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**Australian Taxation Office**

# Research and development tax concession schedule instructions 2006

To help you claim research and development deductions on the  
company tax return for 1 July 2005 – 30 June 2006



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# CONTENTS

<b>INTRODUCTION</b>	1	<b>PART B AMOUNT OF EXPENDITURE ON THE FOLLOWING ITEMS</b>	10
Who must complete an R&D schedule?	1	Item 1 Cooperative research centre (CRC) contributions	10
Who can claim the R&D tax concession?	1	Item 2 Trading stock expenditure	10
Before you complete the R&D schedule	1	Item 3 Royalties paid to non-residents for the use of core technology	10
<b>COMPLETING THE R&amp;D SCHEDULE</b>		Item 4 Total expenditure on plant and depreciating assets	10
Filling in the top of page 1	3	Item 5 Total expenditure on core technology	10
<b>PART A CALCULATION OF RESEARCH AND DEVELOPMENT DEDUCTION</b>	3	Item 6 Building expenditure and other adjustments required to calculate the company's aggregate R&D amount	10
Important notes on part A of the R&D schedule	3	<b>PART C GOVERNMENT GRANTS AND RECOUPMENTS – OTHER THAN CRC PROGRAM GRANTS</b>	11
Item 1 Contracted expenditure – RRA	3	<b>PART D RESEARCH AND DEVELOPMENT INCREMENTAL TAX CONCESSION</b>	11
Item 2 Salary expenditure	4	Calculation instructions	11
Item 3 Other R&D expenditure	4	<b>PART E RESEARCH AND DEVELOPMENT TAX OFFSET</b>	17
Item 4 Contract – other	5	Calculation instructions	17
Item 5 Plant leasing	5	<b>ABBREVIATIONS</b>	19
Notes on feedstock expenditure for items 6 and 14	5	<b>DEFINITIONS</b>	19
Item 6 Eligible feedstock expenditure	5	<b>LOGGMENT</b>	20
Item 7 Plant and pilot plant deductions – pre-29 January 2001 (including disposal losses)	6	<b>MORE INFORMATION</b>	inside back cover
Item 8 Pre-29 January 2001 disposal profits	7		
Item 9 Plant and depreciating assets – post-29 January 2001 (decline in value)	7		
Notes on balancing adjustments made in items 10 and 11	8		
Item 10 Post-29 January 2001 disposal losses	8		
Item 11 Post-29 January 2001 disposal profits	8		
Item 12 Core technology – deductible amount	9		
Item 13 Interest or amounts in the nature of interest	9		
Item 14 Residual feedstock expenditure	9		
Item 15 Total of allocated base amounts	10		
Item 16 Claims including concession	10		
Item 17 Total claim – including concession	10		



## **ABOUT THESE INSTRUCTIONS**

These instructions will help you complete the *Research and development tax concession schedule 2006* (the R&D schedule) and the research and development (R&D) deduction items on the *Company tax return 2006*.

When we refer to 'you' in these instructions, we are referring to the person responsible for completing the R&D schedule. This publication is NOT a guide to income tax law. Please get help from the Tax Office or a recognised tax adviser if you feel this publication does not fully cover your circumstances.

## **PUBLICATIONS AND SERVICES**

To find out how to get a publication referred to in these instructions, and for information about our other services, see the inside back cover.

## **ABBREVIATIONS AND UNFAMILIAR TERMS**

For an explanation of any terms used in these instructions that are unfamiliar to you, see the list of definitions on page 19. There is a list of abbreviations on page 19.



# INTRODUCTION

These instructions are provided to help you complete the attached *Research and development tax concession schedule 2006* (R&D schedule), which in turn will help you complete the deduction items for research and development (R&D) expenditure on the company tax return. For more information about the R&D tax concession, see the joint AusIndustry – Tax Office publication *Guide to the R&D tax concession*.

There is an automated spreadsheet that replicates the R&D schedule on our website at [www.ato.gov.au/randd](http://www.ato.gov.au/randd)

This spreadsheet will do the R&D calculations automatically for you. We will accept a printout of the completed spreadsheet as an official R&D schedule.

## WHO MUST COMPLETE AN R&D SCHEDULE?

You must complete and lodge the R&D schedule if you make a claim on your company tax return for R&D activities under the R&D tax concession, that is sections 73B to 73Z of the *Income Tax Assessment Act 1936* (ITAA 1936).

## WHO CAN CLAIM THE R&D TAX CONCESSION?

You may be entitled to claim the concession for your company if it is:

- an eligible company that has registered its research and development activities with the Industry, Research and Development Board (IRDB) through AusIndustry for the income year ended 30 June 2006, or
- the head company of a consolidated group where at least one of the subsidiary companies in the group is an eligible company and is registered with the IRDB (section 73BAB of ITAA 1936).

An eligible company is a body corporate incorporated under a law of the Commonwealth or of a state or territory (subsection 73B(1) of ITAA 1936).

### NOTE

An eligible company that incurs expenditure as a trustee or nominee cannot claim the concession unless it is a trustee of a public trading trust (subsection 73B(3) of ITAA 1936).

You can only claim the tax concession for expenditure on eligible R&D activities. The IRDB and AusIndustry determine whether activities are eligible R&D activities.

You must lodge an application for registration of R&D activities with the IRDB within 10 months of the end of the income year.

### YOU MUST REGISTER BEFORE CLAIMING

You must register before you make a claim on the company's tax return. If your company chooses to claim the R&D tax offset (see page 17), it must do so on its tax return (which includes the R&D schedule) and it must be registered at that time.

## WHO ADMINISTERS THE R&D TAX CONCESSION?

The R&D tax concession is administered jointly by AusIndustry, (part of the Department of Industry, Tourism and Resources – DITR) and the Tax Office.

For information about how to register for the R&D tax concession and about what R&D activities qualify for the concession:

- visit the AusIndustry website at [www.ausindustry.gov.au](http://www.ausindustry.gov.au)
- phone the AusIndustry hotline on **13 28 46**.

For information about claiming the R&D tax concession:

- visit the Tax Office research and development website [www.ato.gov.au/randd](http://www.ato.gov.au/randd)
- phone the business tax infoline on **13 28 66**.

## BEFORE YOU COMPLETE THE R&D SCHEDULE

Before you start to fill in the R&D schedule, you will need to make certain calculations and complete certain parts of the company tax return. Read through the points below and on the next page. Although not exhaustive, they list important information.

Five items on the *Company tax return 2006* relate to the R&D tax concession:

- at page 2 item **7 Reconciliation to taxable income or loss**
  - **D Accounting expenditure in item 6 subject to R&D tax concession**
  - **L R&D tax concession – not including label M**
  - **M Incremental R&D (additional 50%) deduction**
  - **Y R&D tax offset, if chosen**
- at page 4 **Calculation statement**
  - **U R&D tax offset.**

### General

- At item **7 Reconciliation to taxable income or loss** on the *Company tax return 2006*, complete **D Accounting expenditure in item 6 subject to R&D tax concession**, (for information on how to complete this item, see **Preliminary calculation – D** on page 3).
- Calculate your aggregate R&D amount:
  - to ensure the company has incurred the required amount: that is, more than \$20,000 and
  - to determine whether your expenditure qualifies for the 100% or 125% deduction under subsections 73B (14) and (15) and section 73BA of ITAA 1936. (The **Definitions** list on page 19 defines **Aggregate R&D amounts**.)
- Calculate how much has been spent in each category that qualifies for a deduction under section 73B of ITAA 1936.

## Consolidated groups

- The amounts used as the base amounts in the calculation of the R&D tax concession deductions for consolidated groups must have been worked out on a **consolidated basis**, with all intra-group transactions eliminated. They must **not** be calculated on an **aggregated basis**, simply aggregating each group company's expenditure.

### ! NOTE

Only one R&D schedule is required for a consolidated group.

## Clawback

Section 73C of ITAA 1936 operates to 'claw back' the benefits of the R&D tax concession for companies that have received a government grant – other than a CRC program grant – for the same project. If you need to make any clawback calculations, you must make them in accordance with section 73C.

- You will need to determine whether the company (or any company required to be grouped with it) received, or was entitled to receive, a grant or recoupment in respect of any amounts claimed under the R&D tax concession.
- To find out how the clawback rules operate where a subsidiary leaves or joins a consolidated group, see section 73BAE of ITAA 1936 and section 701-5 of the *Income Tax Assessment Act 1997* (ITAA 1997).
- If clawback applies, you may find it useful to read **Important notes on part A of the R&D schedule** on page 3 and **Part C Government grants and recoupments – other than CRC program grants** on page 11.

