

How to get paid to innovate

In small business, you often need to innovate to survive. Despite this, the level of research and development (R&D) claims by the small business community is minuscule. While small business employs about half of the workforce, it only represents just over 10% of all R&D claimed.

But many SMEs complete research and development work in their business without recognising that this is what they are doing. If your business is undertaking R&D work, then you could be eligible for additional tax concessions or even a cash refund from the Government. So, what's holding everyone back?

Let's call it the scientist syndrome. R&D is often thought of as being something that people in lab coats do with test tubes in a fairly clinical environment. The reality however is that where a business seeks out innovation, is testing and trialling processes, and where there is an inherent risk that the test might fail then it is likely the work being carried out is R&D. It's all about developing new products or product variations that can be commercialised to add value to your business. Your testing might be carried out in your factory, office, or warehouse. You don't need a research laboratory and a science degree to qualify.

There is a government incentive program for R&D work carried out by business. This is administered through [Ausindustry](#) but your claim is made through your tax return. To make a claim you need to be registered prior to lodging your tax return. Once your claim is submitted to Ausindustry, they will provide you with a claim number and this is included in your tax return. Your application to Ausindustry must be made by no later than 10 months after the end of the financial year. So, assuming you have a 30 June balance date, you need to have submitted your application by 30 April. This only gives you limited time to act.

The two main concessions currently are:

- **125% R&D Tax Concession** - This is a general concession allowing eligible companies to deduct 125% of eligible R&D expenditure incurred on eligible Australian-owned R&D activities in their annual tax returns. The basic eligibility requirements must be satisfied to access this tax concession.

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FBT: things you should know

The FBT year runs from 1 April to 31 March. FBT is one of those areas that many employers struggle with; not because the tax is complex but because of the level of detail required to fulfil your obligations.

A problem area: Reportable superannuation contributions

Reportable superannuation contributions need to be disclosed on employee payment summaries. The need to report reportable superannuation contributions has been in place since 2010 but it is clear that employers are making mistakes.

Broadly, contributions made by an employer will be captured by these disclosure rules if the employee has had the ability to influence the amount of a super contribution or the manner in which it is contributed. The following are examples of situations in which employers would be required to disclose the contributions on payment summaries:

- Contributions made under an effective salary sacrifice arrangement in excess of the 9% super guarantee amount;
- Contributions in excess of the 9% super guarantee amount that are made in accordance with an employment contract or agreement;
- Contributions that exceed the 9% super guarantee amount and are made to family members who are employed by a family-owned business. *Continued over the page..*

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- **R&D Tax Offset** - This tax offset allows small companies who are in a tax loss to cash-out their tax concession entitlements. The tax offset is paid at the rate of 30 cents for each dollar of deduction that would have otherwise been claimable. For early stage companies (or where you are in a tax loss position), this can be a valuable boost to your cash flow. You can cash-out the tax losses that have been incurred in your R&D work.

To be eligible for the R&D tax concession, you must meet all of the eligibility requirements. It is important that you have assessed your eligibility for a specific claim. The basic requirements to be satisfied to access the R&D tax concessions are:

- The entity must be a company incorporated in Australia, not acting in the capacity as a trustee.
- The activities must qualify as R&D activities. R&D activities are activities which are either 'systematic, investigative and experimental activities involving innovation or high levels of technical risk' (SIE activities), or activities which are directly related to carrying on the SIE activities.
- A R&D plan and adequate R&D records are maintained.
- A minimum of \$20,000 R&D expenditure was incurred unless the R&D is contracted to an approved Registered Research Agency.

There are some additional requirements for claiming the tax offset and premium.

If you think your business might be eligible for the concessions, speak to us today. You are likely to need advice in this area and assistance to prepare your claim. Like most other tax areas, you self-assess your R&D claim but need to be able to substantiate it if it is queried or subject to audit. Where you are undertaking R&D activities you should take advantage of these additional assistance programs as they will help defray some of your costs and provide a cash flow boost. You lose nothing by asking us to check your likely eligibility – but do it before 30 April!

Quote of the month

If we did all the things we are capable of, we would literally astound ourselves.

Thomas A. Edison

FBT things you should know *continued*

It is important to note that the \$2,000 threshold that normally applies to reporting fringe benefits on payment summaries does not apply to reportable super contributions.

Even though the employee will not be taxed on the amounts reported, they will be taken into account in determining entitlement to certain tax and Centrelink benefits as well as liability for certain tax liabilities such as Medicare levy surcharge.

How do I know if I need to pay FBT?

Here are some key questions you should ask yourself:

- Do you make vehicles owned by the business available to employees for their personal use?
- Do you provide loans at reduced interest rates to employees?
- Have you released an employee from a debt they owed?
- Have you paid for, or reimbursed, an expense incurred by an employee?
- Do you provide a house or unit of accommodation to your employees?
- Do you provide employees allowances for living away from home?
- Do you provide entertainment - food, drink or a form of recreation - to your employees?
- Do any of your employees have a salary package arrangement in place?
- Have you provided your employees with goods at a lower price than they are normally sold to the public?

Answer 'yes' to any of these and you are likely to be caught by FBT.