

R&D Tax Incentives: Australia, 2020

Design of R&D tax relief provisions

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

Table 1. Main design features of R&D tax incentives in Australia, 2020

		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 (limited exceptions)
	Ceiling (R&D expenditure)	AUD 100 million

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key features:

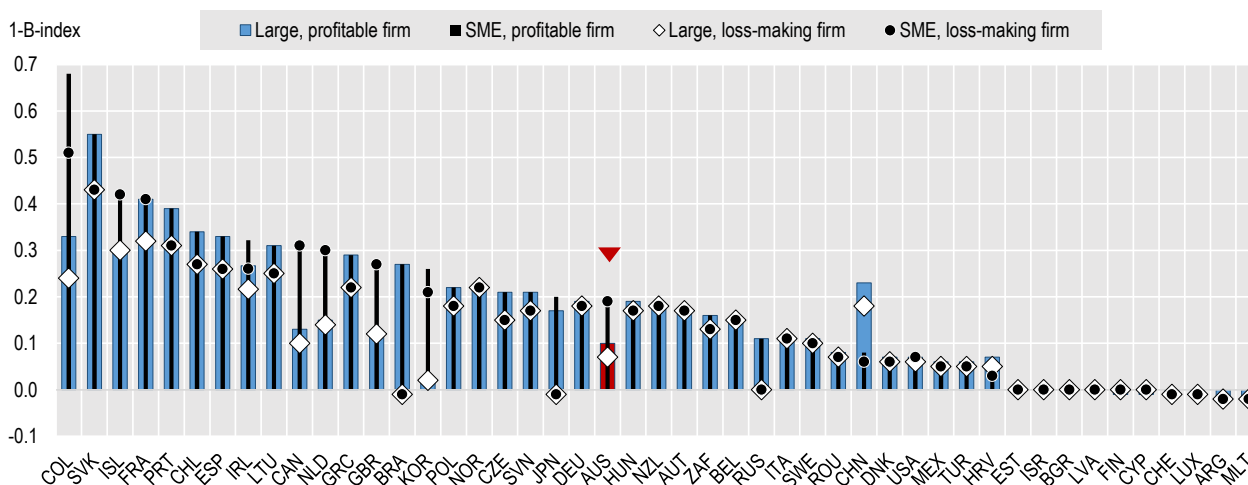
- In case of insufficient tax liability, unused credits can be carried-forward indefinitely and are refundable for firms with a turnover of less than AUD 20 million (1 AUD = 0.612 EUR, Q3 2020).
- A ceiling of AUD 100 million and a minimum floor of AUD 20 000 apply to qualifying R&D expenditures.

Generosity of R&D tax support in 2020

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 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Australia** is estimated at 0.19 (0.19), slightly below (above) to the OECD median of 0.20 (0.18). The implied R&D tax subsidy rate for large enterprises is equal to 0.10 (0.07) in the profit (loss)-making scenario, below the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: Australia, 2020

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 based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **Australia** undertook **a number of changes** to the R&D Tax Incentive, which apply from 1 July 2021. These include:

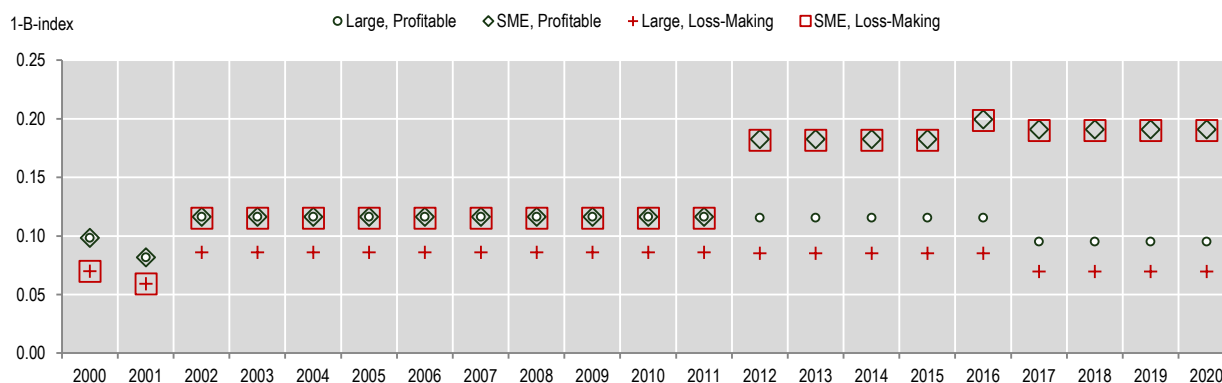
- The existing annual R&D expenditure ceiling has been increased from AUD 100 million to 150 million.
- The refundable R&D tax offset for small companies, those with aggregated annual turnover of less than \$20 million, has been set at 18.5 percentage points above the claimant's company tax rate. The rates of the non-refundable tax offset have been tied to a company's incremental R&D intensity, which is R&D expenditure as a proportion of total expenses for the year. The marginal R&D premium will be the claimant's company tax rate plus:
 - 16.5 percentage points for R&D expenditure above 2 per cent R&D intensity; and
 - 8.5 percentage points for R&D expenditure between 0 per cent and 2 per cent R&D intensity.
- In **response to the COVID-19 crisis**, the Government also extended the R&D Tax Incentive registration application deadline for the July 1, 2018 to June 30, 2019 income year until September 30, 2020.