## Prepayments

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

## Intra-group mark-up

- Determine any portion of the expenditure ineligible for the additional 25% component in accordance with the intra-group mark-up provisions (subsections 73B(14AA) to (14AD) of ITAA 1936).

## Overseas expenditure

- Expenditure on overseas R&D activities is covered in section 39ED of the *Industry Research and Development Act 1986* (IRADA 1986). Companies must have an overseas provisional certificate from the IRDB before they can claim overseas expenditure.

## Depreciating assets and plant

- Determine amounts that are available for deduction as depreciation under sections 73BH, 73BJ, 73BA and 73BC of ITAA 1936 and Division 40 of ITAA 1997.

➔ For more information, see the *Guide to depreciating assets 2006* (NAT 1996-6.2006).

## Core technology

- Determine how much of your core technology expenditure is deductible in accordance with subsections 73B(12A) to (12B) of ITAA 1936.

## Incremental expenditure

- Determine whether your incremental expenditure makes you eligible for the incremental tax concession under section 73Q of ITAA 1936.

## Grouping rules

- Determine which entities are in the company group in accordance with sections 73L, 73M and 73R of ITAA 1936.

### ! NOTE

A head company of a consolidated group will also need to consider these provisions (for example, where it is grouped with other entities with less than 100% control or ownership).

## Expenditure that is not at risk

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

## Rollover relief

- See sections 73E, 73F and 73G of ITAA 1936 to determine expenditure that qualifies for rollover relief.

## GST

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

For information on how to lodge your R&D schedule, go to page 20.

Complete all items on the R&D schedule that apply to your company, including yes or no items. If an item or label does not apply, leave it blank.



# PART A CALCULATION OF RESEARCH AND DEVELOPMENT DEDUCTION

## FILLING IN THE TOP OF PAGE 1

### Original claim or amended claim

If the company has already lodged an R&D schedule for the 2006 income year, print **X** in the box at the right of **Amended claim**. If it hasn't, print **X** in the box at the right of **Original claim**.

### Company name

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

### Tax file number (TFN)

Write the TFN of the company.

### AusIndustry/IRDB registration number

Write the AusIndustry/IRDB registration number issued to the company for this income year for registered activities.

If your company is the head entity of a consolidated group and it is not registered with AusIndustry for the current year, write the registration number of any one company in the consolidated group that has been registered.

### Signature as prescribed in tax return

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

### Australian business number (ABN)

Write the company's ABN.

### Preliminary calculation – **D**

On the R&D schedule at **Preliminary calculation **D**** show the write-back of R&D accounting expenditure for the amounts you have included at the appropriate expenditure labels at item **6 Calculation of total profit or loss** on the *Company tax return 2006*.

The amount shown at **D** on the R&D schedule must be the same as the amount shown at **D** item **7 Accounting expenditure in item 6 subject to R&D tax concession** on the company tax return.

If you have not included expense amounts for R&D deductions at item **6 Calculation of total profit or loss** on the company tax return (if, for example, those amounts are capitalised) write zero **0** at **Preliminary calculation **D**** on the R&D tax concession schedule and **D** item **7 Accounting expenditure in item 6 subject to R&D tax concession** on the company tax return.

#### *For consolidated groups*

If aggregated expenditure has been used for accounting R&D expenditure under item **6** on the company tax return, add back the full amount of this aggregated expenditure at **D** item **7 Accounting expenditure item 6 subject to the R&D tax concession** on the company tax return.

## IMPORTANT NOTES ON PART A OF THE R&D SCHEDULE

For part A items **1** to **14**, note the following:

### Base amount column

The base amount for each item is the amount of the deduction available for the particular classification of expenditure BEFORE any additional concessional component is added. The three columns to the right of the 'Base amount' column allocate the base amount to three parts according to the level of any concession that applies (100%, 125% and 150%). Do not add in the amount of the additional concession in these labels. Do this at item **16**.

Where there is a shaded area instead of a box, that level of concession does not apply to that expenditure.

### Claimable at 100% column

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

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

### Claimable at 125% column

Include in the 'Claimable at 125%' column all amounts eligible as a deduction at the rate of 125%.

### Claimable at 150% column

The 'Claimable at 150%' column applies in very limited circumstances. It applies to expenditures covered under the 1996 transitional rules which applied when the concessional rate changed from 150% to 125%.

### Incremental tax concession deduction

**Part A** of the R&D schedule does not calculate any incremental tax concession deduction (50% premium). Such a deduction is determined at **part D**.

## ITEM 1 CONTRACTED EXPENDITURE – RRA

Contracted expenditure is expenditure on work carried out by a registered research agency (RRA) on behalf of an eligible company. The RRA must not be an associate of the eligible company, and must have been registered under section 39F of the IRADA 1986 when the expenditure was incurred. The RRA must have been registered in respect of the class of R&D activities on which the expenditure was incurred.

At item **1** show expenditure on items included in paragraph (c) of the definition of 'contracted expenditure' under subsection 73B(1) of ITAA 1936. These amounts should be adjusted as required under subsection 73B(11) of ITAA 1936 for advance and accelerated expenditure.

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

At **A** show the total amount of contracted expenditure that is RRA incurred (the base amount).

At **B** show any amount of the contracted expenditure claimable at 100%.

At **C** show any amount of the contracted expenditure claimable at 125%.

At **D** show any amount of the contracted expenditure claimable at 150%.

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

For more information, see:

- subsection 73B(1) of ITAA 1936
- subsection 73B(1B) of ITAA 1936
- *Guide to the R&D tax concession*
- *Taxation Ruling IT 2451 – Investor funding of research and development activities*
- *Taxation Ruling IT 2442 – Concession for eligible research and development expenditure.*

## ITEM 2 SALARY EXPENDITURE

At item **2** show the amount of salary expenditure for employees who are actually carrying out an eligible R&D activity (as defined in subsection 73B(1) of ITAA 1936), 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.

You may need to apportion the expenditure incurred between R&D and non-R&D activities. For more information, see *Taxation Ruling IT 2552 – Research and development (R&D) – costing of expenditure*, paragraphs 4–12.

This item does not include:

- salary expenditure incurred in 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 – include those at item **3 Other R&D expenditure**
- salary expenditure claimed that is to be adjusted in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

At **E** show the total R&D salary expenditure incurred (the base amount).

At **F** show any amount of the R&D salary expenditure claimable at 100%.

At **G** show any amount of the R&D salary expenditure claimable at 125%.

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

For more information, see:

- subsection 73B(1) of ITAA 1936
- *Taxation Ruling IT 2552 – Research and development (R&D) – costing of expenditure*
- *Taxation Ruling IT 2552A – Addendum – Research and development (R&D) – costing of expenditure*
- *Taxation Ruling IT 2442 – Concession for eligible research and development expenditure*
- *Taxation Ruling TR 2002/1 – Research and development – plant expenditure (pre 29 January 2001)*
- *Guide to the R&D tax concession.*

## ITEM 3 OTHER R&D EXPENDITURE

At item **3** show other R&D expenditure incurred directly in respect of R&D activities carried on by or on behalf of the company. (See paragraph (c) of the definition of 'research and development expenditure', subsection 73B(1) of ITAA 1936.)

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

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

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

For more information about this classification, see Taxation Ruling IT 2442, paragraphs 12–19 and Taxation Ruling IT 2552, paragraphs 13–21 and Taxation Ruling IT 2552A, addendum.

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

'Other R&D expenditure' does NOT include:

- core technology expenditure
- interest expenditure
- feedstock expenditure (show eligible feedstock expenditure and residual feedstock expenditure at separate items)
- expenditure incurred acquiring or constructing plant, pilot plant or a building, or extending, altering or making improvements to a building
- expenditure incurred acquiring or constructing a section 73BA of ITAA 1936 depreciating asset.

At **H** show the total amount of 'other R&D expenditure' incurred, (the base amount) excluding any amounts to be shown at items **4** or **5**.

At **I** show any amount of other R&D expenditure claimable at 100%.

At **J** show any amount of other R&D expenditure claimable at 125%.

At **K** show other R&D expenditure claimable at 150%.

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

For more information, see:

- 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
- Taxation Ruling IT 2552A.

#### ITEM 4 CONTRACT – OTHER

Item **4** 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'. You will need to show any expenditure incurred under a contract to another party (other than an RRA) that is directly for R&D activities carried on by or on behalf of the company.

