

2002

Research and
development tax
concession
schedule
instructions

www.ato.gov.au



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Foreword

This publication is to assist in the completion of the *Research and development tax concession schedule 2002*, referred to throughout these instructions as the R&D schedule.

This publication is **NOT** a guide to the 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:

- *Guide to the R&D tax concession*
- *Guide to depreciating assets*
- *Income Tax Assessment Act 1936*
- *Income Tax Assessment Act 1997*
- *Industry Research and Development Act 1986*
- *Company tax return 2002 instructions*

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

Please get help from the Australian Taxation Office 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 could 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*.

The electronic version of the R&D schedule is Excel-based and facilitates the calculation of R&D deductions.

Who is required to complete an R&D schedule?

Eligible companies who:

- 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 2002 and
- are making a claim in their tax returns in respect of these activities under the research and development tax concession (sections 73B to 73Y of *Income Tax Assessment Act 1936* (ITAA 1936)).

Eligible company as defined in subsection 73B(1) of ITAA 1936 means a **body corporate incorporated under a law of the Commonwealth or of a State or Territory**.

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, refer subsection 73B(3) of ITAA 1936.

The tax concession is available only in respect of expenditure on **eligible research and development activities**. The IRDB and AusIndustry have responsibility for determining whether activities carried out are eligible research and development activities. For further information contact the AusIndustry Hotline on **13 2846** or visit the AusIndustry website at www.ausindustry.gov.au

Applications for registration of research and development activities must be lodged with the IRDB within ten 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 explanation of this on page 15) can only do so at the time of the lodgment of their tax returns and **must be registered at the time of lodging that claim**. Obtaining registration at a time after the lodgment of a return **will not enable a company to subsequently choose the R&D tax offset**.

Summary of changes

2001 Legislative changes

- prepayment rules
- new depreciating asset regime.

2002 Legislative changes

- R&D incremental concession of 50%
- tax offset
- grouping rules
- intra group mark-up rules.

Administrative

There are 5 labels on the *Company tax return 2002* relating to the research and development tax concession. 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 2002*, they are:

- 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 **Z**—**Other refundable credits including R&D tax offset**.

Things to do before you complete the R&D schedule

Before starting to complete the schedule you will need to have, where necessary:

Note: This list is not necessarily exhaustive.

- Calculated the amounts incurred for each category of expenditure available for deduction under section 73B of ITAA 1936.
- Calculated the aggregate R&D amount, to determine whether expenditures under subsections 73B(14), (15) and section 73BA of ITAA 1936 are entitled to 100% or 125% deduction.
- Determined expenditures related to overseas R&D activities for which the company has obtained a certificate from the IRDB (overseas provisional certificate, section 39ED of *Industry Research and Development Act 1986* (IRADA 1986)).
- Determined any amounts available for deduction as depreciation under sections 73BH, 73BJ, 73BA and 73BC of ITAA 1936 and Division 40 of ITAA 1997.
- Adjusted the amount of expenditures incurred in accordance with the prepayment provisions, contained in sections 82KZL to 82KZMF of ITAA 1936 and subsection 73B(11) of ITAA 1936.
- Adjusted the amount of expenditures to be claimed in accordance with the **intra group mark-up** provisions (subsections 73B(14AA)-(14AD) of ITAA 1936).
- Adjusted expenditure amounts to take account of any entitlement to an input tax credit relating to the Goods and Services Tax (GST), (refer to Division 27 of ITAA 1997).
- Applied section 73CA of ITAA 1936 in respect of any expenditure for which the company is entitled to a

guaranteed return, or section 73CB of ITAA 1936 in respect of any expenditure incurred to a tax exempt body.

- Determined the deductible amount of core technology expenditure in accordance with subsection 73B(12)-(12B) of ITAA 1936.
- Applied other provisions relating to the expenditures incurred in R&D activities—for example, sections 73E, 73F and 73G of ITAA 1936.
- Determined eligibility to the incremental tax concession under section 73Q of ITAA 1936.
- Determined which entities are in the company group in accordance with sections 73L, 73M and 73R of ITAA 1936.
- Determined 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 undertaken any clawback calculations required as a result of this, in accordance with section 73C of ITAA 1936.
- Completed label **D—R&D accounting expenditure claimed under R&D concession** in item 7—Reconciliation to taxable income or loss in the *Company tax return 2002*.

