Foreword

This publication has been produced to assist in the completion of the *Research and development tax concession schedule 2003*, referred to in these instructions as the R&D schedule.

This publication is NOT a guide to income tax law. More detailed information is available in other publications. Other publications you may need to refer to when completing the R&D schedule are:

- *Company tax return 2003 instructions* (NAT 0669—6.2003)
- *Guide to depreciating assets* (NAT 1996—6.2003)
- *Guide to the R&D tax concession* (available from **www.ausindustry.gov.au**)
- *Income Tax Assessment Act 1936*
- *Income Tax Assessment Act 1997*
- *Industry Research and Development Act 1986*

To find out how to obtain copies of these publications, see the inside back cover of these instructions.

This publication contains a number of abbreviations for names or technical terms. While each term abbreviated is spelt out the first time it is used we have also provided a list of abbreviations for you to refer to; this abbreviations list appears on page 19. A list of definitions appears on page 20. We have also provided a list of taxation rulings and taxation determinations referred to in this publication, with their full titles; this list appears on page 19.

Please get help from the Australian Taxation Office (ATO) or a professional tax practitioner if you feel this publication does not fully cover your circumstances.

As part of our commitment to producing accurate publications, a taxpayer will not be subject to penalties if it is demonstrated that a tax claim is based on wrong information contained in this publication. However, interest may be payable depending on the circumstances of each case.

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Overview

These instructions and the attached R&D schedule are provided to assist companies in complying with the legislative and administrative requirements for claiming deductions for research and development (R&D) expenditure in their tax returns. For a fuller explanation of the R&D tax concession refer to the joint AusIndustry/ ATO publication *Guide to the R&D tax concession*.

Electronic version

An electronic spreadsheet version of the R&D schedule is also available on the ATO website at **www.ato.gov.au** This document automates the calculation of R&D deductions and when completed can be accepted as an official schedule. It can be located by following the steps provided below:

1. Visit **www.ato.gov.au**
2. Select 'search and contents' from the menu on the left-hand pane on the screen.
3. Type 'research and development' into the search box.
4. Select reference to 'electronic schedule' from results.
5. If you are unable to enter data into the downloaded schedule, remove the protection by choosing 'Protection' from the Tools menu and select 'Unprotect sheet'.

Who is required to complete an R&D schedule?

All companies making a claim in their tax returns in respect of R&D activities under the R&D tax concession (sections 73B to 73Z of the *Income Tax Assessment Act 1936* (ITAA 1936)) are required to complete and lodge the R&D schedule.

Who is eligible to claim the R&D tax concession?

Companies that may be entitled to R&D deductions are as follows:

- eligible companies that have registered their research and development activities with the Industry, Research and Development Board (IRDB) through AusIndustry (Department of Industry, Tourism and Resources), for the income year ended 30 June 2003. An eligible company as defined in subsection 73B(1) of ITAA 1936 is a body corporate incorporated under a law of the Commonwealth or of a state or territory.
- the head company of a consolidated group where at least one of the subsidiary companies in the group is an eligible company and is registered with the IRDB (section 73BAB of ITAA 1936).

Note: The concession is not claimable in situations where an eligible company incurs expenditure in the capacity of a trustee or nominee other than in the capacity of a trustee of a public trading trust—see subsection 73B(3) of ITAA 1936.

The tax concession is available only in respect of expenditure on eligible R&D activities. The IRDB and AusIndustry have responsibility for determining whether activities carried out are eligible R&D activities. For further information contact the AusIndustry Hotline on **13 28 46** or visit the AusIndustry website at **www.ausindustry.gov.au**

Applications for registration of R&D activities must be lodged with the IRDB within 10 months of the end of the income year.

Note: Registration is a prerequisite for deduction, and must be obtained prior to making a claim in the company's tax return. Companies choosing to claim the R&D tax offset (see page 18) must do so in their return of income (which includes the R&D schedule) and must be registered at that time.

Administrative

There are five labels on the *Company tax return 2003* relating to the R&D tax concession:

- label **D—R&D accounting expenditure claimed under the R&D concession**
- label **L—R&D concession claim (100%, 125% not 50% increment)**
- label **M—R&D incremental concession—additional 50% increment**
- label **Y—Election to take R&D tax offset**
- label **U—R&D tax offset**

These labels are located at item 7—Reconciliation to taxable income or loss on page 2 and the **Calculation statement** on page 4 of the *Company tax return 2003*.

Before you complete the R&D schedule

The following list is not exhaustive.

General

- Complete label **D—R&D accounting expenditure claimed under R&D tax concession** in item 7—Reconciliation to taxable income or loss in the *Company tax return 2003*. See **Preliminary calculation—label D** on page 4 in these instructions.
- Calculate the aggregate R&D amount to ensure that you have in excess of $20,000 of this type of expenditure and to determine whether expenditures under subsections 73B(14), (15) and section 73BA of ITAA 1936 qualify for the 100% or 125% deduction. See 'aggregate R&D amount' in the definitions list on page 20.
- Calculate the amounts incurred for each category of expenditure available for deduction under section 73B of ITAA 1936.

Consolidated groups

- For **consolidated groups** the amounts to be used as the base amounts in the calculation of the R&D tax concession deductions must be on a consolidated basis (that is, with all intra-group transactions eliminated) and not an aggregated basis (that is, simply aggregating each group company's expenditure).

Clawback (government grants and recoupments—other than CRC program grants)

- Determine whether the company or any company required to be grouped with the company received or was entitled to receive a grant or recoupment in respect of any amounts claimed under the R&D tax concession, and undertake any clawback calculations required as a result of this, in accordance with section 73C of ITAA 1936.
- For the operation of the clawback rules where a subsidiary leaves or joins a consolidated group refer to sections 73BAE of ITAA 1936 and section 701-5 of ITAA 1997, respectively.
- See also **Important notes on completing the R&D schedule** on page 3 in these instructions and Part C of the R&D schedule if clawback applies.

Prepayments

- Adjust the amount of expenditure incurred in accordance with the prepayment provisions, contained in sections 82KZL to 82KZMF of ITAA 1936 and subsection 73B(11) of ITAA 1936.

Intra-group mark-up

- Adjust the amount of expenditure to be claimed in accordance with the intra-group mark-up provisions (subsections 73B(14AA)–(14AD) of ITAA 1936).

Overseas expenditure

- Determine expenditures relating to overseas R&D activities. Companies must have an overseas provisional certificate from the IRDB (section 39ED of the *Industry Research and Development Act 1986* (IRADA 1986)) to be eligible to claim overseas expenditure.

Depreciating assets/plant

- Determine any amounts available for deduction as depreciation under sections 73BH, 73BJ, 73BA and 73BC of ITAA 1936 and Division 40 of ITAA 1997. Refer to the publication *Guide to depreciating assets*.

Core technology

- Determine the deductible amount of core technology expenditure in accordance with subsections 73B(12)–(12B) of ITAA 1936.

Incremental expenditure

- Determine eligibility to the incremental tax concession under section 73Q of ITAA 1936.

Grouping rules

- Determine which entities are in the company group in accordance with sections 73L, 73M and 73R of ITAA 1936.
- Note that a head company of a consolidated group will also need to consider these provisions (for example, where it is grouped with other entities with less than 100% control or ownership).

Expenditure that is not at risk

Apply section 73CA of ITAA 1936 to any expenditure for which the company was not at risk or section 73CB of ITAA 1936 to any expenditure incurred to a tax-exempt body which was not at risk.

Roll-over relief

- Apply sections 73E, 73F and 73G of ITAA 1936 to relevant expenditure.

GST

- Adjust expenditure amounts to take account of any entitlement to GST credits. Refer to Division 27 of ITAA 1997.

Lodging the R&D schedule

Post the completed schedule to the following address:

Innovation Segment
Australian Taxation Office
GPO Box 2540
ADELAIDE SA 5001

Amendments

An R&D schedule must be completed when there is a request for an amendment that includes changes to a company's R&D claim. The amended figures must be shown in the R&D schedule. This schedule must be forwarded, together with a letter requesting the amendment, to:

Innovation Segment
Australian Taxation Office
GPO Box 2540
ADELAIDE SA 5001

This applies only to the income year ended **30 June 2002** and subsequent income years.