This item excludes:

- contracted expenditure carried out by an RRA (show this at item **1**)
- expenditure under a contract that is, in substance, for the acquisition of plant.

Adjust the amount of 'contract other' expenditure you claim in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936). Subsection 73B(9) of ITAA 1936 does not allow a deduction for expenditure incurred on R&D activities on behalf of any other person.

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

At **N** show the total amount of contract–other expenditure incurred (the base amount).

At **O** show any amount of the contract–other expenditure claimable at 100%.

At **P** show any amount of the contract–other expenditure claimable at 125%.

At **Q** show any amount of the contract–other expenditure claimable at 150%.

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

For more information, see:

- 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

Item **5** is a component of paragraph (c) of the definition of research and development expenditure in subsection 73B(1)

of ITAA 1936. You will need to show any expenditure incurred in the hire or leasing of an item of plant that is directly in respect of R&D activities carried on by or on behalf of the company.

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

At **R** show the total amount of plant leasing expenditure incurred (the base amount).

At **S** show any amount of the plant leasing expenditure claimable at 100%.

At **T** show any amount of the plant leasing expenditure claimable at 125%.

At **U** show any amount of the plant leasing expenditure claimable at 150%.

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

For more information, see:

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

#### NOTES ON FEEDSTOCK EXPENDITURE FOR ITEMS 6 AND 14

##### Feedstock expenditure items

To find out how much to include at the feedstock expenditure items, **6** and **14**, first determine the following amounts:

- **Feedstock expenditure** – expenditure incurred in acquiring or producing materials or goods processed or transformed by the company in R&D activities. It includes expenditure on energy directly input into processing or transforming these materials or goods.
- **Feedstock input** – feedstock expenditure for materials or goods that were processed or transformed in R&D activities during the year of income.
- **Feedstock output** – the sales proceeds or value of any products obtained during the year of income from processing or transforming the materials or goods that were 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, the amount that would have been received if they had been sold in an arm's length transaction.

#### ITEM 6 ELIGIBLE FEEDSTOCK EXPENDITURE

Include at item **6** the amount of eligible feedstock expenditure as defined in subsections 73B(1) and (1A) of ITAA 1936 for 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.

If the company has eligible feedstock expenditure, include this amount at item **6**. Show the remainder of feedstock input at item **14** as residual feedstock expenditure. For more information, see page 9.

**NOTE**

Adjust the amount of eligible feedstock expenditure claimed in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

At **V** show the total amount of eligible feedstock expenditure (the base amount).

At **W** show any amount of eligible feedstock expenditure claimable at 100%.

At **X** show any amount of eligible feedstock expenditure claimable at 125%.

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

For more information, see:

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

## ITEM 7 PLANT AND PILOT PLANT DEDUCTIONS – PRE-29 JANUARY 2001 (INCLUDING DISPOSAL LOSSES)

Item 7 includes plant and pilot plant deductions and balancing loss adjustments for a unit of plant acquired under a contract entered into, or that commenced construction, before 12pm (midday) Australian Eastern Standard Time on 29 January 2001. Add the relevant amounts together, as explained below, and show them at the appropriate labels. If the company has a balancing profit under paragraphs 73B(23)(f) or 73B(24)(g) of ITAA 1936, include this profit amount at item 8. Each of these types of deduction is considered separately in the following paragraphs and the amounts are to be added together.

### Deductions for plant expenditure

Include at item 7 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 must, at the time it incurred the expenditure on the unit of plant, have intended to use the unit of plant exclusively for R&D activities, for at least an initial period. (Plant expenditure is defined in subsection 73B(1) of ITAA 1936). The company must also have satisfied the actual exclusive-use tests contained in subsections 73B(4) and (5) of ITAA 1936. The company cannot claim an amount as qualifying plant expenditure if R&D activities ceased during the year of income (subsection 73B(5) of ITAA 1936).

If 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**

- If another person uses the unit of plant exclusively for R&D activities, and that person has paid or must pay a consideration to the owner of the unit of plant, reduce the deductible plant expenditure by one-half of the consideration received (subsection 73B(15A) of ITAA 1936).
- Adjust the amount of plant deductions claimed in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).
- If the company can claim plant expenditure under subsection 73B(15) of ITAA 1936, and the tax cost is 'set' for that plant asset because the company joins a consolidated group (see section 701-10 and 701-55 of ITAA 1997), you may need to make an adjustment to any deduction allowable for the decline in value of that asset (ITAA 1936). (See section 73BAF of ITAA 1936).

At **A** show one-third of qualifying plant expenditure, if a deduction for that expenditure is allowable under subsection 73B(15) of ITAA 1936, (the base amount).

At **B** show that part of the amount at **A** claimable at 100%.

At **C** show that part of the amount at **A** claimable at 125%.

At **D** show that part of the amount at **A** claimable at 150%.

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

### Deductions for pilot plant expenditure

Post-23 July 1996 pilot plant is:

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

You can claim a deduction for expenditure in acquiring or constructing such an item of pilot plant only if the unit of pilot plant is used exclusively for carrying on R&D activities during the year of income.

The base amount at this item is the annual deduction percentage of the qualifying pilot plant expenditure for such items, as calculated under subsection 73B(4D) or (4E) of ITAA 1936.

The annual deduction percentage is 100% (as per subsection 73B(4G) of ITAA 1936) if:

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

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 40-B of ITAA 1997 applies (see subsection 73B(4J) of ITAA 1936).
- For pilot plant acquired or constructed after 29 January 2001, see item 9.
- Adjust the amount of pilot plant expenditure claimed in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

At **A** show the annual deduction percentage of pilot plant expenditure (the base amount).

At **B** show the annual deduction percentage of pilot plant expenditure claimable at 100%.

At **C** show the annual deduction percentage of pilot plant expenditure claimable at 125%.

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

### NOTE

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

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

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

If the consideration receivable for the disposal, loss or destruction of the unit of R&D plant is less than the written-down value, you can claim the amount of this difference (paragraphs 73B(23)(e) and 73B(23)(f) of ITAA 1936).

At **A** show the amount of any balancing adjustment loss (the base amount).

At **B** show the amount of any balancing adjustment (deduction) claimable at 100%.

At **C** show the amount of any balancing adjustment (deduction) claimable at 125%.

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

For more information, see:

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

### ITEM 8 PRE-29 JANUARY 2001 DISPOSAL PROFITS

#### Plant balancing adjustments (profits)

If the consideration receivable is greater than the written-down value of the unit of plant (paragraph 73B(23)(f) of ITAA 1936), include at item 8 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.

### NOTE

If the company chooses to take the R&D tax offset, you will use this amount in calculating the size of the offset.

At **E** and **F** include the amount of any balancing adjustment (assessable income).

#### Balancing adjustments sale of pilot plant (profits)

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

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

For more information, see:

- 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)

Item 9 records deductions for depreciating assets (section 73BB of ITAA 1936), including certain capital works, used in carrying on R&D activities. They must have begun to be constructed, or have been acquired under contracts entered into, after midday Australian 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 certain assumptions. These are set out in section 73BC of ITAA 1936.

For an asset applied to non-R&D purposes as well as R&D use in a year, you can claim the R&D portion of the decline in value under section 73BA of ITAA 1936. The remainder of the deduction is determined under Division 40 of ITAA 1997.

If an STS taxpayer, or a taxpayer who could otherwise allocate an asset to a Division 40 low-value pool, uses that asset for R&D activities as its first use, the taxpayer must claim deductions for it under section 73BA of ITAA 1936, **not** the STS (Subdivision 328-D) or low-value pool provisions (Subdivision 40-E). If the asset is used for non-R&D purposes for part of the year or in a subsequent year, deductions for that part of the year or the subsequent year will be considered under Division 40 of the ITAA 1997.

If an asset was not used for R&D in an earlier income year and the company was entitled to a deduction for the asset under a Division 40 low-value pool or an STS pool in that year, you should continue to calculate deductions under the relevant pooling provisions, even if the asset is subsequently used for R&D.

You may need to complete the *Capital allowances schedule 2006*. For more information, see the *Guide to depreciating assets 2006*.

**!** NOTE

You cannot claim a deduction if the company is entitled to a deduction for the asset under the STS pooling provisions (Subdivision 328-D of ITAA 1997) or a Division 40 low-value pool (section 40-440 of ITAA 1997).

Adjust the amount of plant and depreciating assets claimed in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

At **H** show the notional Division 40 amount as determined under sections 73BA to 73BC of ITAA 1936 (the base amount).