Lodgment of 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 is to be forwarded together with a letter requesting the amendment, to the **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.

AusIndustry contact details

For information regarding registration for the research and development tax concession and determination of research and development activities which qualify for the concession, contact:

AusIndustry
Hotline Number **13 2846**
Internet site **www.ausindustry.gov.au**

Australian Taxation Office publications

It is recommended that taxpayers that are registered with AusIndustry and wish to claim the R&D tax concession be familiar with the following rulings:

- IT 2442 *Concession for eligible R&D expenditure*
- IT 2451 *Investor funding of R&D*
- IT 2552 *R&D costing of expenditure*
- IT 2552A *R&D costing of expenditure (Addendum to IT 2552)*
- IT 2635 *Syndicated R&D arrangements*
- IT 2635A *Syndicated R&D arrangements (Addendum to IT2635)*
- IT 2671 *R&D expenses claimed against royalty income of non-residents*
- TR 2002/1 *R&D plant expenditure*.

To find out how to obtain copies of these rulings see the inside back cover.

The *Guide to the R&D tax concession* can be obtained from **www.ausindustry.gov.au**

Completing the R&D schedule

Important Notes

- Answer all items on the schedule, including Yes/No items, that apply. If an item or label does not apply, leave it blank.
- 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 3 columns adjacent to the base amount column allocate the base amount into 3 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.
- 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
 - that which is subject to the operation of section 73CA or 73CB of ITAA 1936 (guaranteed returns or expenditure incurred to tax exempt bodies).
- 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%.
- 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/amended claim

Cross out either original or amended as appropriate to 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.

Tax file number

Print the tax file number (TFN) of the company.

Name of Company

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

Signature as prescribed in the tax return

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

Australian Business Number (ABN)

Print the Australian business number (ABN).

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—RRA is contracted expenditure incurred:

- 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 research and development activities on which the expenditure was incurred—that is, a RRA.

Note:

- 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).
- Paragraph 73B(1)(a) is no longer applicable. The *Coal Research Assistance Act 1977* was amended with effect from July 1992.
- Paragraph 73(1)(b) no longer applies. The operation of this provision ceased on 30 June 1988.

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 that is claimable at 100%.

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

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

Note: The total amount of labels **B**, **C** and **D** should 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*, chapter 8
- Taxation Ruling IT 2451
- Taxation Ruling IT 2442
- Paragraph 73B(1)(b) no longer applies. The operation of this provision ceased 30 June 1988.

Item 2 Salary expenditure

This item asks for 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.

Note:

This label 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 only taken into account at item 3—Other R&D expenditure on page 4.
- The amount of salary expenditure claimed 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%.

Note: The total amount of labels **F** and **G** should equal the base amount.

For more information refer to:

- Subsection 73B(1) of ITAA 1936
- Taxation Ruling IT 2552
- Taxation Ruling IT2442
- Draft Taxation Ruling TR 1999/D14
- *Guide to the R&D tax concession.*

Item 3 Other R&D expenditure

This item requires **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 **research and development activities** carried on by or on behalf of the company, to be shown. **Do not include at this item amounts to be shown at item 4—Contract other and at item 5—Plant leasing.**

Taxation Ruling IT 2552 states that expenditure is directly in respect of research and development activities:

- where the carrying on of eligible R&D activities contributed to the incurring of all or an identifiable part of the expenditure or
- where 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 Rulings IT 2442, paragraphs 12-19 and IT 2552, paragraphs 13-21.

Note:

- The amount of other 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 the other R&D expenditure that is claimable at 100%.

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

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

Note: The total amount of labels **I**, **J** and **K** should 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 IT2552A

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 incurred under a contract to another party (other than an RRA) for R&D services, that is directly in respect of research and development activities carried on by or on behalf of the company, to be shown.

Note:

- This item excludes **contracted expenditure—RRA**, shown at item 1.
- 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.

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 that is claimable at 100%.

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

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

Note: The total amount of labels **O**, **P** and **Q** should 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 incurred in the hire or leasing of an item of plant, that is directly in respect of **research and development activities** carried on by or on behalf of the company, to be shown.