Research and development website

Information related to the R&D tax concession is available through the research and development website. The website is located at **www.ato.gov.au** and can be accessed by entering 'research and development' in the search function.

For enquiries relating to the preparation and lodgment of this schedule phone the Business Infoline on **13 28 66**.

AusIndustry contact details

For information regarding registration for the R&D tax concession and determination of eligible R&D activities which qualify for the concession, contact:

AusIndustry	
Hotline number	**13 28 46**
Website	**www.ausindustry.gov.au**

The publication *Guide to the R&D tax concession* is also available on the website.

Important notes on completing the R&D schedule

Answer all items on the schedule, including yes/no items that apply. If an item or label does not apply, leave it blank.

Base amount column

In respect of Part A of the schedule, items 1 to 14, the base amount for each item is the amount of the deduction available for the particular classification of expenditure BEFORE any additional concessional component is added. The three columns adjacent to the base amount column allocate the base amount into three parts, according to the level, if any, of concession that those parts attract (100%, 125% and 150%). Where a label is shaded out on the schedule, that expenditure does not attract that level of the concession. Do not add in the amount of the additional concession in these labels—this is done at item 16.

Claimable at 100% column

The 'Claimable at 100%' column includes but is not limited to:

- expenditure to which **clawback** applies (section 73C of ITAA 1936)
- expenditure which represents an **intra-group mark-up** (subsections 73B(14AA)–(14AD) of ITAA 1936), or
- expenditure which is subject to the operation of section 73CA or 73CB of ITAA 1936 (expenditure not at risk or expenditure incurred to tax-exempt bodies which is not at risk).

Claimable at 125% column

Include in this column all amounts that are eligible as a deduction at the rate of 125%.

Claimable at 150% column

The 'Claimable at 150%' column **will apply in very limited circumstances** to expenditures which are covered under the 1996 transitional rules applying at the time of the change of the concessional rate from 150% to 125%.

Incremental tax concession deduction

Part A of the R&D schedule **does not** calculate any incremental tax concession deduction (50% Premium)—this is determined at Part D.

General schedule information

Original or Amended claim

If the company has previously lodged a schedule for the 2003 year of income print **X** in the box at the right of **Amended**; otherwise print **X** in the box at the right of **Original**.

Company name

Print the name of the company. The name shown must be the same as that shown on the company's tax return.

Tax file number (TFN)

Write the TFN of the company.

AusIndustry/IRDB registration number

Print the AusIndustry/IRDB registration number issued to the company for this income year in respect of registered activities. If as a head entity of a consolidated group you are not registered with AusIndustry for the current year, print the registration number of any one company in the consolidated group that has been registered.

Signature as prescribed in tax return

The person who is required to sign, and who signs, the company tax return is also required to sign the R&D schedule.

Australian business number (ABN)

Write the company's ABN.

Preliminary calculation—label D

Show at label **D** the write-back of R&D accounting expenditure from expense amounts included at the appropriate expenditure labels in item 6—Calculation of total profit or loss, in the *Company tax return 2003*. The amount shown here must be the same as the amount shown at item 7, label **D**—**R&D accounting expenditure claimed under R&D concession** at item 7 in the company tax return. If no expense amounts relating to R&D deductions have been included at item 6 in the company tax return—for example, amounts are capitalised—enter zero at label **D**.

For consolidated groups

If aggregated expenditure has been used for accounting R&D expenditure under item 6 of the company tax return, then the full amount of this aggregated expenditure must be added back at item 7, label **D** of the company tax return.

PART A Calculation of research and development deduction

Item 1 Contracted expenditure—registered research agency (RRA)

Show at this item expenditure on items included in paragraph (c) of the definition of 'contracted expenditure' under subsection 73B(1) of ITAA 1936, adjusted as required under subsection 73B(11) of ITAA 1936 for advance and accelerated expenditure. Contracted expenditure means expenditure incurred by an eligible company to a body (not being an associate of the eligible company) that was, or is taken to have been, registered under section 39F of IRADA 1986 when the expenditure was incurred as a research agency in respect of the class of R&D activities on which the expenditure was incurred. That is, the registered body is an RRA.

Expenditure will qualify as contracted expenditure only where, at the time the expenditure was incurred, the eligible company was capable of utilising, or had formulated a plan to utilise, any results of the R&D directly in connection with a business that that company carried on or proposed to carry on (subsection 73B(1B) of ITAA 1936).

Show at label **A** the total amount of contracted expenditure—RRA incurred (the base amount).

Show at label **B** any amount of the contracted expenditure claimable at 100%.

Show at label **C** any amount of the contracted expenditure claimable at 125%.

Show at label **D** any amount of the contracted expenditure claimable at 150%.

The total of the amounts at labels **B**, **C** and **D** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- subsection 73B(1B) of ITAA 1936
- *Guide to the R&D tax concession*
- Taxation Ruling IT 2451
- Taxation Ruling IT 2442.

Item 2 Salary expenditure

Show at this item the amount of salary expenditure as defined in subsection 73B(1) of ITAA 1936, for those employees who are actually engaged in carrying out an eligible R&D activity including:

- salaries, wages, allowances, bonuses, overtime payments, penalty rate payments, annual leave, sick leave and long service leave, and
- on-costs such as contributions to a superannuation fund, premiums for workers' compensation insurance and payroll tax.

It may be necessary to apportion the expenditure incurred between R&D and non-R&D activities. For more information refer to Taxation Ruling IT 2552, paragraphs 4–12.

This item does not include:

- salary expenditure incurred in respect of the construction of R&D plant, depreciating assets, structural improvements or buildings
- salary expenditure of R&D support staff not directly connected with the research activity—these should be taken into account at item 3—Other R&D expenditure
- salary expenditure claimed that is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Show at label **E** the total R&D salary expenditure incurred (the base amount).

Show at label **F** any amount of the total R&D salary expenditure claimable at 100%.

Show at label **G** any amount of the total R&D salary expenditure claimable at 125%.

The total of the amounts at labels **F** and **G** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- Taxation Ruling IT 2552
- Taxation Ruling IT 2442
- Taxation Ruling TR 2002/1
- *Guide to the R&D tax concession*.

Item 3 Other R&D expenditure

Show at this item other R&D expenditure, as per paragraph (c) of the definition of 'research and development expenditure', subsection 73B(1) of ITAA 1936, incurred directly in respect of R&D activities carried on by or on behalf of the company.

Do NOT include amounts to be shown at item 4—Contract—other or item 5—Plant leasing.

Taxation Ruling IT 2552 states that expenditure is directly in respect of R&D activities where:

- the carrying on of eligible R&D activities contributed to the incurring of all or an identifiable part of the expenditure, or
- the conduct of eligible R&D activities by the company would be materially impaired if the expenditure were not incurred.

For further information relating to this classification refer to Taxation Ruling IT 2442, paragraphs 12–19 and Taxation Ruling IT 2552, paragraphs 13–21.

The amount of other R&D expenditure claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Other R&D expenditure does NOT include the following:

- core technology expenditure
- interest expenditure
- feedstock expenditure (eligible feedstock expenditure and residual feedstock expenditure are to be shown against separate items)
- expenditure incurred in the acquisition or construction of plant or pilot plant or a building or an extension, alteration or improvement to a building
- expenditure incurred in the acquisition or construction of a section 73BA of ITAA 1936 depreciating asset.

Show at label **H** the total amount of other R&D expenditure incurred, excluding any amounts to be shown at item 4 or 5 (the base amount).

Show at label **I** any proportion of other R&D expenditure claimable at 100%.

Show at label **J** any proportion of other R&D expenditure claimable at 125%.

Show at label **K** other R&D expenditure claimable at 150%.

The total of the amounts at labels **I**, **J** and **K** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- *Guide to the R&D tax concession*
- Taxation Ruling IT 2451
- Taxation Ruling IT 2442
- Taxation Ruling IT 2552 and IT 2552A.