At **I** show 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 than \$20,000.

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

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

For more information, see:

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

## NOTES ON BALANCING ADJUSTMENTS MADE IN ITEMS 10 AND 11

You may need to make balancing adjustments under subsection 73BF of ITAA 1936 or section 40-292 of ITAA 1997 if section 73BA depreciating assets are disposed of (section 40-295 of ITAA 1997). If the termination value of the asset at the time of disposal is different from its adjustable value just before the event occurred (section 40-300 of ITAA 1997), you will need to make a balancing adjustment. Record the amount of this balancing adjustment at item **10** for a loss or at item **11** for a profit (negative).

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

Before starting items **10** and **11**, see the *Guide to depreciating assets 2006* and the *Guide to the R&D tax concession*.

## ITEM 10 POST-29 JANUARY 2001 DISPOSAL LOSSES

If the company is entitled to deduct an amount under section 40-292 of ITAA 1997 following a balancing adjustment event (such as disposal), 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 item **10**.

If the company is entitled to deduct an amount under section 73BF of ITAA 1936 following a balancing adjustment event, include at item **10** 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 **K** show the amount of any balancing adjustment (deduction) (the base amount).

At **N** show any balancing adjustment (deduction) claimable at 100%.

At **O** show any balancing adjustment (deduction) claimable at 125%.

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

For more information see:

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

## ITEM 11 POST-29 JANUARY 2001 DISPOSAL PROFITS

If the company is required to include in assessable income an amount under section 40-292 of ITAA 1997 following a balancing adjustment event (such as disposal), include at item **11** 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.

If the company is required to include in assessable income an amount under section 73BF of ITAA 1936 following a balancing adjustment event, include at item **11** 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 **P** show the amount of any balancing adjustment (assessable amount) (the base amount).

At **Q** show any balancing adjustment (assessable amount) claimable at 100%.

At **R** show any balancing adjustment (assessable income) amounts claimable at 125%.

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

For more information, see:

- 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

At item **12** include 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 R&D activities that are carried on by the company or on its behalf.

Subsection 73B(12A) of ITAA 1936 limits how much core technology expenditure incurred in a year of income can be deducted. A maximum of one-third of R&D expenditure incurred during the year on R&D activities related to the core technology can be deducted.

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

### ! NOTE

- Adjust the amount of core technology expenditure claimed in accordance with prepayment provisions (section 82KZL to 82KZMF of ITAA 1936).
- You may need to make an adjustment if core technology is disposed of (subsections 73B(12A) and 73B(12B) of ITAA 1936).
- If core technology expenditure is deductible under subsection 73B(12A) and, as a result of the company joining a consolidated group, the tax cost of the core technology asset is 'set' (see section 701-10 and 701-55 of ITAA 1997), you may need to make an adjustment to any deductions allowable for the decline in value of that asset under Division 40 (ITAA 1997). (See section 73BAF of ITAA 1936.)

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

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

For more information, see:

- 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 – Does 'expenditure on research and development activities' in subsection 73B(27A) and sections 73C and 73D of the Income Tax Assessment Act 1936, include 'core technology expenditure'?*
- *Guide to the R&D tax concession*.

## ITEM 13 INTEREST OR AMOUNTS IN THE NATURE OF INTEREST

At item **13** show interest expenditure as defined in subsection 73B(1) of ITAA 1936 and allowable as a deduction under subsection 73B(14A) of ITAA 1936. This item includes interest, or an amount in the nature of interest, incurred during the year of income in the financing of R&D activities.

### ! NOTE

You may need to adjust the amount of interest expenditure claimed in accordance with the prepayment provisions (sections 82KZL to 82KZMF of ITAA 1936).

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

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

For more information, see:

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

## ITEM 14 RESIDUAL FEEDSTOCK EXPENDITURE

Residual feedstock expenditure is the lesser amount of the company's feedstock input and feedstock output for R&D activities in the year of income.

If feedstock inputs are:

- greater than feedstock outputs, record the outputs amount at **W Residual feedstock expenditure**
- less than feedstock outputs, record the inputs amount at **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.

At **W** and **X** show the amount of residual feedstock expenditure.

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

## PART B AMOUNT OF EXPENDITURE ON THE FOLLOWING ITEMS

### ITEM 15 TOTAL OF ALLOCATED BASE AMOUNTS

Calculate **A**, **B**, **C** and **D** at item **15** by adding each column. The amount at:

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

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

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

### ITEM 16 CLAIMS INCLUDING CONCESSION

Calculate **E**, **F** and **G** at item **16** by multiplying the amounts at **B**, **C** and **D** at item **15** immediately above by the appropriate column percentage.

At **E** show the amount at **B** item **15** multiplied by 100%.

At **F** show the amount at **C** item **15** multiplied by 125%.

At **G** show the amount at **D** item **15** multiplied by 150%.

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

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

### ITEM 17 TOTAL CLAIM – INCLUDING CONCESSION

The amount at **L** item **17** is the total of the amounts at **E**, **F** and **G** item **16**.

If this amount is negative, print code **L** in the box to the right of **L**.

Transfer this amount, and code **L** where applicable, to **L** **R&D tax concession – not including label M** at item **7** **Reconciliation to taxable income or loss** on page 2 of the *Company tax return 2006*.

See the instructions for **L** **R&D tax concession – not including label M** in the *Company tax return instructions 2006*.

### ITEM 1 COOPERATIVE RESEARCH CENTRE (CRC) CONTRIBUTIONS

At **I** item **1** show the amount of any R&D contributions to cooperative research centres (CRCs) that the company has made during the year of income.

### ITEM 2 TRADING STOCK EXPENDITURE

At **J** item **2** show the total of any trading stock expenditures that were included as base amounts in items **1** to **5** of **Part A** **Calculation of research and development deduction**. Trading stock expenditures are expenditures incurred in connection with acquiring trading stock.

### ITEM 3 ROYALTIES PAID TO NON-RESIDENTS FOR THE USE OF CORE TECHNOLOGY

At **K** item **3** show the total of any royalties paid for core technology used in R&D activities.

### ITEM 4 TOTAL EXPENDITURE ON PLANT AND DEPRECIATING ASSETS

At **N** item **4** show the total of any expenditure incurred in this income year on purchasing any items of plant or depreciating assets used in R&D activities.

### ITEM 5 TOTAL EXPENDITURE ON CORE TECHNOLOGY

At **O** item **5** show the total of any expenditure incurred in this income year on core technology that was used in R&D activities.

### ITEM 6 BUILDING EXPENDITURE AND OTHER ADJUSTMENTS REQUIRED TO CALCULATE THE COMPANY'S AGGREGATE R&D AMOUNT

Include at **X** item **6** other amounts that are not included in **part A** that are needed to calculate the company's aggregate R&D amount. These amounts form part of the aggregate research and development amount even though they are not deductible under section 73B of ITAA 1936. These include:

- the total amount of any capital expenditure on buildings used for the purpose of carrying on R&D activities, deductible under Division 43 of ITAA 1997
- for companies that are lodging a return regarding income and deductions for a period before or after they joined a consolidated group, the additional aggregate research and development amount calculated in accordance with section 716-850 of ITAA 1997.

#### NOTE

The items referred to above are not eligible for deduction under the R&D tax concession but are part of the aggregate R&D amount (subsection 73B(1) of ITAA 1936).

Only complete this item if the company chooses to take the R&D tax offset.



## PART C GOVERNMENT GRANTS AND RECOUPMENTS – OTHER THAN CRC PROGRAM GRANTS

Include also at **X** item **6** any positive or negative adjustments that may need to be made where a company has a transitional substituted account period in the year of income, and where the amounts reported in **part A** relate to a period that is less or greater than 12 months. Label **X** can be used to record the necessary adjustments that need to be made to those amounts for the purposes of calculating the aggregate R&D amount. The aggregate R&D amount is calculated using the 12 month period that is the tax offset year (refer to *ATO ID 2003/989 – Research and development tax offset – eligibility where a group member company has a substituted accounting period*).

At **P** show the total amount of government recoupments of, or grants received in respect of, R&D expenditure for which the company is claiming the R&D tax concession in the 2006 year of income. Exclude amounts received under CRC programs.

### NOTE

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

## PART D RESEARCH AND DEVELOPMENT INCREMENTAL TAX CONCESSION

### CALCULATION INSTRUCTIONS

Round all calculations to the nearest whole dollar.

