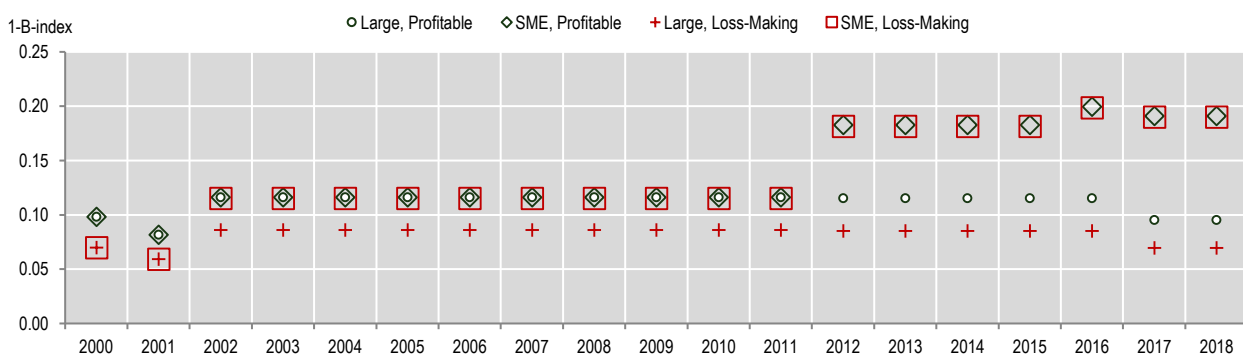
Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Australia** is estimated at 0.19 (0.19), close to (above) the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.10 (0.07) in the profit (loss)-making scenario, below the OECD median of 0.13 (0.10).

Looking at each of the four scenarios considered, the generosity of R&D tax incentives has increased in **Australia** over the 2000-18 period. As the value of the R&D tax allowance is directly linked to the rate of corporate income tax (CIT), a reduction in the CIT rate in 2001 explains a short-term drop in implied tax subsidy rates in 2001 followed by an increase in tax subsidy rates in 2002. In this year, the volume-based R&D tax concession was extended to include an incremental component, and the tax allowance became refundable for SMEs. Another marked increase in marginal R&D tax subsidy rates is observable in 2012, following the replacement of the R&D tax concession by the R&D Tax incentive which introduced more generous tax offset rates for SMEs. In 2017, the rates of this R&D tax offset were reduced, leading to a slight drop in the marginal R&D tax subsidy rates.

Figure 1. Implied tax subsidy rates on R&D expenditures: Australia, 2000-18

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



Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

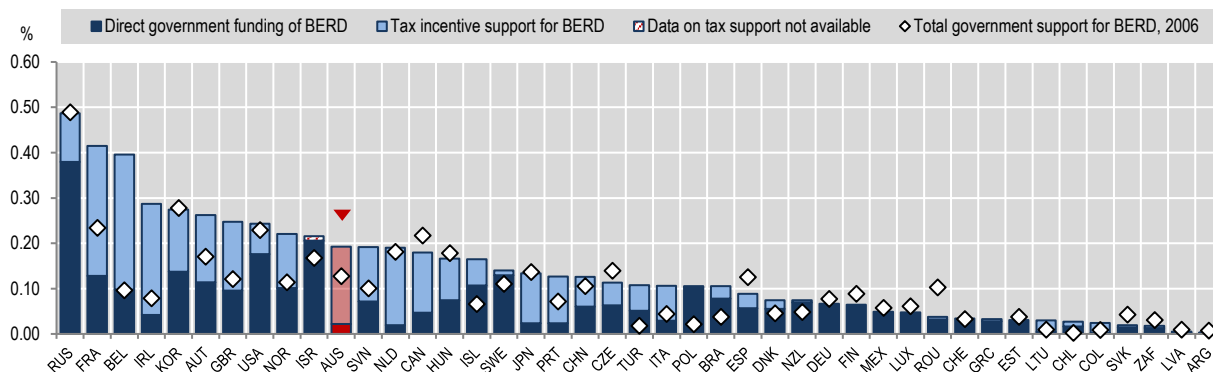
Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief. For more information on the calculation of implied tax subsidy rates, see <http://www.oecd.org/sti/rd-tax-stats-bindex-methodology.pdf>; and for notes regarding the modelling of the country-specific time series, see <http://www.oecd.org/sti/rd-tax-stats-bindex-notes.pdf>.