Item 4 Contract—other

This item is a component of paragraph (c) of the definition of research and development expenditure in subsection 73B(1) of ITAA 1936—Other R&D expenditure and requires any expenditure to be shown which is incurred under a contract to another party (other than an RRA) that is directly in respect of R&D activities carried on by or on behalf of the company.

This item excludes:

- contracted expenditure—RRA, which must be shown at item 1
- expenditure under a contract that is in substance for the acquisition of plant.

The amount of contract other expenditure claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936). Subsection 73B(9) of ITAA 1936 does not allow a deduction in respect of expenditure incurred on research and development activities on behalf of any other person.

Where the payment is to another group member, adjust the amount of expenditure to be claimed in accordance with the intra-group mark-up provisions (subsections 73B(14AA)–(14AD) of ITAA 1936).

Show at label **N** the total amount of contract other expenditure incurred (the base amount).

Show at label **O** any amount of the contract other expenditure claimable at 100%.

Show at label **P** any amount of the contract other expenditure claimable at 125%.

Show at label **Q** any amount of the contract other expenditure claimable at 150%.

The total of the amounts at labels **O**, **P** and **Q** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- *Guide to the R&D tax concession*
- Taxation Ruling IT 2451
- Taxation Ruling IT 2442.

Item 5 Plant leasing

This item is a component of paragraph (c) of the definition of research and development expenditure in subsection 73B(1) of ITAA 1936 and requires any expenditure to be shown which is incurred in the hire or leasing of an item of plant, that is directly in respect of R&D activities carried on by or on behalf of the company.

The amount of plant leasing expenditure claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Show at label **R** the total amount of plant leasing expenditure incurred (the base amount).

Show at label **S** any amount of the plant leasing expenditure amount claimable at 100%.

Show at label **T** any amount of the plant leasing expenditure amount claimable at 125%.

Show at label **U** any amount of the plant leasing expenditure claimable at 150%.

The total of the amounts at labels **S**, **T** and **U** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- *Guide to the R&D tax concession*
- Taxation Ruling IT 2442.

Items 6 and 14 Feedstock expenditure

To ascertain any amounts to be included at these two labels, you will need firstly to determine the following amounts:

- **Feedstock expenditure** is expenditure incurred in acquiring or producing materials or goods to be the subject of processing or transformation by the company in R&D activities. It includes expenditure on energy directly input into the processing or transformation of these materials or goods.
- **Feedstock input** is feedstock expenditure in respect of materials or goods that were the subject of processing or transformation in R&D activities during the year of income.
- **Feedstock output** is the sales proceeds or value of any products that were obtained during the year of income from the processing or transformation of the materials or goods that were the subject of feedstock expenditure. It is either the amount received or receivable for the products sold in arm's length transactions or, if not sold, or not sold in an arm's length transaction, that amount that would have been received if they had been sold in an arm's length transaction.

Item 6 Eligible feedstock expenditure

Include here the amount of eligible feedstock expenditure as defined in subsections 73B(1) and (1A) of ITAA 1936, with respect to related R&D activities. It is the excess of the **feedstock input over the feedstock output** for the related activities, in the year of income. The eligible feedstock expenditure will attract the additional 25% concession component.

Where the company has an amount of eligible feedstock expenditure, include this amount at item 6. The remainder of feedstock input will be shown at item 14 as residual feedstock expenditure. For further information see page 11.

Note: The amount of eligible feedstock expenditure claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Show at label **V** the total amount of eligible feedstock expenditure (the base amount).

Show at label **W** any amount of eligible feedstock expenditure claimable at 100%.

Show at label **X** any amount of the eligible feedstock expenditure claimable at 125%.

The total of the amounts at labels **W** and **X** must equal the base amount.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- subsection 73B(1A) of ITAA 1936
- *Guide to the R&D tax concession*.

Item 7 Plant and post 23 July 1996 pilot plant deductions—pre-29 January 2001 (including loss adjustments)

This item includes plant and pilot plant deductions and balancing loss adjustments in respect of a unit of plant that is acquired under a contract entered into or commenced to be constructed prior to 12pm (midday) Eastern Standard Time on 29 January 2001. The relevant amounts should be added together, as explained below, and shown at the appropriate labels. If the company has a balancing profit under paragraphs 73B(23)(f) or 73B(24)(g) of ITAA 1936, this profit amount is to be included at item 8. Each of these types of deduction is considered separately in the following paragraphs and the amounts are to be added together.

Deductions for plant expenditure

Include at this item one-third of the amount of 'qualifying plant expenditure' for the year of income (subsections 73B(4) and (5) of ITAA 1936). To have an amount of qualifying plant expenditure, the company's intention at the time it incurred the expenditure on the unit of plant must have been to use the unit of plant exclusively for R&D activities, for at least an initial period (definition of 'plant expenditure' in subsection 73B(1) of ITAA 1936), and the company must have satisfied the actual exclusive use tests contained in subsections 73B(4) and (5) of ITAA 1936. No amount can be claimed as qualifying plant expenditure where R&D activities ceased during the year of income (subsection 73B(5) of ITAA 1936).

Where these conditions are satisfied, one-third of the amount of qualifying plant expenditure forms the basis of the deduction allowable (subsection 73B(15) of ITAA 1936).

Note:

- Where the unit of plant has been used exclusively for R&D activities by another person and consideration has been paid or is payable to the owner of the unit of plant, the deductible plant expenditure is reduced by one-half of the consideration received (subsection 73B(15A) of ITAA 1936).
- The amount of plant deductions claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).
- Where plant expenditure is deductible under section 73B(15)(ITAA 1936), and as a result of the company joining a consolidated group, the tax cost is 'set' for that plant asset (refer to section 701-10 and 701-55 of ITAA 1997), an adjustment may be required to any deduction allowable for the decline in value of that asset (ITAA 1936). (Refer to section 73BAF of ITAA 1936.)

Include at label **A** one-third of qualifying plant expenditure, where a deduction for that expenditure is allowable under section 73B(15) of ITAA 1936, as part of the total net amount to be shown at this label (the base amount).

Include at label **B** that part of the amount at label **A** claimable at 100%, as part of the total net amount to be shown at this label.

Include at label **C** that part of the amount at label **A** claimable at 125%, as part of the total net amount to be shown at this label.

Include at label **D** that part of the amount at label **A** claimable at 150%, as part of the total net amount to be shown at this label.

The total of the amounts at labels **B**, **C** and **D** must equal the amount included in the base amount.

Deductions for pilot plant expenditure

Post-23 July 1996 pilot plant is:

- an experimental model of other plant for use in R&D activities or for use in commercial production, being a model that is not for use in commercial production, but that has all of the intended characteristics of the other plant of which it is a model
- plant that is acquired after 23 July 1996 (and prior to 29 January 2001), and
- plant that is acquired or constructed for use by the company exclusively for the carrying on of R&D activities (subsections 73B(1) and 73B(4C) of ITAA 1936).

A deduction for expenditure in acquiring or constructing such an item of pilot plant is only allowable where the unit of pilot plant is used exclusively for the purpose of carrying on R&D activities during the year of income.

Include as the base amount at this item **the annual deduction percentage** of the qualifying pilot plant expenditure in respect of such items, as calculated under subsection 73B(4D) or (4E) of ITAA 1936. In establishing this amount, where:

- the qualifying pilot plant expenditure is $300 or less, or
- the useful life of the qualifying pilot plant is less than three years,

the annual deduction percentage is 100% as per subsection 73B(4G) of ITAA 1936.

Otherwise, determine the annual deduction percentage to be used in calculating the amount eligible for deduction as two-thirds of the percentage shown in the table in subsection 73B(4H) of ITAA 1936.

Note:
- To determine useful life for the purposes of applying this table, Subdivision 42-C of ITAA 1997 applies (refer to subsection 73B(4J) of ITAA 1936).
- For pilot plant acquired or constructed after 29 January 2001, see item 9.
- The amount of pilot plant expenditure claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Include at label **A** the annual deduction percentage of pilot plant expenditure as part of the total net amount to be shown at this label (the base amount).