Note:

- 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 that is claimable at 125%.

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

Note: The total amount of labels **S**, **T** and **U** should 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 subsection 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 10.

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%.

Note: The total amount of labels **W** and **X** should 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 deductions—pre-29 January 2001, (including balancing adjustments)

This item includes plant deductions and balancing adjustments (profits or losses) in respect of a unit of plant that is acquired under a contract entered into or commenced to be constructed prior to 12 p.m. (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 paragraph 73B(23)(f) of ITAA 1936, this 'negative' amount will be netted off against any depreciation or losses at this label. If this results in a net amount which is negative, include a minus sign (-) in front of this net amount at the labels for item 7. Each of these types of deduction is considered separately in the following:

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).

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.

Note: The total amount of labels **B**, **C** and **D** should equal the amount included in the base amount.

For more information refer to:

- Subsections 73B(1), (1C), (4), (4A), (5), (5AA), (5AB), (15), (15A) & (18) of ITAA 1936
- Section 42-18 of *Income Tax Assessment Act 1997* (ITAA 1997)
- TR 2002/1 R&D plant expenditure*
- Guide to the R&D tax concession.*

Balancing adjustments on the disposal of plant

Balancing adjustments under subsection 73B(23) of ITAA 1936, may arise where items of plant whose expenditure has attracted deduction under subsection 73B(15) 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 subsection 73B(4A) of ITAA 1936). Where this occurs an adjustment is required (the balancing adjustment). The amount of this balancing adjustment (a profit (negative) or loss (positive)) is recorded at this item.

Balancing adjustments (losses)

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 (paragraph 73B(23)(e) 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 that are 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 that are 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.

Note: The amount of labels **B** and **C** should equal the amount included in the base amount.

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, as a negative amount. Include the amount in the calculation of the net base amount to be shown at item 7. If this net amount is negative because the assessable amount(s) exceed the deductible ones, then the net amount should be shown with a minus sign (-).

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

Note: The amount at label **B** should equal the amount included in label **A** the base amount.

Item 8 Pilot plant deductions—post-23 July 1996 acquired pre-29 January 2001, (including balancing adjustments)

This item includes post-23 July 1996 pilot plant deductions and balancing adjustments (profits or losses) in respect of such pilot plant, where this is commenced to be constructed, or acquired under a contract entered into, prior to 12 p.m. (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 paragraph 73B(24)(g) of ITAA 1936, this negative amount will be netted off against any depreciation or losses at this label. If this results in a net amount which is negative, include a minus sign (-) in front of this net amount at the labels for item 8. Each of these types of deduction is considered separately in the following:

Pilot plant deductions

Post-23 July 1996 pilot plant is:

- an experimental model of other plant for use in research and development 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
- that is acquired after 23 July 1996 (and prior to 29 January 2001) and
- that is acquired or constructed for use by the company exclusively for the carrying on of research and development 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 at this item the **annual deduction percentage of the qualifying pilot plant expenditure** in respect of such items, as calculated under subsections 73B(4D) and (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 <3 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 **E** 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 **F** the annual deduction percentage of pilot plant expenditure which is claimable at 100%, as part of the total net amount to be shown at this label.

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

Note:

- The total amount of labels **F** and **G** should equal the amounts included in the base amount.
- 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. For further information refer to chapter 8 of the publication *Guide to the R&D tax concession*.

For more information refer to:

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

Balancing adjustments on the disposal of post-23 July 1996 pilot plant

Balancing adjustments under subsection 73B(24B) of ITAA 1936, may arise where items of this type of pilot plant, whose expenditure is deductible under subsection 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 pilot plant at the time of disposal may vary from the written down value (this being the original cost of the item less notional deductions) as calculated in accordance with subsection 73B(4B) of ITAA 1936. Where this occurs an adjustment is required (the balancing adjustment). The amount of any such balancing adjustment is included in the calculation of the net base amount to be shown at this item. For this purpose any balancing adjustment which is assessable is included as a negative amount.

Balancing adjustments (losses)

Where the consideration receivable in respect of the disposal, loss or destruction of the unit of pilot plant is less than the written-down value, the amount of this difference is an allowable deduction, paragraph 73B(24B)(e) of ITAA 1936.