¹ Disclaimer: <http://oe.cd/disclaimer>

Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)
As a percentage of GDP



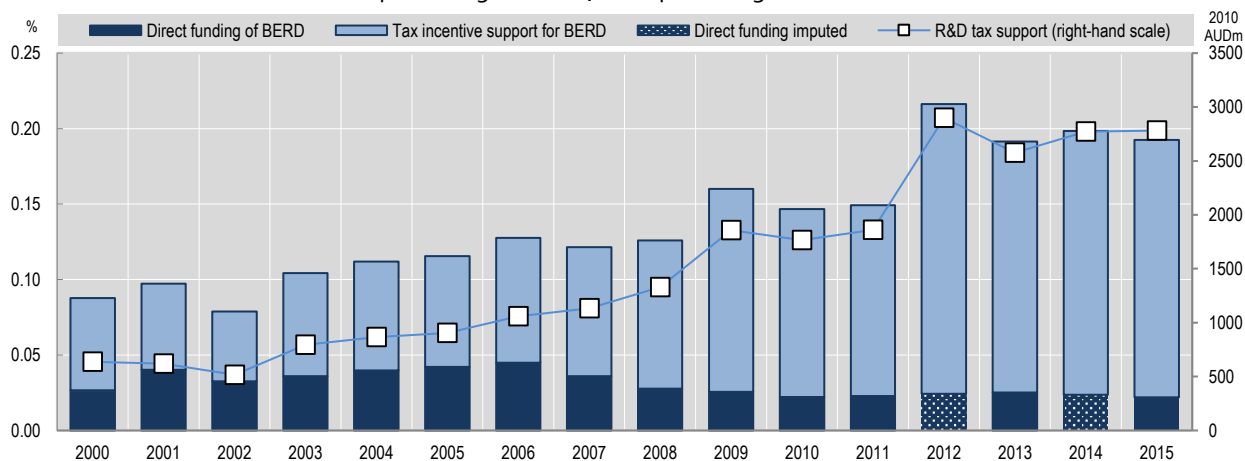
Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

- **Australia** ranks eleventh among OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.19% of GDP in 2015.
- From 2006 to 2015, government support for BERD as a percentage of GDP increased in **Australia** by 0.07 percentage points, while the OECD median (2006-2016) increased by 0.02 percentage points.
- During this period, business R&D intensity in **Australia** declined from 1.16% to 1%.
- In 2016, R&D tax incentives accounted for 89% of total government support for BERD in **Australia**.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

Figure 3. Direct funding of business R&D and tax incentives for R&D, Australia, 2000-15
As a percentage of GDP, 2010 prices (right-hand scale)



Source: OECD, R&D Tax Incentive Database, <http://oe.cd/rdtax>, March 2019.

- Between 2000 and 2015, the importance of R&D tax incentives has increased in **Australia**, both in absolute and relative terms.
- The cost of R&D tax relief rose (in 2010 prices) from AUD 637 million in 2000 to 2 781 million in 2015, with a sharp increase noticeable in 2012 following the replacement of the former R&D tax concession by the R&D Tax incentive for income years beginning on or after 1 July 2011.
- As a percentage of GDP, R&D tax support increased from 0.06% in 2000 to 0.17% of GDP in 2015.
- Direct funding of BERD oscillated between 0.02% and 0.04% of GDP during this period, and declined in more recent years from a peak value of 0.05% of GDP in 2006 to 0.02% of GDP in 2015.
- The share of R&D tax incentives in total government support increased steadily from 2006 onwards, amounting to 65% in 2006 and 89% in 2015.

Please cite this note as: OECD (2019). "R&D Tax Incentives: Australia, 2018", www.oecd.org/sti/rd-tax-stats-australia.pdf, Directorate for Science, Technology and Innovation, March 2019.