Include at label **B** the annual deduction percentage of pilot plant expenditure claimable at 100%, as part of the total net amount to be shown at this label.

Include at label **C** the annual deduction percentage of pilot plant expenditure claimable at 125%, as part of the total net amount to be shown at this label.

The total of the amounts at labels **B** and **C** must equal the amounts included in the base amount.

Note: The sum of all post-23 July 1996 pilot plant deductions allowable (for all years) to a company in respect of such pilot plant, must not exceed the qualifying pilot plant expenditure multiplied by 1.25 (subsection 73B(15AB) of ITAA 1936).

Balancing adjustments (loss) on the disposal of plant and pilot plant

Balancing adjustments under subsections 73B(23) and 73B(24B) of ITAA 1936 may arise where items of plant/pilot plant whose expenditure has attracted deduction under subsections 73B(15) and 73B(15AA) of ITAA 1936 are disposed of, lost or destroyed after being used exclusively for the carrying on of R&D activities, provided no deduction is allowable to the company for depreciation under Division 42 of ITAA 1997. The consideration received for the plant at the time of disposal may vary from the written-down value (this being the original cost of the item less deductions for qualifying plant expenditure as calculated in accordance with subsections 73B(4A) and 73B(4B) of ITAA 1936). Where this balancing adjustment is a loss it is recorded at this item.

Where the consideration receivable in respect of the disposal, loss or destruction of the unit of R&D plant is less than the written-down value, the amount of this difference is an allowable deduction (paragraphs 73B(23)(e) and 73B(23)(f) of ITAA 1936).

Include at label **A** the amount of any balancing adjustment loss, as part of the total net amount to be shown at this label (the base amount).

Include at label **B** the amount of any balancing adjustment (deduction) amounts claimable at 100%, as part of the total net amount to be shown at this label.

Include at label **C** the amount of any balancing adjustment (deduction) amounts claimable at 125% in accordance with subparagraph 73B(23)(e)(i) of ITAA 1936, as part of the total net amount to be shown at this label.

The total of the amounts at labels **B** and **C** must equal the amount included in the base amount.

For more information refer to:

- subsections 73B(1), (1C), (4), (4A), (4B) to (4J), (5), (5AA), (5AB), (15), (15A) (15AA), (15AB), (18), (20), (21A) and (24A) and (24B) of ITAA 1936
- Subdivision 42-C and section 42-18 of ITAA 1997
- TR 2002/1
- *Guide to the R&D tax concession*.

Item 8 Profits on disposal of pre-29 January 2001 plant and pilot plant

Plant balancing adjustments (profits)

Where the consideration receivable is greater than the written-down value of the unit of plant (paragraph 73B(23)(f) of ITAA 1936), include the amount by which the consideration exceeds the written-down value, up to the limit of the difference between the cost of the plant and its written-down value at this item.

Note: If choosing to take the R&D tax offset, this amount will be required for the calculation of the R&D tax offset entitlement.

Include at label **E** and label **F** the amount of any balancing adjustment (assessable income), as part of the total net amount to be shown at these labels.

Balancing adjustments sale of pilot plant (profits)

Where the consideration receivable is greater than the written-down value of the unit of pilot plant (paragraph 73B(24)(f) of ITAA 1936), include the amount by which the consideration exceeds the written-down value, up to a limit of the difference between the cost of the plant and its written-down value. Include this amount in the calculation of the net base amount to be shown at item 8.

The amount at label **E** must equal the amount at label **F**.

For more information refer to:

- subsections 73B(1), 73B(4B), 73B(15AA), 73B(23), 73B(24), 73B(24B) of ITAA 1936
- *Guide to the R&D tax concession*.

Item 9 Plant and depreciating assets — post-29 January 2001 (decline in value)

This item records deductions for depreciating assets (section 73BB of ITAA 1936), including certain capital works, that are used in carrying on R&D activities and that are begun to be constructed, or acquired under contracts entered into, after 12pm (midday) Eastern Standard Time on 29 January 2001.

The amount allowable is determined through a notional application of the provisions of Division 40 of ITAA 1997, subject to the making of certain assumptions. These are set out in section 73BC of ITAA 1936.

For an asset which is applied to non-R&D purposes as well as R&D use in a year, the R&D portion of the decline in value will be deductible under section 73BA of ITAA 1936, with the remainder being considered for deduction under Division 40 of ITAA 1997.

The *Capital allowances schedule 2003* may need to be completed. For more information refer to the publication *Guide to depreciating assets*.

Note:

- A deduction is not allowable if the company is entitled to a deduction for the asset under the simplified tax system pooling provisions (Subdivision 328-B of ITAA 1997), or a Division 40 low-value pool (section 40-440 of ITAA 1997).
- The amount of plant and depreciating assets claimed is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Show at label **H** the notional Division 40 amount, as determined under sections 73BA to 73BC of ITAA 1936 (the base amount).

Show at label **I** the notional Division 40 amount as determined under sections 73BA to 73BC of ITAA 1936 claimable at 100%, including where the aggregate R&D amount is less the $20,000.

Show at label **J** the notional Division 40 amount as determined under sections 73BA to 73BC of ITAA 1936, claimable at 125%.

The total of the amounts at labels **I** and **J** must equal the base amount.

For more information refer to:

- sections 73BA, 73BB, 73BC of ITAA 1936
- Division 40 of ITAA 1997
- *Guide to the R&D tax concession*
- Division 43 of ITAA 1997.

Items 10 and 11 balancing adjustments — plant and depreciating assets (post-29 January 2001)

Balancing adjustments under subsection 73BF of ITAA 1936 or section 40-292 of ITAA 1997 may arise where section 73BA depreciating assets undergo a balancing adjustment event (disposal) (section 40-295 of ITAA 1997). The termination value of the asset at the time of disposal may vary from its adjustable value just before the event occurred (section 40-300 of ITAA 1997). Where this occurs a balancing adjustment is required. The amount of this balancing adjustment (a loss or a profit [negative]) is recorded at item 10 or 11 respectively.

If the section 73BA depreciating asset has never attracted deductions under Divisions 42 or 40 of ITAA 1997, the balancing adjustment is calculated under section 73BF. For section 73BA depreciating assets that have attracted such deductions, the balancing adjustment is calculated under section 40-292 of ITAA 1997.

Before starting items 10 and 11, refer to the publications *Guide to depreciating assets* and *Guide to the R&D tax concession*.

Item 10 Post-29 January 2001 disposal losses

Where the company is entitled to deduct an amount under section 40-292 of ITAA 1997 following a balancing adjustment event, include the amount of any part of the balancing adjustment that the company is entitled to increase by 25% under the formula in subsection 40-292(4) of ITAA 1997, in the calculation of the base amount for this item.

Where the company is entitled to deduct an amount under section 73BF of ITAA 1936 following a balancing adjustment event, include the amount of any part of the balancing adjustment that the company is entitled to increase by 25% under the formula in subsection 73BF(3) of ITAA 1936 at this label.

Show at label **K** the amount of any balancing adjustment (deduction) (the base amount).

Show at label **N** the amount of any balancing adjustment (deduction) amounts claimable at 100%.

Show at label **O** the amount of any balancing adjustment (deduction) amounts claimable at 125%, in accordance with subsection 73BF(3) of ITAA 1936.

The total of the amounts at labels **N** and **O** must equal the amounts included in the base amount.

For more information refer to:

- section 40-292 of ITAA 1997
- section 73BF of ITAA 1936
- *Guide to the R&D tax concession*.

Item 11 Post-29 January 2001 disposal profits

Where the company is required to include in assessable income an amount under section 40-292 of ITAA 1997 following a balancing adjustment event, include the amount of any part of the balancing adjustment that the company is required to increase by 25% under the formula in subsection 40-292(4) of ITAA 1997 at this label.

Where the company is required to include in assessable income an amount under section 73BF of ITAA 1936 following a balancing adjustment event, include the amount of any part of the balancing adjustment that the company is required to increase by 25% under the formula in subsection 73BF(3) of ITAA 1936 at this label.