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

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

Include at label **G** the amount of any balancing adjustment (deduction) amounts that are 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.

Note: The total amount of labels **F** and **G** should equal the base amount.

Balancing adjustments (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, as a negative amount. Include this amount in the calculation of the net base amount to be shown at item 8. If the net amount is negative because the assessable amount(s) exceed the deductible ones, then the net amount should be shown with a minus sign (-).

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.

Note: The total amount of label **F** should equal label **E** the base amount.

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 commenced to be constructed, or acquired under contracts entered into, after 12 p.m. (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.

A *Capital allowances schedule 2002* may need to be completed. For more information refer to the publication *Guide to depreciating assets*.

If the company has a substituted accounting period for the 2002 year, which commenced before 1 July 2001, and it acquired plant which was used in R&D activities before that date but after 12 p.m. (midday) Eastern Standard Time on 29 January 2001, it will need to apply a different set of provisions, based on Division 42 of ITAA 1997, in calculating the deductions in respect of the period of R&D use up until 30 June 2001. If this applies to the company refer to the publication *Guide to the R&D tax concession* for further information. Any amounts calculated this way should be included under this item.

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%.

Note: The total amount of labels **I** and **J** should 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 Jan 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 profit (negative) or loss) is recorded at this item.

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.

Prior to commencing items 10 and 11, it is strongly recommended that taxpayers refer to the publications *Guide to depreciating assets* and *Guide to R&D tax concession*.

If the company has a substituted accounting period for the 2002 year, which commenced before 1 July 2001 and

- the company acquired plant which was used in R&D activities, after 12 p.m. (midday) Eastern Standard Time 29 January 2001 and before 1 July 2001 and
- disposed of the plant before 1 July 2001, the company will need to apply a different set of provisions, based on Division 42 of ITAA 1997, in calculating the deduction or amount to include in assessable income.

If this applies to the company refer to the publication *Guide to the R&D tax concession* for more information.

Any amounts calculated in this way should be included at this item.

Item 10 Balancing adjustments (deductions)

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 that are claimable at 100%.

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

Note: The total amount of labels **N** and **O** should 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 Balancing adjustments (assessable income)

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 that are claimable at 100%.

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

Note: The total amounts of labels **Q** and **R** should 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 research and development 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 research and development expenditure incurred during the year on research and development 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 research and development 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).

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

Note: The total amounts of labels **S** and **T** will be the same.

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 sub-section 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 research and development 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 label **U** and **V** the amount of interest expenditure as defined in subsection 73B(1) of ITAA 1936.

Note: The total amounts of labels **U** and **V** will be the same.

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—Residual feedstock expenditure**. 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 label **W** and **X** the amount of residual feedstock expenditure.

Note: The total amount of labels **W** and **X** will be the same.

Item 15 Total of allocated base amounts

Labels **A**, **B**, **C** and **D**, in item 15 are calculated by adding each column.

- Label **A** is the total of base amounts for items 1 to 14.
- Label **B** is the total of claimable at 100% items 1 to 14.
- Label **C** is the total of claimable at 125% items 1 to 14.
- Label **D** is the total of claimable at 150% items 1 to 14.

Note: As with the base amounts, label **A** should equal the sum of labels **B**, **C** and **D**.

Item 16 Claims including concession

Labels **E**, **F** and **G** in item 16 are calculated by multiplying the amounts in labels **B**, **C** and **D** in item 15 immediately above by the appropriate column percentage.

- Label **B** in item 15 is multiplied by 100% and is shown at label **E**, in item 16.
- Label **C** in item 15 is multiplied by 125% and is shown at label **F**, in item 16.
- Label **D** in item 15 is multiplied by 150% and is shown at label **G**, in item 16.

Item 17 Total claim

Label **L**, in item 17 is the sum of labels **E**, **F**, and **G** in item 16.

Transfer this amount:

where the amount is positive;

- 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 2002*

where the amount is negative;

- to label **B—Other assessable income** at item 7—Reconciliation to taxable income or loss on page 2 of the *Company tax return 2002*.

