

Government Grants and Incentives

**Australian Automotive Aftermarket
Association**

5 June 2018



Research and Development

- Overview of R&D Tax Incentive
- Areas of interest
- Advance and Overseas Findings



Research and Development

- Aggregate turnover – less than \$20 million
- 43.5% refundable tax offset

potential to receive a cash refund

- Aggregate turnover – more than \$20 million
- 38.5% non-refundable tax offset

tax saved (immediately or in the future)



Deadlines

- R&D Application - 30 April 2019 for companies balancing to 30 June 2018
- Advance/Overseas Finding application for expenditure incurred during 30 June 2018 to be lodged by 30 June 2018

Research and Development

The programme was introduced in 2011.

In 2015-16 income period 92% of all registrations came from companies with aggregated turnover of less than \$20m.



For the 2015 -16 income period more than 15,400 companies (some of which are part of a consolidated group for tax purposes) had registered \$16 billion of R&D expenditure.



When compared to the 2014 - 15 income period, the number of new registrants (including some which are grouped for tax purposes) increased by 3%, while the R&D expenditure has dropped by 12%.



Majority of registrations received for 2015-16 were from companies with an aggregated turnover of less than \$20 million with SME's contributing to the increase in the number of applications and R&D expenditure claimed by 5%.

Research and Development

Victoria

Victoria's share of all registrations in 2015-16 was 27%

Compared to the prior year, the number of registrations have gone up by 3%, with the R&D expenditure decreasing by 22%

Manufacturing claims contribute to 37.6% of the R&D expenditure claimed by companies in Victoria



Research and Development

Experimental activities

Outcome cannot be known in advance based on current information, knowledge and experience

Activities are undertaken using the **scientific method**

- Hypothesis, experiment, observation, evaluation, conclusion

Purpose of creating **new knowledge**

- In the form of new or improved products, processes, devices, services

Not on the exclusion list



355-20 R&D activities

R&D activities are core R&D activities or supporting R&D activities.

355-25 Core R&D activities

(1) **Core R&D activities** are experimental activities:

(a) whose outcome cannot be known or determined in advance on the basis of current knowledge, information or experience, but can only be determined by applying a systematic progression of work that:

(i) is based on principles of established science; and

(ii) proceeds from hypothesis to experiment, observation and evaluation, and leads to logical conclusions; and

(b) that are conducted for the purpose of generating new knowledge (including new knowledge in the form of new or improved materials, products, devices, processes or services).

Research and Development

Areas of interest for AusIndustry and ATO



**Software
development**



Mining



Construction



Agriculture

- Consultant's behaviour
- Fraud
- Business as usual

Research and Development

AusIndustry - areas of interest

- **Whole of project claims**
- **Hypothesis which too broadly written – more a like a technical objective**
 - Needs to be able to be proven to be correct or not
- **Records to prove**
 - Activities had taken place
 - State of the technology when the project commenced – new knowledge
 - Expenditure was incurred on R&D activities, as distinguished from business as usual

Research and Development

Areas of interest - ATO

Structures – transactions between associated parties

- Amounts have to be paid before the tax offset can be claimed
- If paid and incurred in different financial years, need to make sure don't claim a 'normal tax deduction' when incurred

Application of aggregate turnover rules

- Grouping of connected entities and affiliates

AAT Cases and decisions

- Extensions to register late applications are only available in limited circumstances
- The applicant entity must itself have the purpose of generating new knowledge
- The purpose of generating new knowledge must be a substantial purpose
- If there is no contemporaneous evidence that an activity was conducted to meet all the eligibility criteria, then that activity is not eligible
- Businesses that claim the R&D tax incentive must keep good records of their R&D expenditure. (NB this case was in relation to a registration under the R&D tax concession)
- Decision that upheld a decision by the commissioner of taxation to reject an entity's R&D tax concession claim because it could not substantiate the claimed expenditure
- Activities must be for the significant purpose of generating new knowledge.
- Regarding technical outcomes – the project being 'complex' is not sufficient.
- Decision to dismiss applications for review because the wrong companies submitted the overseas finding applications