Show at label **P** the amount of any balancing adjustment (assessable amount) (the base amount).

Show at label **Q** the amount of any balancing adjustment (assessable amount) amounts claimable at 100%.

Show at label **R** the amount of any balancing adjustment (assessable income) amounts claimable at 125% in accordance with subsection 73BF(3) of ITAA 1936.

The total of the amounts at labels **Q** and **R** must equal the amount included in the base amount.

For more information refer to:

- section 40-292 of ITAA 1997
- section 73BF of ITAA 1936
- *Guide to the R&D tax concession*
- *Guide to depreciating assets*.

Item 12 Core technology—deductible amount

Include at this item deductions for core technology expenditure as defined in subsection 73B(1) and (1AB) of ITAA 1936. Core technology expenditure includes expenditure incurred in acquiring, or in acquiring the right to use, core technology for the purposes of R&D activities which are carried on by or on behalf of the company.

Subsection 73B(12A) of ITAA 1936 limits the deduction allowable for core technology expenditure incurred in a year of income to a maximum of one-third of the amount of R&D expenditure incurred during the year on R&D activities that are related to the core technology.

Under subsections 73B(12A) and 73B(12B) of ITAA 1936, any undeducted amounts of core technology expenditure can be carried forward to future years in which R&D activities related to the core technology take place.

Note:

- The amount of core technology expenditure claimed is to be adjusted in accordance with prepayment provisions (section 82KZL to 82KZMF of ITAA 1936).
- An adjustment may be required where core technology is disposed of (subsections 73B(12A) and 73B(12B) of ITAA 1936).
- Where core technology expenditure is deductible under subsection 73B(12A), and as a result of the company joining a consolidated group, the tax cost of the core technology asset is 'set' (refer to section 701-10 and 701-55 of ITAA 1997), an adjustment may be required to any deductions allowable for the decline in value of that asset under Division 40 (ITAA 1997). (Refer to section 73BAF of ITAA 1936.)

Show at labels **S** and **T** the total amount of deductible core technology expenditure for the year (after the operation of subsection 73B(12A) of ITAA 1936).

The amount at label **S** must equal the amount at label **T**.

For more information refer to:

- subsection 73B(1AB) of ITAA 1936
- subsection 73B(1) of ITAA 1936
- subsection 73B(12) of ITAA 1936
- subsection 73B(12A) of ITAA 1936
- subsection 73B(12B) of ITAA 1936
- subsections 73B(27A), 73B(27B) and 73B(27C) of ITAA 1936
- Taxation Determination TD 98/1
- *Guide to the R&D tax concession*.

Item 13 Interest or amounts in the nature of interest

Show at this item interest expenditure as defined in subsection 73B(1) of ITAA 1936 and allowable as a deduction under subsection 73B(14A) of ITAA 1936. This item includes interest, or an amount in the nature of interest, incurred during the year of income in the financing of R&D activities.

Note: The amount of interest expenditure claimed may need to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

Show at labels **U** and **V** the amount of interest expenditure as defined in subsection 73B(1) of ITAA 1936.

The amount at label **U** must equal the amount at label **V**.

For more information refer to:

- subsection 73B(1) of ITAA 1936
- subsection 73B(14A) of ITAA 1936
- *Guide to the R&D tax concession*.

Item 14 Residual feedstock expenditure

This item asks for residual feedstock expenditure, being the lesser amount of the company's feedstock input and feedstock output for the R&D activities in the year of income.

Where feedstock inputs are greater than feedstock outputs, record the feedstock outputs at label **W**—**Residual feedstock expenditure**.

Where feedstock inputs are less than feedstock outputs record the feedstock inputs at label **W**. This is the residual feedstock expenditure, as defined in subsection 73B(1) of ITAA 1936.

Note: The residual feedstock expenditure will not be deductible at the concessional rate. It is claimable at 100%. Subsection 73B(14B) of ITAA 1936 allows a deduction for residual feedstock expenditure.

Show at labels **W** and **X** the amount of residual feedstock expenditure.

The amount at label **W** must equal the amount at label **X**.

Item 15 Total of allocated base amounts

Labels **A**, **B**, **C** and **D** are calculated by adding each column.

- The amount at label **A** is the total of base amounts for items 1 to 14.
- The amount at label **B** is the total of 'Claimable at 100%' items 1 to 14.
- The amount at label **C** is the total of 'Claimable at 125%' items 1 to 14.
- The amount at label **D** is the total of 'Claimable at 150%' items 1 to 14.

Note that items 8 and 11 which relate to profits on disposal are negative.

As with the base amounts, the amount at label **A** must equal the total of the amounts at labels **B**, **C** and **D**. Where the amounts at labels **A**, **B** or **C** are negative print code **L** in the relevant adjacent box.

Item 16 Claims including concession

Labels **E**, **F** and **G** are calculated by multiplying the amounts in labels **B**, **C** and **D** in item 15 immediately above by the appropriate column percentage.

Show at label **E** the amount at item 15, label **B** multiplied by 100%.

Show at label **F** the amount at item 15, label **C** multiplied by 125%.

Show at label **G** the amount at item 15, label **D** multiplied by 150%.

Note that items 8 and 11 which relate to profits on disposal are negative.

Where the amount at label **E** or **F** is negative print code **L** in the relevant adjacent box.

Item 17 Total claim

The amount at label **L** is the total of the amounts at item 16, labels **E**, **F** and **G**.

Where this amount is negative print code **L** in the box to the right of label **L**.

Transfer this amount, and code **L** where applicable, to label **L**—**R&D Concession claim (100%, 125% not 50% increment)** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2003*.

Refer to the instructions for label **L**—**R&D Concession claim (100%, 125% not 50% increment)** in the *Company tax return 2003 instructions*.

PART B Amount of expenditure on the following items

Item 1 CRC contributions

Show at label **I** the total of any R&D contributions to cooperative research centres (CRCs) that were included as base amounts in **Part A Calculation of research and development deduction**.

Item 2 Trading stock expenditure

Show at label **J** the total of any trading stock expenditures that were included as base amounts in items 1 to 5 of **Part A Calculation of research and development deduction**. Trading stock expenditures are expenditures incurred in connection with acquiring trading stock.

Item 3 Royalties paid to non-residents for the use of core technology

Show at label **K** the total of any royalties paid for core technology used in R&D activities.

Item 4 Total expenditure on plant and depreciating assets

Show at label **N** the total of any expenditure incurred in this income year on purchasing any items of plant or depreciating assets used in R&D activities.

Item 5 Total expenditure on core technology

Show at label **O** the total of any expenditure on core technology that was used in R&D activities.

Item 6 Building expenditure—deductible amount

Show at label **X** the total deductible amount of any decline in value of buildings used for R&D activities. The building(s) must be used in connection with a business which is carried on for the purpose of producing assessable income (Division 43 of ITAA 1997).

Note:
- This amount is not eligible for deduction under the R&D tax concession, but does form a part of aggregate R&D amount (subsection 73B(1) of ITAA 1936).
- This item needs to be completed only if the choice is made to take the R&D tax offset.

PART C Government grants and recoupments—other than CRC program grants

Show at label **P** the total amount of grants, recoupments and benefits received or entitled to be received in relation to R&D activities for which the company is also claiming the R&D tax concession in the 2002–03 income year.

Note: The clawback provisions (section 73C or 73CB of ITAA 1936) may operate in relation to these amounts. For instructions on the application of the clawback provisions refer to the publication *Guide to the R&D tax concession*. Expenditure to which clawback applies is shown in the 'Claimable at 100% column' in Part A.

PART D Research and development incremental tax concession

Calculation instructions

All calculations are to be rounded to the nearest whole dollar.

Note: Before starting this section, the company should determine if it is eligible to claim the incremental tax concession under section 73Q of ITAA 1936.

Set out below are the steps necessary to calculate the amount of the premium (additional 50%) that a company may be eligible to claim. Definitions for the terms used throughout these instructions are provided on page 20.

Step 1

Is the company a member of a group for the purposes of the incremental tax concession?