### NOTE

Before starting this section, determine whether the company is eligible to claim the incremental tax concession under section 73Q of ITAA 1936.

The steps below show how to calculate the amount of the premium (additional 50%) a company may be eligible to claim. Definitions for the terms used throughout these instructions are on page 19.

### Year abbreviations

<b>Y<sup>0</sup></b>	the current year of income for which the company tax return is being completed – for most companies the current year is 2005–06
<b>Y<sup>-1</sup></b>	the 2004–05 year of income (if 2005–06 is the current year of income)
<b>Y<sup>-2</sup></b>	the 2003–04 year of income (if 2005–06 is the current year of income)
<b>Y<sup>-3</sup></b>	the 2002–03 year of income (if 2005–06 is the current year of income)

### Step 1

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

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

If the company is a member of such a group, follow the steps below for all members of the group that have had incremental expenditure in a group membership period in any of the four years **Y<sup>0</sup>**, **Y<sup>-1</sup>**, **Y<sup>-2</sup>** and **Y<sup>-3</sup>**.

Enter the name and TFN of the company and all group members (if any) that have incurred incremental expenditure in a group membership period in any of the four years at item **1**. Attach another schedule if there is not enough space for all group members. Ensure you have added up the incremental expenditure and written it in row **h** item **1**.

## Step 2

### Calculate R&D spend for each year – that is, the total incremental expenditure for the company and grouped company members.

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

Exclude the following:

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

The following labels in part A relate to the expenditure items that may form part of incremental expenditure:

- **A** item **1**
- **E** item **2**
- **H** item **3**
- **N** item **4**
- **V** item **6**.

Only deductible amounts are shown at these labels. Therefore, if you add them together, you may not get the correct amount of incremental expenditure for a year of income. When using figures from **part A**, you may need to make adjustments if any of the following circumstances apply:

- The company has incurred some R&D expenditure which is not deductible (for example, in relation to unregistered activities). You must include such amounts at row **f** item **1**.
- An intra-group mark-up is included in **part A**. You must deduct the amount of intra-group mark-up at row **f** (subsections 73P(5) and 73B(14AA) to (14AD) of ITAA 1936). (Note: If no other amounts are included at row **f** show as a negative value).
- Where the company has a transitional substituted accounting period in the claim year, and the amounts reported in **part A** of the R&D schedule relate to a period that is greater or less than 12 months, you must make adjustments (positive or negative) to rows **f** and **g** in accordance with *ATO ID 2004/973 – Research and development – additional deduction for incremental expenditure where a company has a transitional substituted*

*accounting period in relation to the ‘deduction year’* to reflect the incremental expenditure incurred in the 12 month period.

- If section 73BAC or 73BAD of ITAA 1936 applies to the company (a company has left or joined a consolidated group) you may need to make an adjustment (positive or negative) to rows **f** and **g**. Refer to sections 73BAC and 73BAD of ITAA 1936 and to the *Guide to the R&D tax concession*.

Row **f** is used to adjust incremental expenditure claimable at 100% and incremental expenditure that is not deductible. Row **g** is used to adjust the incremental expenditure claimable at 125%. A negative value may be inserted in these rows if necessary.

The types of adjustments you may be required to make to the **Y<sup>0</sup>** amount are also likely to affect the amounts reported in respect of **Y<sup>-1</sup>**, **Y<sup>-2</sup>** and **Y<sup>-3</sup>** for the company and other group members.

### NOTE

If expenditure under a contract is both for the acquisition of plant and for the provision of services, you must apportion the expenditure on a reasonable basis between them, as per subsection 73P(3) of ITAA 1936. If none of the expenditure is apportionable, do not include the expenditure 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 (**Y<sup>0</sup>**) and the immediate prior three years of income (**Y<sup>-1</sup>**, **Y<sup>-2</sup>**, and **Y<sup>-3</sup>**) for the company and for all other entities with group membership periods during those four income years.

Insert the amounts of incremental expenditures for each company in the columns labelled **Y<sup>0</sup>**, **Y<sup>-1</sup>**, **Y<sup>-2</sup>**, and **Y<sup>-3</sup>** incremental expenditure at item **1**. Total each column to determine the R&D spend for each year. Transfer these amounts to **table 1**.

Ensure that incremental expenditure claimed for a consolidated group is recorded in a single row only, at row **a**. Do not disaggregate incremental expenditure for each member of the consolidated group.

**TABLE 1**

R&D spend		
Total for <b>Y<sup>0</sup></b>	<b>A</b>	\$
Total for <b>Y<sup>-1</sup></b>	<b>B</b>	\$
Total for <b>Y<sup>-2</sup></b>	<b>C</b>	\$
Total for <b>Y<sup>-3</sup></b>	<b>D</b>	\$

The amount for each year must be a positive amount, otherwise the company is not eligible to claim the incremental tax concession.

### Step 3

Calculate the adjustment amounts for year zero (**AA<sup>0</sup>**) and year minus one (**AA<sup>-1</sup>**) (section 73T of ITAA 1936).

#### Adjustment amount for year Y<sup>0</sup> (**AA<sup>0</sup>**)

You may need to make an adjustment if a company's R&D spend decreases in **Y<sup>-1</sup>** to an amount that is less than 80% of that in the immediate prior year.

If this has occurred, **AA<sup>0</sup>** for an eligible company and its group members for year **Y<sup>0</sup>** is:

$$80\% \text{ of R\&D spend for } Y^{-2} - \text{R\&D spend for } Y^{-1}$$

Exception: If the requirements of subsection 73T(3) of ITAA 1936 are met, **AA<sup>0</sup>** will be zero.

**TABLE 2**

Calculation of adjustment amount for Y <sup>0</sup> ( <b>AA<sup>0</sup></b> )		
R&D spend Y <sup>-2</sup> ( <b>C</b> in table 1)	<b>A</b>	\$
<b>A</b> x 0.8	<b>B</b>	\$
R&D spend Y <sup>-1</sup> ( <b>B</b> in table 1)	<b>C</b>	\$
<b>AA<sup>0</sup></b> ( <b>B</b> – <b>C</b> )	<b>D</b>	\$
Transfer the amount at <b>D</b> to <b>A</b> in table 5.		

If you get a negative result from calculating an adjustment amount, that result is taken to be zero. Write **0** at **A** in table 5 (section 73S of ITAA 1936).

#### Adjustment amount for Y<sup>-1</sup> (**AA<sup>-1</sup>**)

Similarly, you may need to make an adjustment amount if a company's R&D spend decreases in **Y<sup>-2</sup>** to an amount that is less than 80% of that in the immediate prior year.

If this has occurred, **AA<sup>-1</sup>** for an eligible company and its group members for **Y<sup>-1</sup>** is:

$$80\% \text{ of R\&D spend for } Y^{-3} - \text{R\&D spend for } Y^{-2}$$

Exception: If the requirements of subsection 73T(4) of ITAA 1936 are met, **AA<sup>-1</sup>** will be zero.

**TABLE 3**

Calculation of adjustment amount for Y <sup>-1</sup> ( <b>AA<sup>-1</sup></b> )		
R&D spend Y <sup>-3</sup> ( <b>D</b> in table 1)	<b>A</b>	\$
<b>A</b> x 0.8	<b>B</b>	\$
R&D spend Y <sup>-2</sup> ( <b>C</b> in table 1)	<b>C</b>	\$
<b>AA<sup>-1</sup></b> ( <b>B</b> – <b>C</b> )	<b>D</b>	\$
Transfer the amount at <b>D</b> to <b>B</b> in table 5.		

If you get a negative result from calculating an adjustment amount, that result is taken to be zero. Write **0** at **B** in table 5 (section 73S of ITAA 1936).

### Step 4

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

If the company has no amount, or a zero, at **A** and **B** in table 5, go to step 5.

Otherwise: calculate the running average for **Y<sup>-1</sup>** (**RA<sup>-1</sup>**).

**TABLE 4**

Calculation of running average for Y <sup>-1</sup> ( <b>RA<sup>-1</sup></b> )		
The company's R&D spend Y <sup>-2</sup> ( <b>C</b> in table 1)	<b>A</b>	\$
The company's R&D spend Y <sup>-3</sup> ( <b>D</b> in table 1)	<b>B</b>	\$
Total (Add <b>A</b> and <b>B</b> .)	<b>C</b>	\$
<b>RA<sup>-1</sup></b> ( <b>C</b> divided by 2)	<b>D</b>	\$

#### EXAMPLE

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

<b>Y<sup>-1</sup></b>	\$250,000
<b>Y<sup>-2</sup></b>	\$245,000
<b>Y<sup>-3</sup></b>	\$230,000

In this example, the running average (**RA<sup>-1</sup>**) for **Y<sup>-1</sup>** would be \$237,500:

$$\frac{(\$245,000 + \$230,000)}{2}$$

Is the R&D spend for the **Y<sup>-1</sup>** (**B** in table 1) less than or equal to **RA<sup>-1</sup>**?