Trends in the generosity of R&D tax support

Across the four scenarios considered, the generosity of R&D tax incentives has increased in **Australia** over the 2000-20 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 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 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 2020 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 2. Implied tax subsidy rates on R&D expenditures: Australia, 2000-20

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 based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

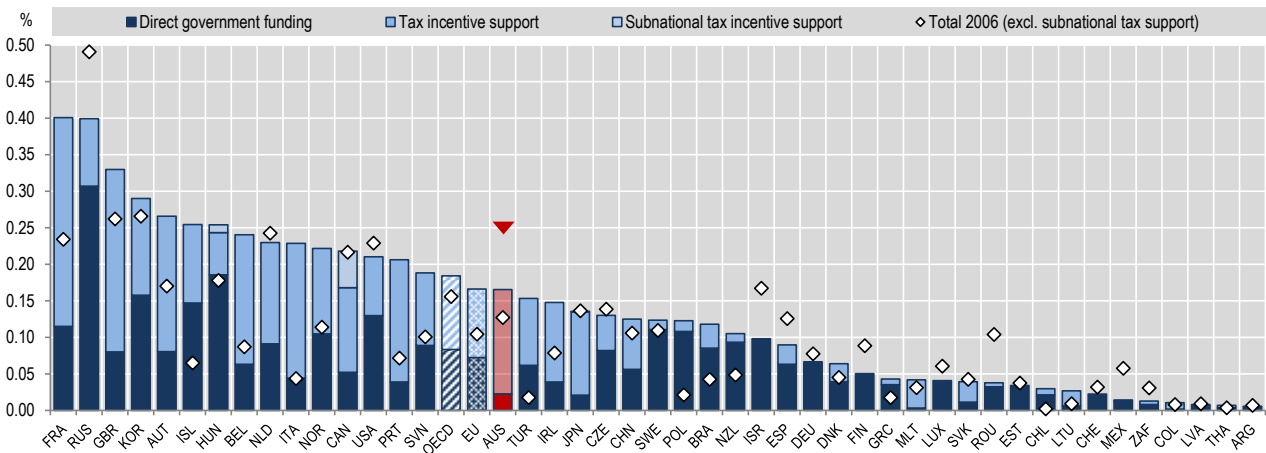
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Policy support for business R&D: the policy mix

Australia is placed below the OECD average in terms of total government support to business R&D as a percentage of GDP, at a value equivalent to 0.166% of GDP in 2017 (latest figure available).

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Key points:

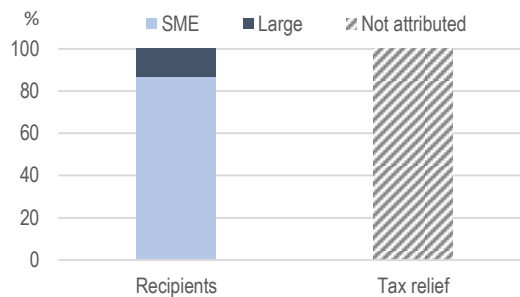
- From 2006 to 2017, government support for BERD as a percentage of GDP increased in **Australia** by 0.04 percentage point (pp), while the OECD average (2006-2018) increased by 0.03 pp.
- During this period, business R&D intensity in **Australia** declined from 1.16% to 0.94%.
- In 2017, R&D tax incentives accounted for 86% of total government support for BERD in **Australia**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018

By firm size*, share in percent



Note: Figures refer to the R&D tax incentive. Recipient figures refer to claims. *SMEs are defined as firms with less than AUD 20 million annual aggregated turnover.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