The company will need to test for any group relationships and determine any relevant group membership periods by using the grouping rules contained in sections 73L and 73R of ITAA 1936 for the year of income to which this tax return applies and the previous three years of income. A head company of a consolidated group will also need to consider the R&D grouping provisions (for example, where it is grouped with other entities with less than 100% control or ownership).

If the company is a member of such a group, follow the steps below for all members of the group that have had incremental expenditure in a group membership period in any of the four years $\mathbf{Y^0}$, $\mathbf{Y^{-1}}$, $\mathbf{Y^{-2}}$, and $\mathbf{Y^{-3}}$.

$\mathbf{Y^0}$ is the year for which the company tax return is being completed.

Enter the company name and TFN of the company and all group members (if any) that have incurred incremental expenditure in a group membership period in any of

the four years in **Part D Research and development incremental tax concession**, item 1 on page 2 of the R&D schedule. Attach another schedule if there is not enough space for all group members and ensure incremental expenditure is added up and the totals placed in row **g**.

Step 2

Calculate R&D spend for each year, being the total incremental expenditure for the company and grouped company members.

Incremental expenditure is R&D expenditure, as defined in subsections 73B(1) of ITAA 1936, and therefore includes contracted expenditure, salary expenditure and other expenditure directly in respect of R&D activities, whether deductible or not.

Exclude the following:

- expenditure to lease or hire plant, and
- any expenditure included above under a contract that is, in substance, for the acquisition of plant and not for the receipt of services.

The following schedule labels relate to the expenditure items that may form part of incremental expenditure: Part A, item1, label **A**; item 2, label **E**; item 3, label **H**; item 4, label **N**; item 6, label **V**.

However, only deductible amounts are shown at these labels, and so adding them together may not give the correct amount of the company's incremental expenditure for a year of income where it has incurred some R&D expenditure which is not deductible (for example, in relation to unregistered activities). Where this is the case, such amounts are to be included at line **f** of **Part D Research and development incremental tax concession**, item 1 on page 2 of the R&D schedule).

Note: Where expenditure under a contract is both for the acquisition of plant and for the provision of services, the expenditure must be apportioned on a reasonable basis between them, as per subsection 73P(3) of ITAA 1936. Where none of the expenditure is apportionable, the expenditure is not included as incremental expenditure (subsection 73P(4) of ITAA 1936).

The company will need to calculate the amount of incremental expenditure for the current year of income ($\mathbf{Y^0}$) and the immediate prior three years of income ($\mathbf{Y^{-1}}$, $\mathbf{Y^{-2}}$, and $\mathbf{Y^{-3}}$) for the company and for all other entities with group membership periods during those four income years.

Note: These amounts exclude intra-group mark-ups (subsections 73P(5) and 73B(14AA) to (14AD) of ITAA 1936.)

Note: Where the company has left or joined a consolidated group, special rules apply. (See sections 73BAC and 73BAD (ITAA 1936) and the publication *Guide to the R&D tax concession*).

Insert the amounts of incremental expenditures for each company in the columns labeled $\mathbf{Y^0}$, $\mathbf{Y^{-1}}$, $\mathbf{Y^{-2}}$, and $\mathbf{Y^{-3}}$ incremental expenditure at **Part D Research and development incremental tax concession**, item 1 on page 2 of the R&D schedule. Total each column to determine the **R&D spend** for each year. Transfer these amounts to **Table 1** below.

Table 1

R&D spend	
Total for $\mathbf{Y^0}$	**A** _____
Total for $\mathbf{Y^{-1}}$	**B** _____
Total for $\mathbf{Y^{-2}}$	**C** _____
Total for $\mathbf{Y^{-3}}$	**D** _____
There must be a positive sum against each of these labels or the company is not eligible to claim the incremental tax concession.	

Step 3

Calculate the adjustment amounts for year zero ($\mathbf{AA^0}$) and year minus one ($\mathbf{AA^1}$) (section 73T of ITAA 1936).

Adjustment amount for year Y^0 (AA^0)

There may be an adjustment amount where a company's R&D spend decreases in $\mathbf{Y^{-1}}$ to an amount that is less than 80% of that in the immediate prior year.

Where this has occurred, $\mathbf{AA^0}$ for an eligible company and its group members for year $\mathbf{Y^0}$ is:

80% of R&D spend for $\mathbf{Y^{-2}}$ **less** the R&D spend for $\mathbf{Y^{-1}}$.

Table 2

Calculation of AA^0	
R&D spend $\mathbf{Y^{-2}}$ (**Table 1**, label **C**)	**A** _____
Multiplied by 0.8	**B** _____
Less	
R&D spend $\mathbf{Y^{-2}}$ (**Table 1**, label **B**)	**C** _____
$\mathbf{AA^0}$	**D** _____
Transfer this amount to label **A** in **Table 5**.	

If a negative result is obtained from a calculation of an **adjustment amount**, that result is taken to be zero (**0**). Transfer the zero to label **A** in **Table 5**, (section 73S of ITAA 1936).

Adjustment amount for Y^{-1} (AA^1)

Similarly, there may be an **adjustment amount** where a company's R&D spend decreases in Y^{-2} to an amount that is less than 80% of that in the immediate prior year.

Where this has occurred, AA^1 for an eligible company and its group members for Y^{-1} is:

80% of R&D spend for Y^{-3} **less** the R&D spend for Y^{-3}.

Table 3

Calculation of AA^1

R&D spend Y^{-3} (**Table 1**, label **D**)	**A** _____
Multiplied by 0.8	**B** _____
Less	
R&D spend Y^{-2} (**Table 1**, label **C**)	**C** _____
AA^1	**D** _____

Transfer this amount to label **B** in **Table 5**.

If a negative result is obtained from a calculation of an **adjustment amount**, that result is taken to be zero (**0**) and transfer the zero to label **B** in **Table 5** (section 73S of ITAA 1936).

Step 4

Calculate the adjustment balance (section 73V of ITAA 1936).

If the company has no amount, or a zero (**0**), at labels **A** and **B** in **Table 5**, go to step 5.

Otherwise: Calculate the running average for Y^{-1} (RA^1)

Table 4

Calculation of RA^1

The company's R&D spend Y^{-2} (**Table 1**, label **C**)	**A** _____
Add	
The company's R&D spend Y^{-3} (**Table 1**, label **D**)	**B** _____
Total	**C** _____
Divide by 2	
RA^1	**D** _____

Example 1

A company's R&D spend for the previous three years was:

Y^{-1} $250,000
Y^{-2} $245,000
Y^{-3} $230,000

In this example, the running average (RA^1) for Y^{-1} would be $237,500 [($245,000 + $230,000)/2]

Is the R&D spend for the Y^{-1} (label **B**, **Table 1**) less than or equal to RA^1?

If yes, then the adjustment balance is calculated by adding AA^0 and AA^1 as per **Table 5**.

If no, transfer RA^1 to label **A** in **Table 6** to calculate adjustment balance.

Table 5

Calculation of the adjustment balance (AB)

AA^0 (**Table 2**, label **D**)	**A** _____
Add	
AA^1 (**Table 3**, label **D**)	**B** _____
Adjustment balance (**AB**)	**C** _____

Transfer this amount to label **C** in **Table 8**.

Table 6
Calculation of the adjustment balance (AB)

Adjustment balance

RA1 (**Table 4**, label **D**)	**A** _____
Add	
AA^0 (**Table 5**, label **A**)	**B** _____
Add	
AA^1 (**Table 5**, label **B**)	**C** _____
Subtotal	**D** _____
Less	
R&D spend Y^{-1} (**Table 1**, label **B**)	**E** _____
Adjustment balance (**AB**)	**F** _____

Transfer this amount to label **C** in **Table 8**.

If a negative result is obtained from a calculation of an adjustment balance that result is taken to be zero (**0**) (section 73S of ITAA 1936).

Step 5

Calculate the premium amount (section 73W of ITAA 1936).

The premium amount of the eligible company, together with each group member for Y^0, is the R&D spend of the eligible company for Y^0, **less** the three-year-running average for Y^0 and the adjustment balance.