If **yes**, calculate the adjustment balance by adding **AA<sup>0</sup>** and **AA<sup>-1</sup>** as per table 5.

■ Exception: If subsection 73V(3) of ITAA 1936 is met, the adjustment balance will be zero.

If **no**, transfer **RA<sup>-1</sup>** to **A** in table 6 to calculate the adjustment balance.

■ Exception: If subsection 73V(3) of ITAA 1936 is met, the adjustment balance will be zero.

**TABLE 5**

Calculation of the adjustment balance		
<b>AA<sup>0</sup></b> ( <b>D</b> in table 2)	<b>A</b>	\$
<b>AA<sup>-1</sup></b> ( <b>D</b> in table 3)	<b>B</b>	\$
Adjustment balance ( <b>A</b> + <b>B</b> )	<b>C</b>	\$
Transfer the amount at <b>C</b> to <b>C</b> in table 8.		

**TABLE 6**

Calculation of the adjustment balance		
RA <sup>-1</sup> (D in table 4)	A	\$
AA <sup>0</sup> (A in table 5)	B	\$
AA <sup>-1</sup> (B in table 5)	C	\$
Subtotal (A + B + C)	D	\$
R&D spend Y <sup>-1</sup> (B in table 1)	E	\$
Adjustment balance (D – E)	F	\$

Transfer the amount at **F** to **C** in table 8

If you get a negative result from calculating an adjustment balance, that result is taken to be zero (section 73S of ITAA 1936).

**Step 5**

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

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

That is, the premium amount for the group is:

the R&D spend Y <sup>0</sup> shown at <b>A</b> in table 1 above
less
the sum of RA <sup>0</sup> (calculated in table 7) plus the amount of any adjustment balance from either <b>C</b> in table 5 or <b>F</b> in table 6.

**Calculate the running average for Y<sup>0</sup> (RA<sup>0</sup>).**

The running average for Y<sup>0</sup> is:

$$\frac{Y^{-1} + Y^{-2} + Y^{-3}}{3}$$

**TABLE 7**

Calculation of running average for Y <sup>0</sup> (RA <sup>0</sup> )		
Y <sup>-1</sup> (B in table 1)	A	\$
Y <sup>-2</sup> (C in table 1)	B	\$
Y <sup>-3</sup> (D in table 1)	C	\$
Subtotal (A + B + C)	D	\$
RA <sup>0</sup> (D divided by 3)	E	\$

Transfer the amount at **E** to **B** in table 8

For the example provided in relation to table 4 the running average (RA<sup>0</sup>) for Y<sup>0</sup> would be \$241,667:

$$\frac{(\$250,000 + \$245,000 + \$230,000)}{3}$$

**TABLE 8**

Calculation of premium amount		
Total Y <sup>0</sup> (A in table 1)	A	\$
RA <sup>0</sup> (E in table 7)	B	\$
Adjustment balance (C in table 5) or (F in table 6)	C	\$
Premium amount A – (B + C)	D	\$

Transfer the amount at **D** to either:

- **A** in table 13 (if the company is a member of a group for the incremental tax concession), then go to step 7, or
- **B** in table 9, then go to step 6.

**Step 6**

**What is your adjustment amount (AA<sup>0</sup>) and adjustment balance for year zero (Y<sup>0</sup>) (section 73T(3) and section 73V(3) of ITAA 1936)?**

Is the company and its group members Y<sup>0</sup> adjustment amount AA<sup>0</sup> (B in table 6) and adjustment balance (C in table 8) zero because the company or any of its group members was eligible to claim the increment in 2005 and the relevant exception applies (see step 3)? If yes print **Y** in the 2005 box, if no print **N**.

**What is your adjustment amount (AA<sup>-1</sup>) for year minus one (Y<sup>-1</sup>) (section 73T(4) of ITAA 1936)?**

Is the company and its group members Y<sup>-1</sup> adjustment amount AA<sup>-1</sup> (C in table 6) zero because the company or any of its group members was eligible to claim the increment in 2004 and the relevant exception applies (see step 3)? If yes print **Y** in the 2004 box, if no print **N**.

**Step 7**

**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, go to step 8.

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

- 50% of the amount of incremental expenditure incurred by the company in Y<sup>0</sup> that is eligible for a deduction under section 73B at the rate of 125%, or
- 50% of the premium amount calculated at **D** in table 8.

Calculate these amounts at table 9.

Incremental expenditure incurred by the company that is eligible for 125% deduction is the sum of the column amounts from part A of the R&D schedule identified in table 9 (with necessary adjustments made).

As specified in step 2 on page 12, you may need to make an adjustment to figures from part A of the R&D schedule in certain circumstances.

If for the Y<sup>0</sup> income year you inserted an amount in row g of part D, insert that amount (positive or negative) in the adjustment line in table 9.

**TABLE 9**

Additional deduction		
Part A, <b>C</b> item 1		\$
Part A, <b>G</b> item 2		\$
Part A, <b>J</b> item 3		\$
Part A, <b>P</b> item 4		\$
Part A, <b>X</b> item 6		\$
Adjustments (+ or -)		\$
Total of above amounts	<b>A</b>	\$
Premium amount ( <b>D</b> in table 8)	<b>B</b>	\$
Insert the lesser of <b>A</b> and <b>B</b> at <b>C</b> .	<b>C</b>	\$
Deduction ( <b>C</b> x 50%)	<b>D</b>	\$

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

Show the amount from **D** in table 9 at:

- **M** item 2 in part **D** of the R&D schedule, and
- **M** Incremental R&D (additional 50%) deduction item 7 on page 2 of the *Company tax return 2006*.

You have now completed the calculation of the incremental tax concession deduction.

To calculate the company's eligibility for the R&D tax offset, see **Part E Research and development tax offset** on page 17.

### Step 8

#### 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<sup>-1</sup>** to **Y<sup>0</sup>**.

Compare the incremental expenditure of the company for **Y<sup>-1</sup>** and **Y<sup>0</sup>** taking into account any necessary adjustments due to circumstances outlined in step 2. Is the incremental expenditure for **Y<sup>0</sup>** greater than the incremental expenditure for **Y<sup>-1</sup>**?

If **yes**, go to **Incremental expenditure increased** below.

If **no**, then the company did **not** increase its incremental expenditure from **Y<sup>-1</sup>** to **Y<sup>0</sup>**. It is not entitled to a deduction for the incremental tax concession.

Write **0** at:

- **M** item 2 in part **D** of the R&D schedule, and
- **M** Incremental R&D (additional 50%) deduction item 7 on page 2 of the *Company tax return 2006*.

You have now completed the calculation for the incremental tax concession deduction.

To calculate the company's eligibility for the R&D tax offset, see **Part E Research and development tax offset** on page 17.

#### Incremental expenditure increased

The company did increase its incremental expenditure from **Y<sup>-1</sup>** to **Y<sup>0</sup>**. 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<sup>-1</sup>** to **Y<sup>0</sup>**.

The increase in the group incremental expenditure is calculated by deducting the total of all increasing members' incremental expenditure amounts for **Y<sup>-1</sup>** from the total of those amounts for **Y<sup>0</sup>**. Calculate these amounts at table 11 and table 12.

In table 10 insert the details of each company that increased its incremental expenditure in **Y<sup>0</sup>** over its **Y<sup>-1</sup>** incremental expenditure. (**Y<sup>0</sup>** must be greater than **Y<sup>-1</sup>** on each line.) Take this information from item 1 in part **D** of the R&D schedule.

**TABLE 10**

Calculation of the totals of <b>Y<sup>0</sup></b> and <b>Y<sup>-1</sup></b> incremental expenditures for increasing companies in the group			
Company's TFN	<b>Y<sup>0</sup></b>		<b>Y<sup>-1</sup></b>
	\$		\$
	\$		\$
	\$		\$
<b>Total</b>	<b>A</b>	<b>B</b>	
Transfer to	<b>A</b> in table 11	<b>B</b> in table 11	

**TABLE 11**

Calculation of the increase in incremental expenditure of increasing companies		
Total <b>Y<sup>0</sup></b> amount ( <b>A</b> in table 10)	<b>A</b>	\$
Total <b>Y<sup>-1</sup></b> amount ( <b>B</b> in table 10)	<b>B</b>	\$
Increase in incremental expenditure of increasing companies ( <b>A</b> - <b>B</b> )	<b>C</b>	\$
Transfer the amount at <b>C</b> to <b>D</b> in table 12.		