- Silver Mines [2016]
- JSLP [2016]
- Docklands Science Park [2015]
- Tier Toys Limited [2014]
- Hadrian Fraval Nominees [2013]
- Mt Owen Pty Limited (aka DBTL) [2013]
- Rix's Creek Pty Limited; Bloomfield Collieries Pty Limited [2017]
- DZXP, KRQD and QJJS [2017]

Advanced and Overseas Findings

Advance Findings – go to AusIndustry to get a Certificate as to whether activities are eligible

Advance Finding for Overseas R&D – need to get Certificate before being able to claim overseas expenditure

Need to apply before the end of the financial year in which the expenditure was incurred

Can be valid for 3 years



Overseas Finding

Key criteria

1. **Bigger project in Australia – over the life of the project**

2. **Reasons why it can't be done in Australia**

- Quarantine
- Resources
- Capabilities

Need to be able to **prove** why this the case

3. **Significant link to a core activity in Australia**

Our Specialists



Sukvinder Heyer

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Sukvinder has over 20 years' experience in providing R&D tax services to clients. She also has background in chemical engineering and law.

Sukvinder's areas of expertise include:

- Identification of R&D activities
- Consulting advice regarding R&D matters including cross border implications
- Advice regarding R&D tax incentive compliance procedures
- ATO and AusIndustry reviews.



Uma Adash

Senior Manager

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With a doctorate in physical chemistry and professional background in materials chemistry, Uma has over 11 years' experience in preparing R&D claims for large and small companies including those in the manufacturing, technology, life sciences, food and beverage, resources and agribusiness sectors.

Uma is responsible for the driving of the R&D deliverables which includes:

- Project scoping and identification
- Data collection and collation
- Managing communications
- Claim preparation and review.

About Grant Thornton



US\$4.8bn
Global Turnover (FY 2016)



40,000
People Globally



Over 130
Countries



1,160
People Nationally



6
Offices Nationwide

Government Funding Support

- B2G Team
- About Government Funding
- Commonwealth Programs
- Victorian Programs



Business to Government (B2G) Team

Specialists in accessing Government grants & incentives

Devoted to keeping abreast of the latest developments across the enormous range of programs, grants and schemes offered by state and federal governments to promote the competitiveness, sustainability and profitability of businesses.

We Provide:

- General advisory services including preparation of Grant Strategies
- Preparation of funding applications
- Preparation of Customs tariff refunds
- Preparation of bids for discretionary funding
- Compliance reporting

About Government Funding

No central source

What's on offer is constantly changing

Government will only co-fund activity

Most grants are prospective:

- What is the client's strategy?
- Grant agreement in place before the client spends a dollar

\$50 billion; 800 grants p.a.

Nature of Government Funding

Commonwealth vs State Government?

Entitlement vs Competitive vs Discretionary?

Requirement for Co-Funding?

Retrospective vs Prospective?

Eligible company? Eligible project, eligible activity? Eligible expenditure?