That is, the premium amount for the group is:

the R&D spend Y^0 shown at label **A** in **Table 1** above

Less

The sum of RA^0 (calculated below) plus the amount of any adjustment balance from either label **C** in **Table 5** or label **F** in **Table 6**.

Calculate the running averages for Y^0 (RA^0).

The running average for **Y^0** is one-third of the sum of incremental expenditures for years **Y^{-1}**, **Y^{-2}** and **Y^{-3}**.

Table 7

Calculation of RA^0

Add the R&D spend for years:

Y^{-1}	(**Table 1**, label **B**)	**A** _____
Y^{-2}	(**Table 1**, label **C**)	**B** _____
Y^{-3}	(**Table 1**, label **D**)	**C** _____
Total		**D** _____

Divide the total by 3

RA^0 **E** _____

Transfer this amount to label **B** in **Table 8**.

For the example provided in **Table 4** the running average (**RA^0**) for **Y^0** would be $241,667 [($250,000 + $245,000 + $230,000)/3]

Table 8

Calculation of premium amount

Total **Y^0**	(**Table 1**, label **A**)	**A** _____
Less		
RA^0	(**Table 7**, label **E**)	**B** _____
AB	(**Table 5**, label **C**) or (**Table 6**, label **F**)	**C** _____
Premium amount		**D** _____

Transfer this to either label **B** in **Table 9** if step 6 requires the use of **Table 9**, or label **A** in **Table 13** if step 6 requires, then proceed to step 7 as directed.

Step 6

Research and development incremental concession—group company or ungrouped company?

Is the company a member of a group for the incremental tax concession?

If yes, proceed to step 7.

If no, then the R&D incremental concession deduction is the lesser of:

- 50% of the amount of incremental expenditure incurred by the company in **Y^0** that is eligible for a deduction under section 73B at the rate of 125%, or
- 50% of the premium amount calculated at label **D** in **Table 8**

as determined in **Table 9**.

Table 9

Additional deduction

Incremental expenditure incurred by the company eligible for 125% deduction, being the sum of the column amounts from page 1 of the R&D schedule.

(Part A, item 1, label **C**)		
(Part A, item 2, label **G**)		
(Part A, item 3, label **J**)		
(Part A, item 4, label **P**)		
(Part A, item 6, label **X**)		**A** _____
Premium amount (**Table 8**, label **D**)		**B** _____

Insert the lesser of label **A** and **B** at label **C**.

C _____

Multiply label C by 50% **D** _____

Label **D** is the amount of the company's deduction under the R&D incremental concession.

Show the amount at label **D** in **Table 9** at **Part D Research and development incremental tax concession**, item 2, label **M** at page 2 of the R&D schedule.

Also transfer this amount to label **M—R&D incremental concession—additional 50% increment** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2003*.

The calculation of the incremental tax concession deduction is complete.

To calculate the company's eligibility to the research and development tax offset, see Part E Research and development tax offset on page 18 in these instructions.

Step 7

Apportion the premium amount between group members (section 73X of ITAA 1936).

The premium amount is apportioned between group members that increased their incremental expenditures from Y^{-1} to Y^0.

See **Table 1**.

Is label **A** less than label **B**?

If yes,

- the company did NOT increase its incremental expenditure from Y^{-1} to Y^0
- the company is not entitled to a deduction for the incremental tax concession.

Show zero (**0**) at **Part D Research and development incremental tax concession**, item 2, label **M** on page 2 of the R&D schedule.

Also transfer this zero amount to label **M**—**R&D incremental concession—additional 50% increment** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2003*.

The calculation of the incremental tax concession deduction is complete.

To calculate the company's eligibility to the R&D tax offset, see Part E Research and development tax offset on page 18.

If no,

the company DID increase its incremental expenditure from Y^{-1} to Y^0 (see **Table 1**); it is entitled to that portion of the premium amount that represents its percentage share of the total increase in group incremental expenditure from Y^{-1} to Y^0.

The increase in the group incremental expenditure is calculated by deducting the total of all increasing members' incremental expenditure amounts for Y^{-1} from the total of those amounts for Y^0.

Table 10

Calculation of the totals of Y^0 and Y^{-1} incremental expenditures for increasing companies in the group

From Part D, item 1 on page 2 of the R&D schedule insert below the details of each company that increased its incremental expenditure in Y^0 over its Y^{-1} incremental expenditure. (Y^0 must be greater than Y^{-1} on each line.)

TFN	Y^0	Y^{-1}
Total	**A** _____ Transfer to **Table 11**, label **A**.	**B** _____ Transfer to **Table 11**, label **B**.

Table 11

Calculation of the increase in incremental expenditure of increasing companies

Total Y^0 amount (**Table 10**, label **A**) **A** _____

Less

Total Y^{-1} amount (**Table 10**, label **B**) **B** _____

Increase in incremental expenditure of increasing companies **C** _____

Transfer this amount to label **D** in **Table 12**.

The percentage attributable to each increasing company is calculated as follows:

The attributable percentage is the amount of the increase in the company's incremental expenditure from Y^{-1} to Y^0 divided by the increase in the group incremental expenditure over these years of all increasing members.

Table 12

Calculation of the increase in the group incremental expenditure

The companys' **Y⁰** incremental expenditure amount
A _____
(Part D, item 1a on page 2, R&D schedule)
Less
The companys' **Y⁻¹** incremental expenditure amount
B _____
(Part D, item 1a on page 2, R&D schedule)
The companys' increase in incremental expenditure
C _____
Divided by
Increase in group incremental expenditure
(**Table 11**, label **C**)
D _____
Show the result of label **C** divided by label **D** as a percentage (to the nearest two decimal places, subject to the sum of these percentages for all the increasing members in the group adding up to 100%)
E _____ %
Transfer this percentage to label **B** in **Table 13**.
By multiplying the premium amount by the attributable percentage this will calculate the portion of the premium amount attributable to the company.

Table 13

Calculation of the premium amount deduction

Premium amount **A** _____
(**Table 8**, label **D**)
Multiplied by
Company percentage **B** _____
(**Table 12**, label **E**)
Company share of the premium amount is **C** _____
Transfer this amount to label **B** in **Table 14**.

Step 8

Calculate the research and development incremental tax concession.

The R&D incremental tax concession deduction available to the company is the lesser of:

- 50% of the amount of incremental expenditure incurred by the company in **Y⁰** that is eligible for a deduction under section 73B at the rate of 125%, or
- 50% of the premium amount calculated at label **C** in **Table 13**.

as determined in **Table 14**.

Table 14

Additional deduction

Incremental expenditure incurred by the company and eligible for 125% deduction is the sum of the column amounts from page 1 of the R&D schedule.
(Part A, item 1, label **C**)
(Part A, item 2, label **G**)
(Part A, item 3, label **J**)
(Part A, item 4, label **P**)
(Part A, item 6, label **X** **A** _____
Premium amount **B** _____
(**Table 13**, label **C**)
Insert the lesser of label **A** and label **B** at label **C**.
C _____
Multiply label **C** by 50% **D** _____
Label **D** is the amount of the company's deduction under the research and development incremental concession.
Show the amount at label **D** in **Table 14** at **Part D Research and development incremental tax concession**, item 2, label **M** on page 2 of the R&D schedule.
Also transfer this amount to label **M**—**R&D incremental concession**—**additional 50% increment** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2003*.

For more information refer to:

- sections 73H to 73M of ITAA 1936
- section 73B of ITAA 1936
- *Guide to the R&D tax concession*.

PART E Research and development tax offset

Calculation instructions

The choice to take the R&D tax offset has the effect that the company has chosen to take the offset **instead** of an R&D tax concession deduction (refer to subsection 73I(1) of ITAA 1936). **The company cannot claim both**.

IMPORTANT NOTES

- The choice to take the R&D tax offset can only be made in the company's return of income (which includes the R&D schedule).
- The company must be registered with the IRDB before it makes its choice.