Note: Refer to the instructions concerning label **L—R&D Concession claim (100%, 125% not 50% increment)** in the *Company tax return 2002 instructions*.

PART B**Amount of expenditure on the following items****Item 1 Cooperative research centre (CRC) contributions**

Show at label **I**, the total of any R&D contributions to 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 any expenditures on trading stock to which Division 70 of ITAA 1997 would have applied, but for the operation of the R&D tax concession.

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 on plant and depreciating assets that relates to the company's claim included in Part A Calculation of research and development deduction.

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, (refer 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 research and development amount**, (refer to subsection 73B(1) of ITAA 1936).
- This item **only** needs to be completed if the choice is made to take the R&D tax offset.

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

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.

Note: The clawback provision (s73C of ITAA 1936) may operate in relation to these amounts. For more information refer to the publication *Guide to the R&D tax concession*.

PART D**Research and development incremental tax concession****Calculation instructions**

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

Important note: Before commencing 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 17.

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 section 73L of ITAA 1936 for the year of income to which this tax return applies and the previous three years of income.

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 4 years **Y⁰**, **Y⁻¹**, **Y⁻²**, and **Y⁻³**.

Note: **Y⁰** is the year for which the *Company tax return 2002* is being completed, so long as that income year begins on or after 1 July 2001. If your 2002 year commences before this time, you are not eligible to claim the incremental tax concession.

Enter the company name and tax file number of the company and all group members (if any) that have incurred incremental expenditure in a group membership period in any of the 4 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 insufficient space for all group members and ensure incremental expenditure is summed and totals placed in row H.

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 eligible for deduction under subsections 73B(13) of ITAA 1936 [contracted expenditure] or 73B(14) of ITAA 1936 [research and development expenditure] (subject to the \$20 000 limit, where applicable), covering:

- contracted expenditure to RRA
- salary expenditure.

Other expenditure directly in respect of R&D activities, including:

- contract expenditure to others for R&D services and
- eligible feedstock expenditure (not including residual feedstock expenditure).

Less

- 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.

These schedule label references relate to the expenditure items in the dot points above.

Part A, item 1—label **A**, item 2—label **E**, item 3—label **H**, item 4—label **N**, item 6—label **V**.

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 (**Y⁰**) and the immediate prior 3 years of income (**Y⁻¹**, **Y⁻²**, and **Y⁻³**) for the company and for all other entities with group membership periods during those 4 income years.

Note: All of these amounts now exclude intra-group mark-ups, (Subsections 73P(5) and 73B(14AA) to (14AD) of ITAA 1936.)

Insert the amounts of incremental expenditures for each company in the columns labelled **Y⁰**, **Y⁻¹**, **Y⁻²**, and **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** on page 12.

Table 1

R&D Spend	
Total for Y ⁰	A _____
Total for Y ⁻¹	B _____
Total for Y ⁻²	C _____
Total for Y ⁻³	D _____

Note: 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 (AA⁰) and Year minus one (AA¹) (section 73T of ITAA 1936)

Adjustment amount for Year Y⁰ (AA⁰)

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

Where this has occurred, AA⁰ for an eligible company and its group members for year Y⁰ is:

80% of R&D spend for Y⁻² *less* the R&D spend for Y⁻¹.

Table 2

Calculation of AA ⁰	
R&D spend Y ⁻² (Table 1, label C)	A _____
Multiplied by 0.8	
	B _____
Less	
R&D spend Y ⁻¹ (Table 1, label B)	C _____
AA ⁰	D _____
Transfer this amount to label A in Table 5.	
Note: 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 (AA¹)

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, AA¹ 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⁻².

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.	
Note: 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 (RA¹)

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 3 years was:

Y ⁻¹	\$250 000
Y ⁻²	\$245 000
Y ⁻³	\$230 000

In this example, the running average (RA¹) 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 RA¹?

If Yes, then the adjustment balance is calculated by adding AA⁰ and AA¹ as per Table 5.

If No, Transfer RA¹ to label A in Table 6 to calculate adjustment balance.

Table 5

Calculate 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**Calculate the adjustment balance (AB)**

Adjustment balance	
RA ¹ (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 Y⁰, is the R&D spend of the eligible company for Y⁰, less the 3 year-running average for Y⁰ and the adjustment balance.