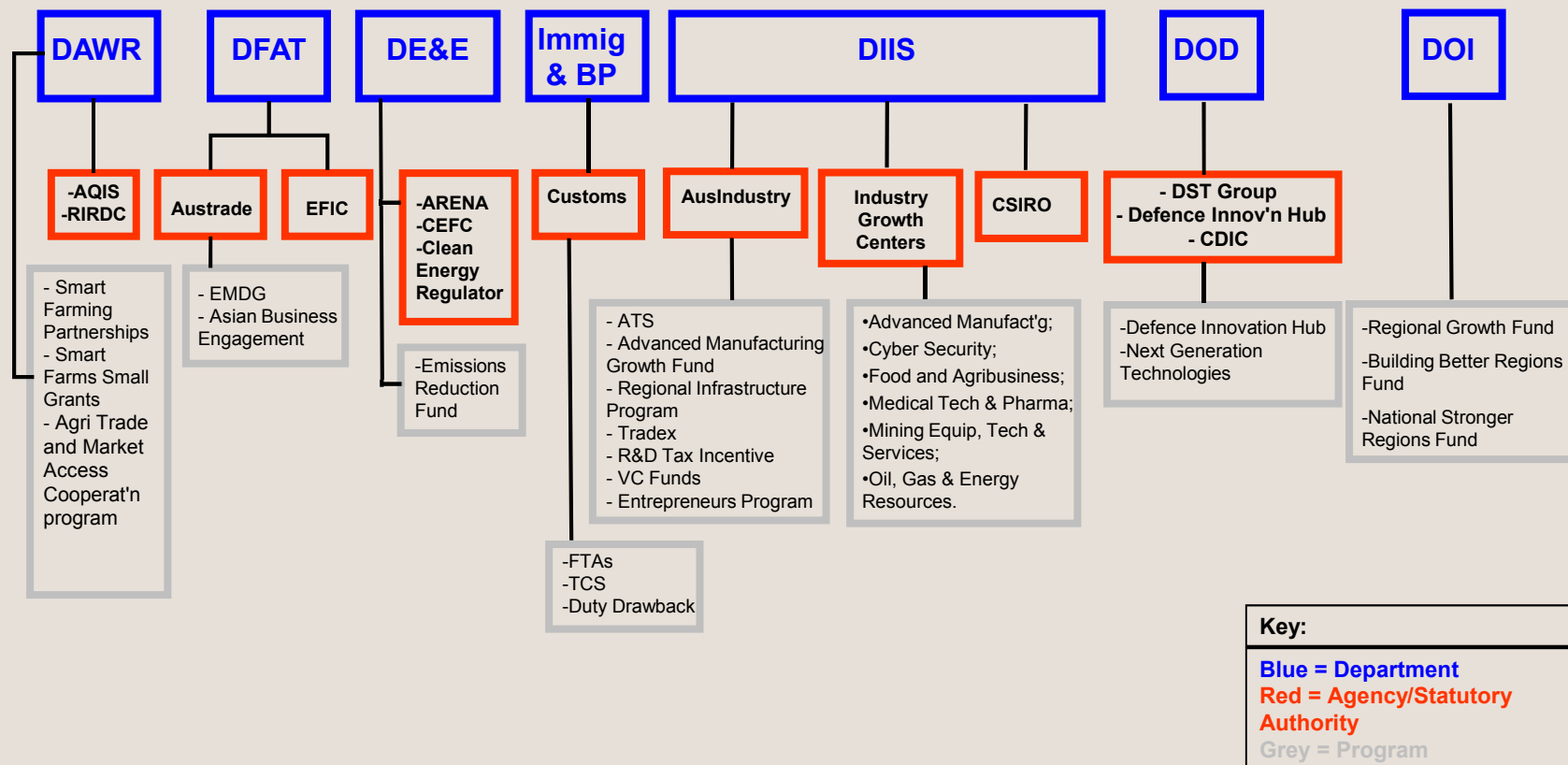
When will funding be available?

Compliance reporting?