The choice to take the R&D tax offset is not available if an **exempt entity**, the affiliates of an exempt entity, an exempt entity together with its affiliates, or two or more exempt entities, at any time during the R&D tax offset year, legally or beneficially own, or have the right to acquire, the legal or beneficial ownership of interests in the company that carry between them the right to:

- exercise, or control the exercise of, at least 25% of the voting power of the company, or
- receive at least 25% of any distribution of income or capital by the company, (refer subsection 73J(2) of ITAA 1936).

If the company wishes to determine eligibility to claim the R&D tax offset, enter the company name, tax file number and (if any) the names and tax file numbers of all entities that are required to be grouped under section 73L of ITAA 1936, at Part E, item 1—Research and development tax offset on page 2 of the R&D schedule.

In the columns marked **Aggregate R&D amount** and **Entity turnover** enter the amount of each entity's aggregate R&D expenditure (as defined in subsection 73B(1) and the R&D group turnover respectively against the entity's tax file number. If you have expenditure on R&D activities that you cannot deduct under the R&D tax concession (for example, because you were not registered for those activities with the IRDB), some components of that expenditure will still form a part of the aggregate R&D amount (refer to paragraph 6.9 of the publication *Guide to the R&D tax concession* for details). Insert such amounts for the company or any of its group members at row **f** in Part E of the R&D schedule.

Attach another schedule if there is not enough space to list all group entities. Where another schedule has been used ensure the sum of the aggregate R&D amount and the entities' turnovers are placed in row **g** on the original schedule.

Total the aggregate R&D amounts and entity turnover amounts and insert the totals in **Group totals** – labels **B** and **C** and then transfer these totals to **Table 15**.

Table 15
Eligibility for tax offset

Total aggregate research and development amount (Part E, item 1, label **B**, page 2 of the R&D schedule)	**A** _____
R&D group turnover (Part E, item 1, label **C**, page 2 of the R&D schedule)	**B** _____

If the total of the aggregate R&D amount column is $1,000,000 or less and the total of the R&D group turnover column is less than $5,000,000, the company may choose to claim the R&D tax offset (paragraphs 73J(1)(c) and (d) of ITAA 1936).

If the company is ineligible to claim the offset, no further action is required.

If the company chooses to take the offset then the R&D tax offset is calculated as the sum of the amount at label **L** on page 1 of the R&D schedule plus the amount at label **M** on page 2 of the R&D schedule, except where there is a balancing adjustment on the disposal of plant or pilot plant.

Where there is a balancing adjustment on the disposal of plant or pilot plant, BEFORE completing **Table 16** label **A** follow the steps below:

Step 1: Identify the amount at label **L** in **Part A Calculation of research and development deduction** of the R&D schedule.

Step 2: Identify any balancing adjustment (deductions) (Part A, item 10, labels **N** and **O** (multiply label **O** by 1.25), balancing adjustment (assessable income) (Part A, item 11, labels **Q** and **R** (multiply label **R** by 1.25)), profits on the disposal of plant (Part A, item 7, label **A**) and profits on disposal of pilot plant (Part A, item 8, label **E**), that were included in the calculation of label **L** in Part A of the R&D schedule.

Step 3: Total the amounts identified at step 2.

Step 4: Subtract the amount at step 3 from the amount at step 1. Show this amount at label **A** in **Table 16**.

Table 16

Calculation of the amount of deductions eligible for the R&D tax offset

Research and development claim **A** _____
(Label **L**, page 1 of the R&D schedule or amount as directed)

Add

Incremental tax concession deduction **B** _____
(Label **M**, page 2 of the R&D schedule)

Amount eligible for R&D tax offset **C** _____

Transfer this amount to:

- Label **A** of **Table 17**
- **Part E Research and development tax offset**, item 2, label **Y** on page 2 of the R&D schedule and
- Label **Y**—**Election to take R&D tax offset** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2003*.

Inclusion of an amount at label **Y**—**Election to take R&D tax offset** (in Item 7—Reconciliation to taxable income or loss) has the effect that the company will be taken to have made the choice under subsection 73I(1) of ITAA 1936 to take the tax offset instead of the tax deduction under the R&D tax concession provisions.

To calculate the amount of the R&D tax offset available to the company multiply the amount eligible for the tax offset (label **Y** in item 7—Reconciliation to taxable income or loss) by the company tax rate (currently 30%).

Table 17

Calculation of the R&D tax offset

Amount eligible for R&D tax offset **A** _____
(**Table 16**, label **C**)

Multiply by 0.3

R&D tax offset entitlement **B** _____

Transfer this amount to:

- **Part E Research and development tax offset**, item 3, label **U**, page 2 of the R&D schedule, and
- label **U**—**R&D tax offset amount** in the **Calculation statement** on page 4 of the *Company tax return 2003*.

For more information refer to:

- sections 73H to 73M of ITAA 1936
- section 73B of ITAA 1936
- *Guide to the R&D tax concession*.

Abbreviations

ABN	Australian business number
ATO	Australian Taxation Office
CRC	cooperative research centre
IRADA 1986	*Industry Research and Development Act 1986*
IRDB	Industry Research and Development Board
ITAA 1936	*Income Tax Assessment Act 1936*
ITAA 1997	*Income Tax Assessment Act 1997*
R&D	research and development
RRA	registered research agency
TFN	tax file number

Taxation Determinations and Taxation Rulings

IT 2442—Income tax: concession for eligible research and development expenditure

IT 2451—Income tax: investor funding of research and development

IT 2552 & IT 2552A—Income tax: research and development (R&D)—costing of expenditure

TD 98/1—Income tax: expenditure on research and development: activities: core technology expenditure

TR 2002/1—Income tax: research and development: plant expenditure (pre-29 January 2001)

Definitions

Aggregate R&D amounts

S73B(1) defines the expenditures and deductions that comprise aggregate R&D amount.

- To claim the additional 25% concession this amount (or a grossed-up amount where a subsidiary company has joined or left a consolidated group and has a non-membership period of less than 365 days) needs to be in excess of $20,000. However, payments to an RRA are not subject to this threshold.
- To be eligible to claim the R&D tax offset the aggregate R&D amount needs to be $1,000,000 or less.

Current year (Y^0)

For the 2002–03 current year of income **Y^0** is the abbreviation used to denote that year of income.

Previous year (Y^{-1})

For the 2002–03 current year of income **Y^{-1}** is the abbreviation used to denote the 2001–02 year of income.

Year Y^{-2} (Y^{-2})

For the 2002–03 current year of income **Y^{-2}** is the abbreviation used to denote the 2000–01 year of income.

Year Y^{-3} (Y^{-3})

For the 2002–03 current year of income **Y^{-3}** is the abbreviation used to denote the 1999–2000 year of income.

R&D spend

R&D spend of an eligible company for a year of income means the sum of:

- the incremental expenditure of the eligible company for the year of income incurred during its group membership period, and
- the incremental expenditure of each group member of the eligible company for the year of income incurred during its group membership period (subsection 73P(2) of ITAA 1936).

Adjustment amount year zero (AA^0)

AA^0 is the abbreviation used to denote a group's adjustment amount for the **Y^0** year of income (subsection 73P(2) of ITAA 1936).

Adjustment amount year minus one (AA^1)

AA^1 is the abbreviation used to denote a group's adjustment amount for the **Y^{-1}** year of income (subsection 73P(2) of ITAA 1936).

Running average (RA^0)

RA^0 is the abbreviation used to denote the group's running average for the **Y^0** income year (subsections 73P(2) and 73U(1) of ITAA 1936).

Running average (RA^1)

RA^1 is the abbreviation used to denote the group's running average for the **Y^{-1}** income (subsections 73P(2) and 73U(2) of ITAA 1936).

Incremental expenditure

Incremental expenditure means expenditure that is R&D expenditure except:

- expenditure to lease or hire plant, and
- expenditure under a contract to the extent that it is, in substance, for the acquisition of plant and not for the provision of services (subsection 73P(2) of ITAA 1936).

Total group mark-up

The total group mark-up is the sum of the amounts derived by persons during the year of income for goods and services in respect of all or part of the things for which the R&D amount was for while those persons were grouped with the eligible company mentioned in section 73L **less** the actual cost to those persons of providing those goods or services (subsection 73B(14AC) of ITAA 1936).