That is, the premium amount for the group is:

the R&D spend Y⁰ shown at label A in Table 1 above.

Less

The sum of RA⁰ (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 YO (RA⁰)

The running average for Y⁰ 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 research and development incremental concession deduction 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 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 **B** _____
 (Table 8 label **D**)

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 2002*.

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 15.

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 **Y⁰**.

See **Table 1**.

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

If Yes,

- the company did **NOT** increase its incremental expenditure from **Y⁻¹** to **Y⁰**,
- 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** at 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 2002*.

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 17.

If No,

the company **DID** increase its incremental expenditure from **Y⁻¹** to **Y⁰** (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 **Y⁰**.
 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 **Y⁰**.

Table 10

Calculate the totals of Y⁰ and Y⁻¹ incremental expenditures for increasing companies in the group.

From item 1 on page 2 of the R&D schedule insert below the details of each company that increased its incremental expenditure in **Y⁰** over its **Y⁻¹** incremental expenditure. (**Y⁰** must be greater than **Y⁻¹** on each line.)

TFN	Y ⁰	Y ⁻¹
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Total	A _____	B _____
	Transfer to Table 11, label A.	Transfer to Table 11, label B.

Table 11

Calculating the increase in incremental expenditure of increasing companies

Total **Y⁰** amount **A** _____
 (Table 10, label **A**)

Less

Total **Y⁻¹** amount **B** _____
 (Table 10, label **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 **Y⁰** divided by the increase in the group incremental expenditure over these years of all increasing members.

Table 12**Calculate the increase in group incremental expenditure**

The company's Y⁰ incremental expenditure amount

A _____
(Part D, item 1a on page 2, R&D schedule)

Less

The company's Y⁻¹ incremental expenditure amount

B _____
(Part D, item 1a on page 2, R&D schedule)

The company's 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 9**Calculate the research and development incremental tax concession**

The research and development 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** 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 2002*.

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****Note:**

- The choice to take the research and development tax offset has the effect that the company will be ineligible to claim a research and development tax concession deduction, (refer to subsection 73I(1) of ITAA 1936).

Tax offset = no research and development tax concession deduction**Note:**

- 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 2 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 research and development 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 research and development amount and research and development group turnover (as defined in subsections 73B(1) and section 73K of ITAA 1936), respectively against the entity's tax file number.

Attach another schedule if there is insufficient space for all group entities and ensure aggregate research and development amount and research and development group turnover is summed and totals placed in row H.

Total both of these columns, and insert the totals in **Table 15**.

Table 15**Eligibility for tax offset**

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

If the total of the aggregate research and development amount column is \$1 000 000 or less *and* the total of the research and development group turnover column is less than \$5 000 000, the company may choose to claim the research and development tax offset (paragraphs 73K(1)(c) and (d) of ITAA 1936).

If the company does not choose to claim the offset, no further action is required.

If the company chooses to take the offset then the research and development 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**:

- identify the amount at label **L** in Part A Calculation of research and development deduction of the R&D schedule
- 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
- total the amounts identified at step 2
- subtract the amount at step 3 from the amount at step 1. **Show this amount at label A in Table 16.**

Table 16**Calculate the amount of deductions eligible for the R&D tax offset**

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

Add

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

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 2002*.

Note: Inclusion of an amount at label **Y**—**Election to take R&D tax offset** 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 research and development tax concession provisions.

To calculate the amount of the research and development tax offset available to the company multiply the amount eligible for the tax offset by the company tax rate (currently 30%).

Table 17**Calculate the research and development tax offset**

Amount eligible for research and development tax offset
(**Table 16**, label **C**) **A** _____

Multiply by 0.3

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

Transfer this amount to:

- Part E Research and development tax offset, item 3, label **Z**, page 2 of the R&D schedule and
- Label **Z**—**Other refundable credits including R&D tax offset** in the Calculation statement on page 4 of the *Company tax return 2002*.

For more information refer to:

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

GLOSSARY

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	<i>Income Tax Assessment Act 1936</i>
ITAA 1997	<i>Income Tax Assessment Act 1997</i>
R&D	Research and development
RRA	A registered research agency is an Australian research agency registered under the <i>Industry Research and Development Act 1986</i> .
TFN	Tax File Number

DEFINITIONS

Current year (Y⁰)

For the 2001–2002 current year of income Y⁰ is the abbreviation used to denote that year of income.