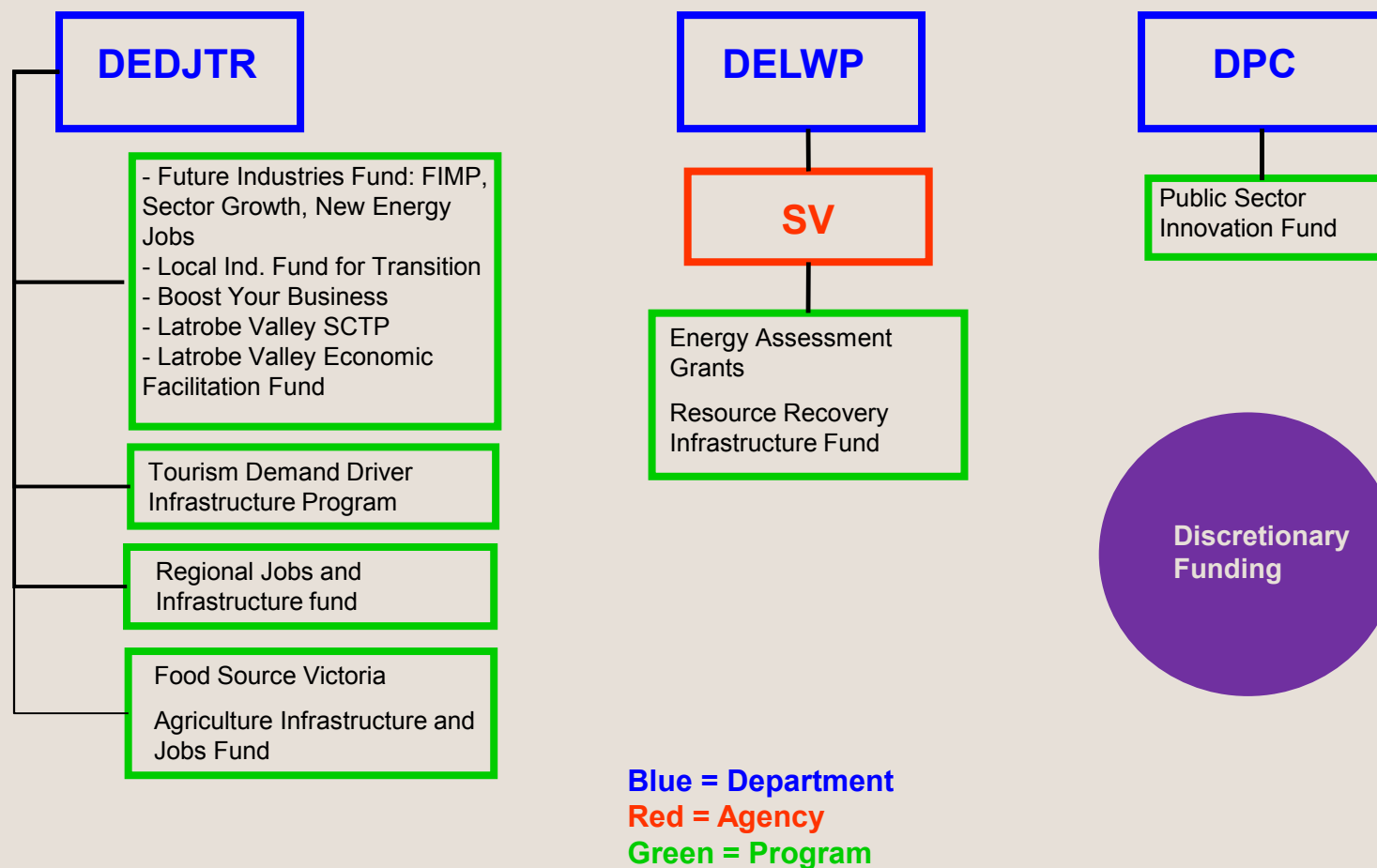
Risk of claw-back?

Which program; what policy objective?

Federal Government Departments/Agencies/Programs



Victorian Government Departments/Agencies/Programs



What to look for

Investment in the business

- Capital equipment
- Human resources
- Export activity
- Product/process innovation
- Research and development
- Business improvement

Energy/emissions reduction

Regional/rural activity

Automotive, defence

Investment attraction

Retrospective Funds: 4 exceptions

1. **Export Market Development Program (EMDG)**
2. **R&D Tax Incentive**
3. **Tariff concession scheme**
4. **Automotive Transition Program (ATS)**

EMDG

- up to 50%* x eligible export marketing costs
(less non-reimbursable threshold \$5,000)
- Minimum level of expenditure for eligibility \$15,000
- Max grant \$150k, turnover <\$50m, 8 grants

Prospective Funds

1. Commonwealth Funds
2. R&D Tax Incentive

Commonwealth: #1

Entrepreneurs Program: turnover \$1.5* - \$100m

Business Evaluation or Business Growth Plan

free business diagnostic and evaluation report with recommended actions. Applicant must be in a Growth Sector.

- Growth Sectors: Advanced Manufacturing, Food & Agribusiness, Medical Technologies and Pharmaceuticals, Mining Equipment Technology and Services, Oil Gas and Energy Resources, (or enabling technology/service to one or more growth sectors)

Business Growth Grant

up to \$20,000 (1:1 basis) to engage a consultant to implement the recommendations of the evaluation.

Innovation Connections Facilitation and Grant

identify research needs; up to \$50,000 (1:1 basis) to assist with access to researchers/research expertise.

Commonwealth: #1

Entrepreneurs Program: turnover <\$20m

Accelerating Commercialisation

up to \$1 million (1:1 basis) for projects which aim to:

- engage external professionals (develop business model, IP strategy, raise capital or prepare an IM)
- complete development of novel p/p/s,
- prove commercial viability of novel p/p/s,
- make first sale of novel p/p/s
- engage a senior experienced executive (cap \$250k per FY), which is essential to achieving commercialisation outcomes

Incubator Support New & Existing Incubators

up to \$500,000 (1:1 basis) to develop new incubators in regional areas of sectors with high potential for success in international trade; boost the effectiveness of high performing incubators; encourage incubators to work with data driven start-ups that use public data.