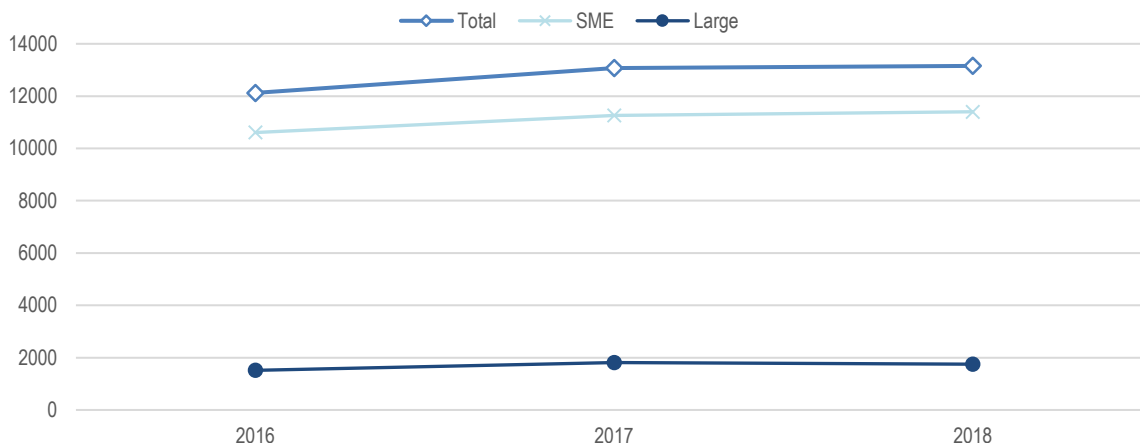
Key points:

- In **Australia**, SMEs accounted for 87% of R&D tax relief recipients, whereas large firms for 13% in 2018. Relevant data on the distribution of government tax relief for R&D by firm size are currently not available.

Trends in the uptake of R&D tax incentives

Over the period 2016-2018 (for which relevant data are available), the number of R&D tax relief recipients increased slightly in **Australia**, from 12 123 in 2016 to 13 156 in 2018. Throughout these years, SMEs accounted for nearly 90% of R&D tax relief recipients in **Australia**.

Figure 5. Number of R&D tax relief recipients, Australia, 2016-2018



Note: Figures refer to R&D tax incentive scheme and correspond to claims rather than recipients.

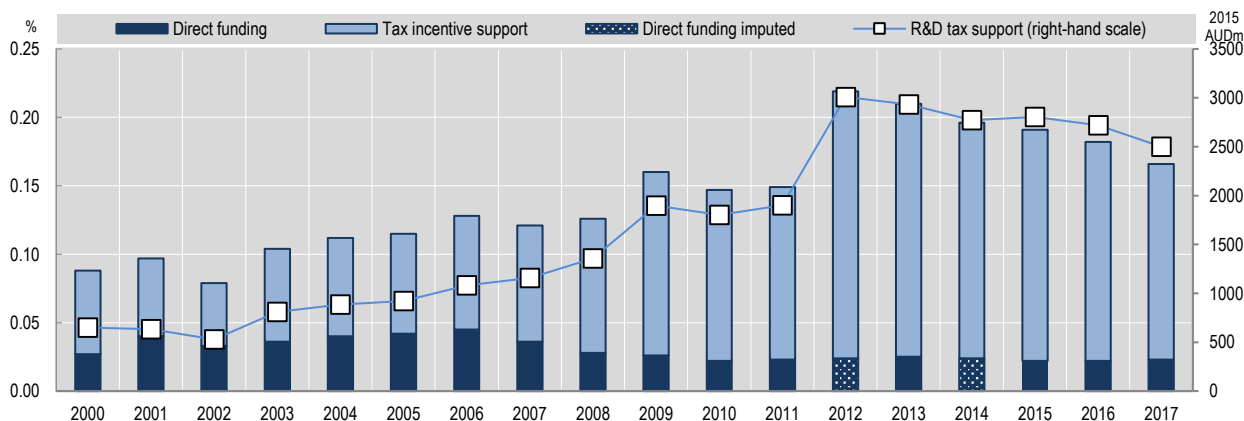
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

Between 2000 and 2017, the importance of R&D tax support has increased significantly in **Australia**, both in absolute and relative terms, reaching a peak in 2012 and slightly declining from then onward.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Australia, 2000-17

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) from AUD 650 million in 2000 to 2 500 million in 2017, 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 0.14% of GDP in 2017.
- 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 0.045% of GDP in 2006 to 0.02% of GDP in 2017.
- The share of R&D tax incentives in total government support increased steadily from 65% in 2006 to 86% in 2017.

Please cite this note as: OECD (2021). "R&D Tax Incentives: Australia, 2020", www.oecd.org/sti/rd-tax-stats-australia.pdf, Directorate for Science, Technology and Innovation, March 2021.

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