**TABLE 12**

<b>Calculation of the increase in the group incremental expenditure</b>		
Calculate the percentage attributable to each increasing company as follows:		
$\frac{Y^0 - Y^{-1} \text{ of individual company}}{Y^0 - Y^{-1} \text{ of group}} \times 100$		
The company's <b>Y<sup>0</sup></b> incremental expenditure amount (from row <b>a</b> item <b>1</b> in <b>part D</b> together with any adjustments to the company's incremental expenditure at rows <b>f</b> and <b>g</b> )	<b>A</b>	\$
The company's <b>Y<sup>-1</sup></b> incremental expenditure amount (from row <b>a</b> item <b>1</b> in <b>part D</b> together with any adjustments to the company's incremental expenditure at rows <b>f</b> and <b>g</b> )	<b>B</b>	\$
The company's increase in incremental expenditure ( <b>A – B</b> )	<b>C</b>	\$
Increase in group incremental expenditure ( <b>C</b> in <b>table 11</b> )	<b>D</b>	\$
<b>Attributable percentage</b> ( <b>C</b> divided by <b>D</b> x 100) (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%)	<b>E</b>	%
Transfer the percentage at <b>E</b> to <b>B</b> in <b>table 13</b> .		

**Premium amount deduction**

Multiplying the premium amount by the attributable percentage will calculate the portion of the premium amount attributable to the company.

**TABLE 13**

<b>Calculation of the premium amount deduction</b>		
Premium amount ( <b>D</b> in <b>table 8</b> )	<b>A</b>	\$
Company percentage ( <b>E</b> in <b>table 12</b> )	<b>B</b>	%
Company share of the premium amount ( <b>A</b> x <b>B</b> )	<b>C</b>	\$
Transfer the amount at <b>C</b> to <b>B</b> in <b>table 14</b> .		

**Step 9**

**Calculate the R&D incremental tax concession.**

The R&D incremental tax concession deduction the company can claim is the lesser of:

- 50% of the amount of incremental expenditure incurred by the company in **Y<sup>0</sup>** that is eligible for a deduction under section 73B at the rate of 125%, or
- 50% of the premium amount calculated at **C** in **table 13**.

Calculate these amounts at **table 14**.

Incremental expenditure incurred by the company that is eligible for 125% deduction is the sum of the column amounts from **part A** of the R&D schedule identified in **table 14** (with necessary adjustments made).

As specified in step 2 on page 12, you may need to make an adjustment to figures from **part A** in certain circumstances.

If for the **Y<sup>0</sup>** income year you inserted an amount in row **g** of **part D**, insert that amount (positive or negative) in the adjustment line in **table 14**.

**TABLE 14**

<b>Additional deduction</b>		
Part A, <b>C</b> item <b>1</b>		\$
Part A, <b>G</b> item <b>2</b>		\$
Part A, <b>J</b> item <b>3</b>		\$
Part A, <b>P</b> item <b>4</b>		\$
Part A, <b>X</b> item <b>6</b>		\$
Adjustment (+ or -)		\$
Total of above amounts	<b>A</b>	\$
Premium amount ( <b>C</b> in <b>table 13</b> )	<b>B</b>	\$
Insert the lesser of <b>A</b> and <b>B</b> at <b>C</b> .	<b>C</b>	\$
<b>Deduction</b> ( <b>C</b> x 50%)	<b>D</b>	\$
<b>D</b> is the amount of the company's deduction under the R&D incremental concession.		

Show the amount at **D** in **table 14** at:

- **M** item **2** in **part D** of the R&D schedule, and
- **M** **Incremental R&D (additional 50%) deduction** item **7** on page 2 of the *Company tax return 2006*.

For more information, see:

- sections 73L to 73Z of ITAA 1936
- section 73BAC of ITAA 1936
- section 73BAD of ITAA 1936
- *Guide to the R&D tax concession*.

# PART E RESEARCH AND DEVELOPMENT TAX OFFSET

## CALCULATION INSTRUCTIONS

If the company chooses to take the R&D tax offset, it means that the company has chosen to forgo an R&D tax concession deduction (see subsection 73I(1) of ITAA 1936). The company cannot claim both.

### NOTE

- The company can choose to take the R&D tax offset only on its company tax return (which includes the R&D schedule).
- The company must be registered with the IRDB before it makes its choice.

The company cannot choose to take the R&D tax offset if at any time during the R&D tax offset year, an exempt entity, the affiliates of an exempt entity, an exempt entity together with its affiliates, or two or more exempt entities, 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 (see subsection 73J(2) of ITAA 1936).

If you wish to find out whether a company is eligible to claim the R&D tax offset, enter the company name, tax file number and (if any) the names and tax file numbers of all entities that are required to be grouped under section 73L of ITAA 1936, at item **1 Research and development tax offset** in **part E** of the R&D schedule.

In the columns 'Aggregate R&D amount' and 'Entity turnover' enter the amount of each entity's aggregate R&D expenditure, as defined in subsection 73B(1), and the R&D group turnover respectively against the entity's tax file number. If you have certain expenditure on R&D activities that you cannot deduct under the R&D tax concession (for example, capital works deductions for buildings used for the purpose of carrying out R&D activities) that expenditure will still form a part of the aggregate R&D amount (refer to the instructions to **part B** item **6** on page 10 for further details regarding other adjustments that may be required to calculate the aggregate R&D amount of the company and other entities in the group).

If you are calculating the group aggregate R&D amount and R&D group turnover for your company, which is grouped with another company with a substituted accounting period, you should use the 12 month period that is your company's 'tax offset year' and not the 'year of income' of the group member. If your company has a transitional substituted accounting period that is less or greater than 12 months, you should use the 12 month period that is the tax offset year of your company to calculate the group aggregate R&D amount and R&D group turnover (refer to ATO ID 2003/989).

If you are using the relevant amounts from **part A** to determine the aggregate R&D amount of the company, you will need to take into account the above and make any necessary adjustments. Such adjustments relating to the aggregate R&D amount should be included at item **6 Building**

**expenditure and other adjustments required to calculate the company's aggregate R&D amount** in **part B** of the R&D schedule. These adjustments must also be incorporated in the calculation of the aggregate R&D amount of the company and R&D group members at item **1** in **part E** of the R&D schedule. Adjustments to the R&D group turnover should also be taken into account to calculate the R&D group turnover recorded at that item.

Attach another schedule if there is not enough space to list all group entities. If using another schedule, make sure you enter the sum of the aggregate R&D amounts and the entities' turnover amounts in row **g** of **part E** of the R&D schedule.

Total the aggregate R&D amounts and entity turnover amounts, and write the totals in **Group totals B** and **C** at item **1** of **part E** of the R&D schedule and then transfer these totals to **table 15**.

**TABLE 15**

Eligibility for tax offset	
Group totals: aggregate R&D amount ( <b>B</b> item <b>1</b> , part E)	<b>A</b> \$
Group totals: entity turnover ( <b>C</b> item <b>1</b> , part E)	<b>B</b> \$

If **A** is \$1,000,000 or less and **B** is less than \$5,000,000, the company may choose to claim the R&D tax offset, see paragraphs 73J(1)(c) and (d) of ITAA 1936.