Commonwealth: #2

Advanced Manufacturing Sector

Advanced Manufacturing Growth Centre (AMGC)

fostering collaboration between industry enterprises and the scientific and research community

- \$4m Advanced Manufacturing Early Stage Research Fund (\$100-400k on 1:1 basis)
- AMGC Project Fund

Innovative Manufacturing Cooperative Research Centre (IMCRC)

Fostering collaboration with manufacturing businesses that wish to research innovative manufacturing technologies and processes

Advanced Manufacturing Fund

- \$47.5m Advanced Manufacturing Growth Fund
- \$20m Advanced Manufacturing CRC Projects
- \$10m Innovation Labs in SA and VIC
- \$5m Automotive Engineering Graduate Program

VIC Government: #1

Boost Your Business Vouchers

Advanced Manufacturing Stream

- development and commercialisation of new products and advanced manufacturing processes
- adoption of new or improved capability, business models and business processes
- entry to new export markets

Asia Gateway

- Capitalise on growth opportunities in Asia
- Connect and expand into Asia
- Increased Asia capabilities
- (China, HK, India, Indonesia, Japan, Malaysia, Singapore, S Korea, Taiwan, Thailand, Vietnam)

ACCESS FOR TWO STREAMS ABOVE:

- Up to \$50,000 (1:1 basis)
- Eligible applicant: employ >20 staff or annual turnover >\$1.5m
- Vouchers purchase (non capital) services of Registered Service Providers
- Projects to be completed within 12 months

SIX STREAMS

1. Advanced Manufacturing
2. Asia Gateway
3. Food Innovation
4. Social Enterprise Capability
5. Defence Aerospace and Security
6. Victoria-Israel Innovation

VIC Government: #2

Future Industries Fund

Future Industries Manufacturing Program (FIMP)

- Up to \$500k, 3:1
- Funds capital equipment, infrastructure, skills, M&A
- Supports projects that create jobs & need funding to proceed

Sector Growth Program

- Stream 1: scoping, planning and feasibility (\$100k, 1:1)
- Stream 2: Project Implementation (\$1 m, 1:1)
- Consortia of at least 3 companies
- Closes 13 June

New Energy Jobs Fund

- Supports manufacturing new technology components/systems; demonstrating new ways of integrating technology; advancing development and deployment of energy storage products and services.
- Round 4 not yet announced
- \$50k to \$1m, 3:1 (unless Community project)

- Medical Technology & Pharmaceuticals
- Food & Fibre
- New Energy Technology
- Transport Technology
- Defence Technology
- Construction Technology
- International Education
- Professional Services

VIC Government: #3

Local Industries Fund for Transition (LIFT)

Supports projects that create new jobs in the areas most affected by the automotive OE assembly closures:

