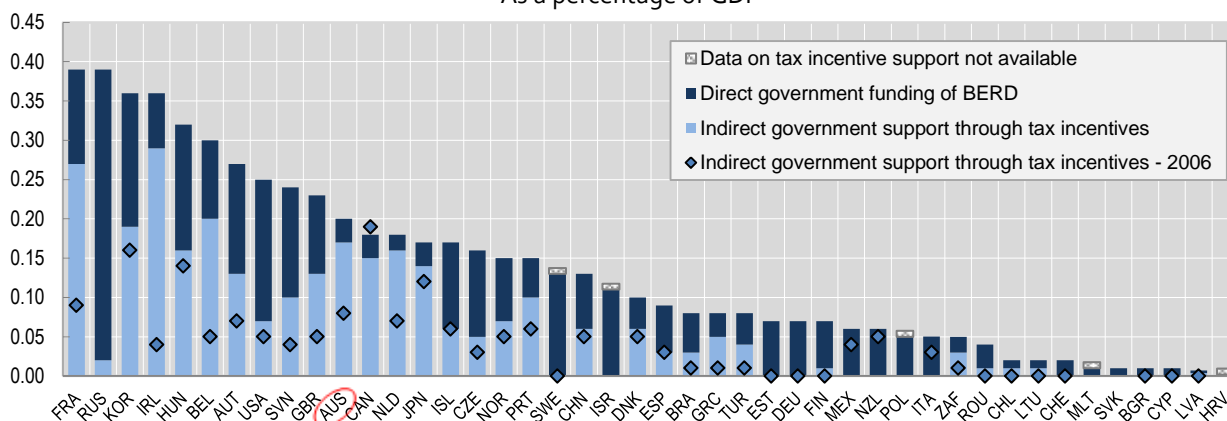


R&D Tax Incentives: Australia

1. Public support for business R&D: the mix of direct funding and tax relief

Governments in many countries seek to promote R&D investment in the economy by granting a preferential tax treatment to eligible R&D expenditures, especially those incurred by firms. In 2016, 29 of the 35 OECD countries, 22 of 28 EU countries and a number of non-OECD economies offer R&D tax incentives¹.

Figure 1. Direct government funding of business R&D and tax incentives for R&D, 2014 (nearest year)
As a percentage of GDP



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

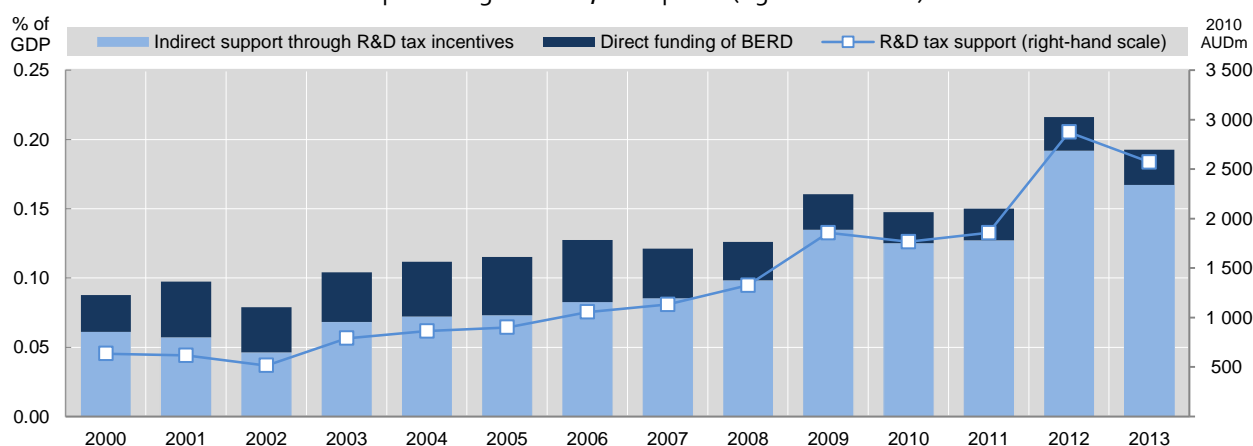
Main points:

- Australia ranks 11th among OECD and other major economies in terms of the total volume of (central) government support for business R&D, equivalent to 0.2% of GDP.
- Tax incentives account for 85% of total public support for business R&D in Australia.
- From 2006 to 2014, R&D tax support as a percentage of GDP increased in Australia by 0.09 percentage points, while the OECD median increased by 0.02 percentage points.

