R&D Tax Incentives: Australia, 2019

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 = 0.617 EUR, Q3 2019).
- A ceiling of AUD 100 million and a minimum floor of AUD 20 000 apply to qualifying R&D expenditures.

Table 1. Main design features of R&D tax incentives in Australia, 2019†

<table>
<thead>
<tr>
<th>R&amp;D tax incentive</th>
<th>Tax credit</th>
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<tbody>
<tr>
<td><strong>Type of instrument</strong></td>
<td>Volume-based</td>
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<tr>
<td><strong>Eligible expenditures</strong></td>
<td>Current, depreciation (machinery and equipment)</td>
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<td><strong>Refund</strong></td>
<td>SME Yes (entities with aggregated turnover of less than AUD 20 million)</td>
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<tr>
<td><strong>Large</strong></td>
<td>No</td>
</tr>
<tr>
<td><strong>Carry-over (years)</strong></td>
<td>Indefinite (carry-forward)</td>
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</table>
| **Thresholds & ceilings** | Floor:
| 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

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. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Australia is estimated at 0.19 (0.19), identical to (above) the OECD median of 0.19 (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 0.14 (0.10).

Across the four scenarios considered, the generosity of R&D tax incentives has increased in Australia over the 2000-19 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 the short-term drop in implied tax subsidy rates in 2002, 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 with 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. Under the R&D tax offset, a ceiling of AUD 100 million applies to the amount of eligible R&D expenditure. If this ceiling is modelled, the R&D tax subsidy rate for large firms in 2019 drops from 0.10 (0.07) to 0.07 (0.05) in the profit (loss)-making scenario, while the one for SMEs, operating below this ceiling, remains unchanged.

Figure 1. Implied tax subsidy rates on R&D expenditures: Australia, 2000-19
1-B-Index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific notes) 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.

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Public support for business R&D: the policy mix

Australia is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a value equivalent to 0.19% of GDP in 2015 (latest figure available).

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)
As a percentage of GDP

- From 2006 to 2015, government support for BERD as a percentage of GDP increased in Australia by 0.06 pp, while the OECD median (2006-2017) increased by 0.015 pp.
- During this period, business R&D intensity in Australia declined from 1.16% to 1%.
- In 2015, R&D tax incentives accounted for 88% of total government support for BERD in Australia.

Trends in government support for business R&D
Between 2000 and 2015, the importance of R&D tax incentives has increased in Australia, both in absolute and relative terms.

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

- The cost of R&D tax relief rose (in 2010 prices) from AUD 637 million in 2000 to 2,750 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 65% in 2006 to 88% in 2015.


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