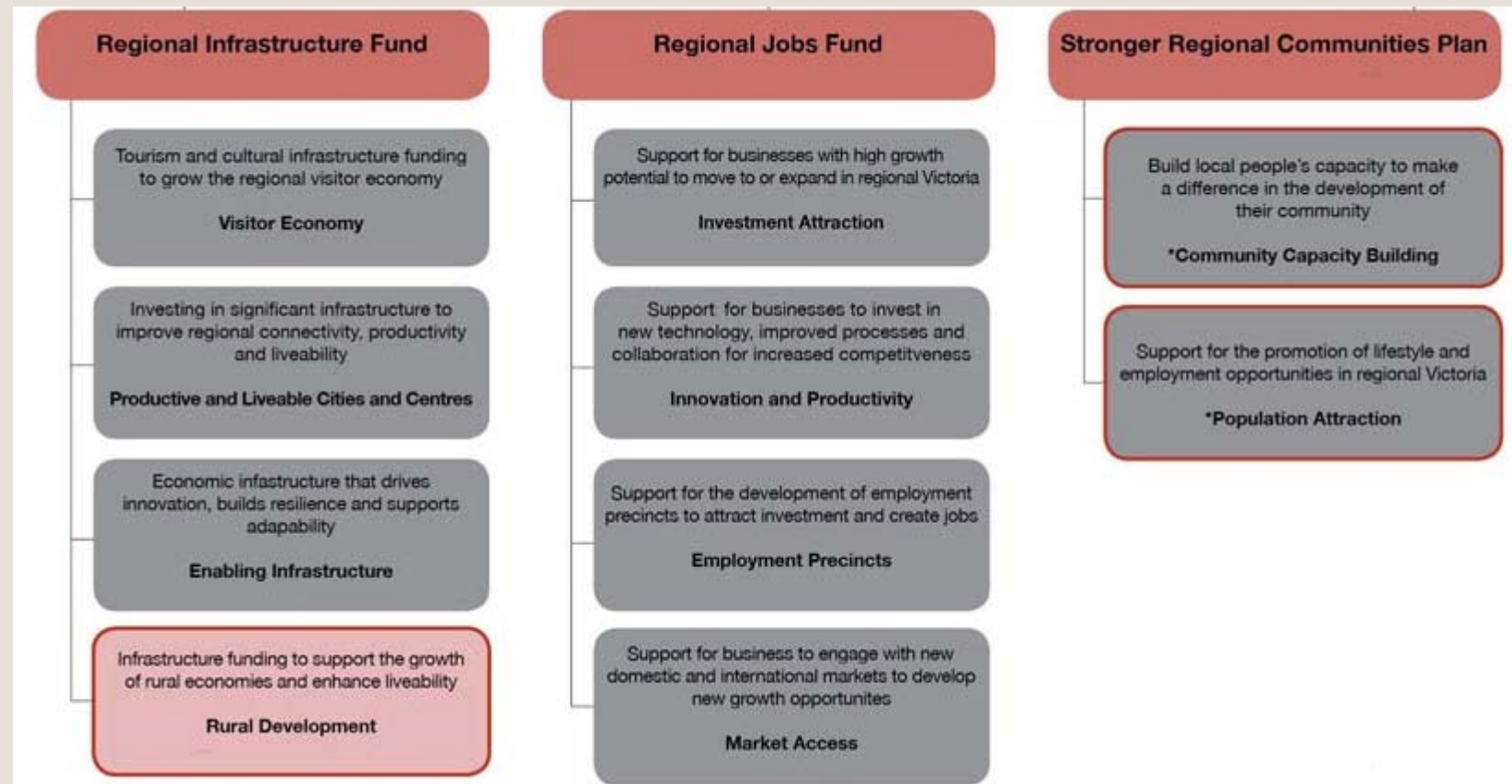
- Up to \$2m, 3:1
- Preference to projects that create ex-OE automotive workers
- Proposed projects will be assessed against the following merit criteria:
 1. level of job creation
 2. level of net economic benefit
 3. demonstrated skills, experience and resources available to the business to successfully undertake the project
 4. sustainability of the project and need for Government support.

Local Government Areas

- **Geelong** – Colac-Otway, Golden Plains, Greater Geelong, Queenscliff and Surf Coast
- **Melbourne's North** – Darebin, Hume, Moreland and Whittlesea
- **Melbourne's South East** – Greater Dandenong, Kingston, Casey, Frankston, Knox, Monash, Whitehorse, Maroondah, Cardinia and Yarra Ranges
- **Melbourne's West** – Wyndham, Melton, Hobsons Bay, Maribyrnong, Brimbank and Moonee Valley

VIC Government: #4

Regional Jobs and Infrastructure Fund



VIC Government: #5

Discretionary Funds

Investment Attraction

State Governments can apply discretionary funds to attract and support strategic investments.

NB: outcomes that are good for the State

- foreign investment; jobs growth, strengthened supply chains
- regional development

\$500,000+ requires Cabinet Approval

B2G Team Leader



Jacky Millership

Partner

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Jacky has over 30 years' consulting experience in international trade development and Government Program facilitation. She leads Grant Thornton's B2G (Business to Government) team, which specialises in assisting business to fully leverage the very diverse range of grants and incentives available at both State and Federal level.

Over the last 10 years the B2G team has demonstrated an outstanding track record of successfully obtaining highly contestable discretionary funding for clients across a large range of industry sectors.

The B2G team works with industry clients to identify the best Government programs to leverage their position, the preparation of formal funding applications and conducting the compliance reporting and monitoring required under many Government programs.

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