2. Trends in government support for business R&D

Over the last decade, several OECD countries have increased their reliance on R&D tax incentives. However, this trend has not been uniform. The relative importance of tax incentives declined briefly following the global financial crisis, reflecting the demand-led nature of tax relief and its dependence on profits.

Figure 2. Direct funding of business R&D and tax incentives for R&D, Australia, 2000-13
As a percentage of GDP, 2010 prices (right-hand scale)



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

Main points:

- In Australia, the cost of R&D tax relief rose from AUD 634 million in 2000 to AUD 2.6 billion in 2013, 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 percentage of GDP, tax support nearly tripled from 0.06% to 0.17% of GDP during this period.
- Direct funding declined in recent years from a peak value of 0.045% of GDP in 2006 to 0.025% in 2013.

¹ This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities or third party. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

3. Design of R&D tax incentive support

Countries differ in the extent to which they rely on tax measures to support R&D, and those that do, design tax relief measures in substantially different ways. Key design features relate to the type of tax instrument, eligible R&D costs, provisions for firms with insufficient tax liability, ceilings and thresholds among others.

Table 1. Main design features of R&D tax incentives[†]

Tax incentive		R&D tax incentive
Tax incentive		Tax credit
Type of instrument		Volume-based
Eligible expenditures [†]		Current, depreciation (machinery and equipment)
Headline rates (%)		38.5 (43.5 SMEs)
Refund	SME	Yes (entities with aggregated turnover of less than AUD 20 million)
	Large	No
Carry-over (years)		Indefinite (carry-forward)
Thresholds & ceilings	Floor	AUD 20 000
	Ceiling (R&D expenditure)	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 Indicators, <http://oe.cd/rdtax>, March 2017.

Main points:

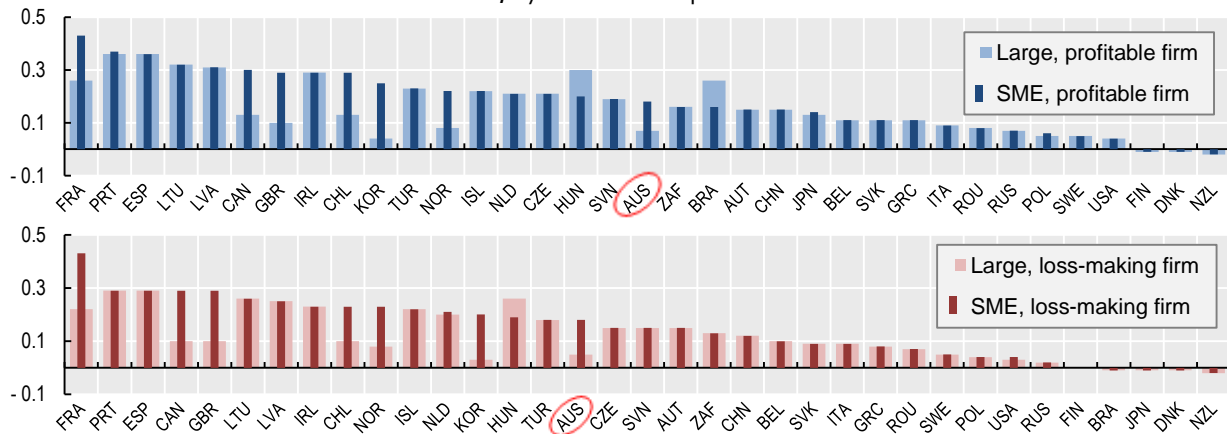
- Australia provides R&D tax relief through a volume-based R&D tax credit.
- In case of insufficient tax liability, unused credits can be carried-forward indefinitely and are refundable for firms with a turnover of less than AUD 20 million.
- A ceiling of AUD 100 million and a floor of AUD 20 000 apply to qualifying R&D expenditures.

4. Generosity of R&D tax support

The design of R&D tax incentives influences the "expected" generosity of tax relief per additional unit of R&D investment. Across OECD and partner economies providing tax relief, there is a significant variation in tax subsidy rates for firms of different size and profitability.

Figure 3. Implied tax subsidy rates on R&D expenditures, 2016

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



Source: OECD, R&D Tax Incentive Indicators, <http://oe.cd/rdtax>, March 2017.

Main points:

- In Australia, the marginal R&D tax subsidy rate for profitable and loss-making SMEs is estimated at 0.18; identical to (larger than) the OECD median of 0.18 (0.11) for profitable (loss-making) SMEs.
- The tax subsidy rate for profitable (loss-making) large enterprises in Australia is 0.07 (0.05); smaller than the OECD median of 0.11 (0.09) for profitable (loss-making) large enterprises.

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