Previous year (Y⁻¹)

For the 2001–2002 current year of income Y⁻¹ is the abbreviation used to denote the 2000–2001 year of income.

Year Y⁻² (Y⁻²)

For the 2001–2002 current year of income Y⁻² is the abbreviation used to denote the 1999–2000 year of income.

Year Y⁻³ (Y⁻³)

For the 2001–2002 current year of income Y⁻³ is the abbreviation used to denote the 1998–1999 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 (AA⁰)

AA⁰ is the abbreviation used to denote a group's adjustment amount for the Y⁰ year of income (subsection 73P(2) of ITAA 1936).

Adjustment amount year minus One (AA¹)

AA¹ 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 (RA⁰)

RA⁰ is the abbreviation used to denote the group's running average for the Y⁰ income year (subsections 73P(2) and 73U(1) of ITAA 1936).

Running average (RA¹)

RA¹ 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 research and development 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).

References to 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

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

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

IT 2635 and IT 2635A Income tax: research and development: syndicated R&D arrangements



Research and development tax concession schedule 2002

Post completed schedule to:
 Innovation Segment
 Australian Taxation Office
 GPO Box 2540
 ADELAIDE SA 5001

www.ato.gov.au

Original/amended claim (cross out whichever is not applicable)

Company name

Tax file number

Signature as prescribed in tax return

AusIndustry/IRDB registration number

Australian Business Number (ABN)

PART A Calculation of research and development deduction

Do not include any concessional amounts at labels in items 1 to 14. The total of amounts shown at columns headed **Claimable at 100%**, **Claimable at 125%** and **Claimable at 150%** should equal the base amount shown in the first column for each item. The concessional amounts are included at item 16, **Claims including concession**.

Show whole dollars only.

	Base amount	Claimable at 100%	Claimable at 125%	Claimable at 150%
1 Contracted expenditure—RRA	A	B	C	D
2 Salary expenditure	E	F	G	
3 Other R&D expenditure	H	I	J	K
4 Contract—other	N	O	P	Q
5 Plant leasing	R	S	T	U
6 Eligible feedstock expenditure	V	W	X	
7 Plant deductions—pre-29 January 2001 (including balancing adjustments)	A	B	C	D
8 Pilot plant deductions—post-23 July 1996 (including balancing adjustments)	E	F	G	
9 Plant and depreciating assets—post-29 January 2001 (decline in value)	H	I	J	
10 Plus balancing adjustments (deductions)	K	N	O	
11 Less balancing adjustments (assessable income)	P	Q	R	
12 Core technology—deductible amount	S	T		
13 Interest or amounts in the nature of interest	U	V		
14 Residual feedstock expenditure	W	X		
15 Total of allocated base amounts	A	B	C	D
16 Claims including concession (Base amount plus concession of 0, 25 or 50%)		E	F	G
17 Total claim—including concession—Transfer to item 7, label L —R&D concession claim (100%, 125% not 50% increment) except if label L is negative then transfer to item 7, label B —Other assessable income in the <i>Company tax return 2002</i> .				L

PART B Amount of expenditure on the following items

1 CRC contributions	I
2 Trading stock expenditure	J
3 Royalties paid to non-residents for the use of core technology	K
4 Total expenditure on plant and depreciating assets	N
5 Total expenditure on core technology	O
6 Building expenditure—deductible amount (Only complete if claiming the research and development tax offset at Part E of this schedule)	X

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

1 Entitlement to government grants and/or recoupments for the financial year (that relate to activities/projects claimed above)	P
---	---

PART D Research and development incremental tax concession

To calculate eligibility for the Research and development incremental tax concession deduction refer to **Part D Research and development incremental tax concession (calculation instructions)** in the publication *Research and development tax concession schedule 2002 instructions* (the instructions).

