

## DO YOU NEED TO DETERMINE WHICH TAX OFFSET YOU MIGHT BE ENTITLED TO CLAIM UNDER THE R&D TAX INCENTIVE?

### THE R&D TAX INCENTIVE

It provides generous benefits for companies performing eligible R&D activities and has the following two core components:

- A 43.5% refundable tax offset for eligible entities with an aggregated turnover of less than \$20 million – unless they are controlled by tax exempt entities.
- A 38.5% non-refundable tax offset for all other eligible entities.

### TURNOVER THRESHOLD

- The rate of the offset depends on an R&D's entity's 'aggregated turnover'.
- This is the sum of the annual turnover of the R&D entity and any entity which is either connected or affiliated.

### FIRSTLY, ARE YOU...

- An R&D entity that comes below the aggregated turnover threshold?
- Not controlled by one or more exempt entities?

If you've answered yes to the above questions, you can use the following rules to work out the kind of R&D tax offset to which you could be entitled.

### 1. CONNECTED ENTITY - DIRECT CONTROL

Your entity controls another entity if either of the following applies to your entity, its affiliates or both:

- They own or have the right to acquire the ownership of interests in the other entity that carry between them the right to receive at least 40% of any distribution of:
  - income
  - capital
  - net income of the partnership if the other entity is a partnership
- If the other entity is a company, they own or have the right to acquire the ownership of interests in the company with at least 40% of the voting power in the company.

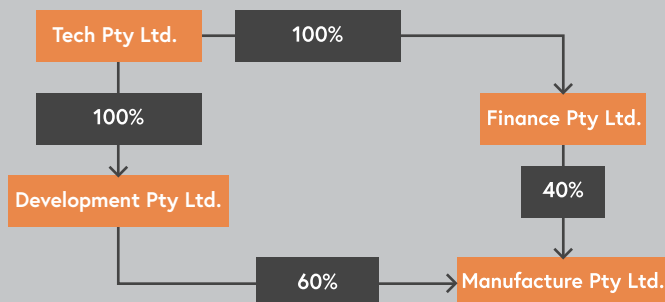
### 2. CONNECTED ENTITY - INDIRECT CONTROL

If your entity directly controls a second entity, and the second entity controls (whether directly or indirectly) a third entity, then your entity is taken to control the third entity.

### 3. AFFILIATE

An individual or company is an affiliate of your entity if, in relation to the affairs of their business, they act, or could reasonably be expected to act in either of the following ways:

- In accordance with your entity's directions or wishes
- In concert with your entity.



To work out the aggregated turnover of each of the above entities, you would need to consider the following:

#### Tech Pty Ltd

- Directly controls (and is therefore connected with) Development Pty Ltd and Finance Pty Ltd
- Indirectly controls (and if therefore connected with) Manufacture Pty Ltd, through both Development Pty Ltd and Finance Pty Ltd.

#### Development Pty Ltd and Finance Pty Ltd

- are each controlled by (and are therefore connected with) Tech Pty Ltd
- are each controlled by the same entity (and are therefore connected with each other)
- each directly control (and are therefore connected with) Manufacture Pty Ltd.

#### Manufacture Pty Ltd

- is directly controlled by (and is therefore connected with) Development Pty Ltd and Finance Pty Ltd
- is indirectly controlled by (and is therefore connected with) Tech Pty Ltd

In summary, to work out the aggregated turnover of any of the four companies, the annual turnover of all four companies must be included in the calculation (excluding any dealings between them).

For further clarification around the grouping rules, or if you require assistance with working out what your entity might qualify for, contact CharterNet today.