1	Entity name	Tax file number	Y ⁰ Incremental expenditure	Y ⁻¹ Incremental expenditure	Y ⁻² Incremental expenditure	Y ⁻³ Incremental expenditure
a						
b						
c						
d						
e						
f						
g						
h	Total of additional schedule where applicable					
	R&D spend		Q	R	S	T

Transfer the above totals to **Table 1 in Part D Research and development incremental tax concession (calculation instructions)** in the instructions.

2 Research and development incremental concession

Research and development incremental concession as calculated in **Part D Research and development incremental tax concession (calculation instructions), Table 14**, in the instructions . Transfer this amount to item 7, label **M**—**R&D incremental concession—additional 50% increment** in the *Company tax return 2002*.

M

PART E Research and development tax offset

To check eligibility for and calculate your entitlement to the research and development tax offset, refer to **Part E Research and development tax offset (calculation instructions)** in the instructions.

1	Entity name	Tax file number	Aggregate R&D amount	Entity turnover
a				
b				
c				
d				
e				
f				
g				
h	Total of additional schedule where applicable			
	Group totals		B	C

Transfer these totals to labels **A** and **B** respectively of **Table 15 in Part E Research and development incremental tax concession (calculation instructions)** in the instructions.

2 Research and development claim subject to the research and development tax offset

Research and development claim subject to the research and development tax offset as calculated in **Part E Research and development tax offset, Table 16**, label **G** in the instructions. Transfer this amount to item 7, label **Y**—**Election to take R&D tax offset** on page 2 of the *Company tax return 2002*.

Y

3 Research and development tax offset amount

Research and development tax offset amount as calculated in **Part E Research and development tax offset, Table 17**, label **B** in the instructions.

Z

Include this amount at label **Z**—**Other refundable credits including research and development tax offset** in the Calculation statement on page 4 of the *Company tax return 2002*.

YOUR HELPLINES FOR FURTHER INFORMATION

Publications, taxation rulings, forms

Tax agents please use the following numbers:

ATOPOS web address → www.iOrder.com.au/ato

Publications distribution service by fax → 1300 361 462

If you have a query on your order status, phone → 1300 362 883

Non tax agents please use the following numbers:

Publications Distribution Service → 1300 720 092

From July to the end of October, this service operates from 8 a.m. to at least 10 p.m. on weekdays and from 10 a.m. to 5 p.m. on weekends—AEST. From November to June, the normal operating hours of the distribution service are 9 a.m. to 7 p.m. weekdays; the distribution service will **NOT** operate during weekends.

Before you ring, check to see if there are other publications you may need—this will save you time and help us.

This distribution service is not run by ATO staff. Your tax questions cannot be answered on this telephone number.

Other enquiries are available through the following services:

Website—ATOassist

The Internet site at www.ato.gov.au gives access to ATO publications and general information on tax matters, 24 hours a day, every day.

a FAX from TAX—13 2860

If you have access to a fax machine, tax information is available 24 hours a day, every day.

When you phone, follow the instructions to obtain a list of available documents.

Business tax reform infoline—13 2478

This service operates from 8 a.m. to 6 p.m. Mon–Fri.

The Internet site at www.taxreform.ato.gov.au gives access to business tax reform information 24 hours a day, every day.

Superannuation enquiries—13 1020

For assistance with all your superannuation enquiries.

Business infoline—13 2866

Notify the ATO of the amount of tax instalments deducted from employees every quarter to avoid a penalty for failure to notify, even if you cannot pay the full amount by the due date.

Phone this number also for information on the general interest charge.

If you are unsure whether you need to lodge a return or you want to know where or when to lodge a return.

If you need information on the ABN, how to apply for one or assistance in completing an application.

ATO account management line—13 1142

If you cannot pay your tax debt contact the ATO on, this number to avoid action being taken to recover the debt.

General enquiries—13 2861

This helpline is for tax questions on topics other than those already described.

Translating and interpreting service—13 1450

If you do not speak English and need help on tax matters, this service sets up a 3-way conversation between you, an interpreter and a tax officer.

Hearing or speech impairment—13 2544

If you have access to appropriate TTY or modem equipment, contact the **Australian Communication Exchange National Relay Service** on **1300 130 478**. You will need to quote one of the helplines listed on this page. The relay service will then connect you with a tax officer.

Research and development tax
concession schedule 2002
instructions



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Australian Taxation Office 2002