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

If the company chooses to take the offset, calculate the amount of deductions eligible for the R&D offset as follows (unless there is a balancing adjustment on the disposal of plant or pilot plant):

$$\mathbf{L} \text{ (part A of the R\&D schedule)} + \mathbf{M} \text{ (part D of the R\&D schedule)}$$

## Balancing adjustment

If there is a balancing adjustment on the disposal of plant or pilot plant, follow these steps before completing (h) in **table 16**:

**Step 1:** Write here the amount at **L** item **17** in **part A** of the R&D schedule.

\$

**Step 2:** Write here the amounts from the following labels in **part A** of the R&D schedule that were included in the calculation of **L** in **part A**:

<b>N</b> item <b>10</b>	(a)	\$
<b>O</b> item <b>10</b> multiplied by 1.25	(b)	\$
<b>Q</b> item <b>11</b>	(c)	\$
<b>R</b> item <b>11</b> multiplied by 1.25	(d)	\$
<b>A</b> item <b>7</b>	(e)	\$
<b>E</b> item <b>8</b>	(f)	\$
Total (a + b + c + d + e + f)	(g)	\$

**Step 3:** Subtract the amount at (g) in step 2 from the amount at step 1. Show the answer at (h) in **table 16**.

**TABLE 16**

Calculation of the amount of deductions eligible for the R&D tax offset		
R&D claim: <b>L</b> from <b>part A</b> or the amount from step 3	(h)	\$
Incremental tax concession deduction: <b>M</b> from <b>part D</b> of the R&D schedule	(j)	\$
Amount eligible for R&D tax offset: add (h) and (j).	(C)	\$

Transfer the amount at (C) in **table 16** to:

- (m) in **table 17**
- **Y** item **2** in **part E** of the R&D schedule, and
- **Y R&D tax offset, if chosen** at item **7** on page 2 of the *Company tax return 2006*.

### NOTE

If you write an amount at **Y R&D tax offset, if chosen** (at item **7** of the *Company tax return 2006*), the company may be taken to have chosen the tax offset instead of the tax deduction. If you do not wish to choose the tax offset, do not show any amount at **Y R&D tax offset if chosen**.

Calculate the amount of the R&D tax offset the company can claim as follows:

$$\text{amount eligible for tax offset} \times \text{company tax rate}$$

which is the amount at **Y R&D tax offset, if chosen** multiplied by 30%.

**TABLE 17**

Calculation of the R&D tax offset		
Amount eligible for R&D tax offset: (C) from <b>table 16</b>	(m)	\$
R&D tax offset entitlement: multiply (m) x 0.3	(B)	\$

Transfer the amount at (B) to:

- **U** item **3** in **part E** of the R&D schedule, and
- **U R&D tax offset** in the **Calculation statement** on page 4 of the *Company tax return 2006*.

For more information, see:

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



## ABBREVIATIONS

<b>AA</b>	adjustment amount
<b>AB</b>	adjustment balance
<b>ABN</b>	Australian business number
<b>CRC</b>	cooperative research centre
<b>IRADA 1986</b>	<i>Industry Research and Development Act 1986</i>
<b>IRDB</b>	Industry Research and Development Board
<b>ITAA 1936</b>	<i>Income Tax Assessment Act 1936</i>
<b>ITAA 1997</b>	<i>Income Tax Assessment Act 1997</i>
<b>R&amp;D</b>	research and development
<b>RA</b>	running average
<b>RRA</b>	registered research agency
<b>STS</b>	simplified tax system
<b>TFN</b>	tax file number

## DEFINITIONS

### Adjustment amount year zero (AA<sup>0</sup>)

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

### Adjustment amount year minus one (AA<sup>-1</sup>)

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

### Aggregate R&D amounts

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

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

### Balancing adjustment event

A balancing adjustment event occurs when an asset is disposed of, lost or destroyed after being used exclusively for carrying on R&D activities.

### Current year (Y<sup>0</sup>)

The current year is the year of income for which the company tax return is being completed. For most companies the current year is 2005–06. **Y<sup>0</sup>** is the abbreviation used to denote the current year.

### Incremental expenditure

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

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

### Previous year (Y<sup>-1</sup>)

The previous year is the year immediately prior to the current year of income. For 2005–06 the previous year is the 2004–05 income year. **Y<sup>-1</sup>** is the abbreviation used to denote that previous year.

### 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).

# LODGMET

Lodge the *Research and development tax concession schedule 2006* or a printout of the completed spreadsheet from our website with the appropriate company tax return.

## IF YOU HAVE REQUESTED AN AMENDMENT

If your company has made a request for an amendment that includes changes to its R&D claim, you must complete an R&D schedule showing the amended figures. Send this schedule, with a letter requesting the amendment to:

**Australian Taxation Office  
GPO Box 5056  
SYDNEY NSW 2001**

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

### Running average (RA<sup>0</sup>)

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

### Running average (RA<sup>-1</sup>)

RA<sup>-1</sup> is the abbreviation used to denote the group's running average for the Y<sup>-1</sup> income (subsections 73P(2) and 73U(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 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).

### Year Y<sup>-2</sup> (Y<sup>-2</sup>)

The year Y<sup>-2</sup> is the year immediately prior to year Y<sup>-1</sup>. For the 2005–06 income year, year Y<sup>-2</sup> is the 2003–04 income year.

### Year Y<sup>-3</sup> (Y<sup>-3</sup>)

The year Y<sup>-3</sup> is the year immediately prior to year Y<sup>-2</sup>. For the 2005–06 income year, year Y<sup>-3</sup> is the 2002–03 income year.



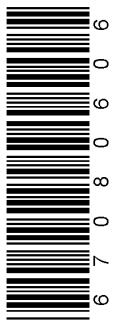
**Australian Government**  
**Australian Taxation Office**

# Research and development tax concession schedule

# 2006

Use the *Research and development tax concession schedule instructions 2006* (the instructions) to complete this schedule.

**Companies are to complete and attach this schedule to their 2006 tax return.**



Original claim  or Amended claim  Print X in the appropriate box.

Company name

Tax file number (TFN)

Signature as prescribed in tax return

AusIndustry/IRDB registration number

Australian business number (ABN)

## Preliminary calculation – Write-back of R&D accounting expenditure

Refer to both the *Company tax return instructions 2006* and the *Research and development tax concession schedule instructions 2006* to complete this label. This amount must also be included at **D Accounting expenditure in item 6 subject to R&D tax concession item 7** in the *Company tax return 2006*.

**D**  -00

## 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% pre 8/96
1 Contracted expenditure – RRA	<b>A</b> <input type="text"/> -00	<b>B</b> <input type="text"/> -00	<b>C</b> <input type="text"/> -00	<b>D</b> <input type="text"/> -00
2 Salary expenditure	<b>E</b> <input type="text"/> -00	<b>F</b> <input type="text"/> -00	<b>G</b> <input type="text"/> -00	<input type="text"/>
3 Other R&D expenditure	<b>H</b> <input type="text"/> -00	<b>I</b> <input type="text"/> -00	<b>J</b> <input type="text"/> -00	<b>K</b> <input type="text"/> -00
4 Contract – other	<b>N</b> <input type="text"/> -00	<b>O</b> <input type="text"/> -00	<b>P</b> <input type="text"/> -00	<b>Q</b> <input type="text"/> -00
5 Plant leasing	<b>R</b> <input type="text"/> -00	<b>S</b> <input type="text"/> -00	<b>T</b> <input type="text"/> -00	<b>U</b> <input type="text"/> -00
6 Eligible feedstock expenditure	<b>V</b> <input type="text"/> -00	<b>W</b> <input type="text"/> -00	<b>X</b> <input type="text"/> -00	<input type="text"/>
7 Plant/pilot deductions – pre-29 January 2001 (including disposal losses)	<b>A</b> <input type="text"/> -00	<b>B</b> <input type="text"/> -00	<b>C</b> <input type="text"/> -00	<b>D</b> <input type="text"/> -00
8 <b>Less</b> pre-29 January 2001 disposal profits	<b>E</b> <input type="text"/> -00	<b>F</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
9 Plant and depreciating assets – post-29 January 2001 (decline in value)	<b>H</b> <input type="text"/> -00	<b>I</b> <input type="text"/> -00	<b>J</b> <input type="text"/> -00	<input type="text"/>
10 Post-29 January 2001 disposal losses	<b>K</b> <input type="text"/> -00	<b>N</b> <input type="text"/> -00	<b>O</b> <input type="text"/> -00	<input type="text"/>
11 <b>Less</b> post-29 January 2001 disposal profits	<b>P</b> <input type="text"/> -00	<b>Q</b> <input type="text"/> -00	<b>R</b> <input type="text"/> -00	<input type="text"/>
12 Core technology – deductible amount	<b>S</b> <input type="text"/> -00	<b>T</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
13 Interest or amounts in the nature of interest	<b>U</b> <input type="text"/> -00	<b>V</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
14 Residual feedstock expenditure	<b>W</b> <input type="text"/> -00	<b>X</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
15 Total of allocated base amounts	<b>A</b> <input type="text"/> / <input type="text"/>	<b>B</b> <input type="text"/> / <input type="text"/>	<b>C</b> <input type="text"/> / <input type="text"/>	<b>D</b> <input type="text"/>
16 Claims including concession (base amount plus 0%, 25% or 50%)		<b>E</b> <input type="text"/> / <input type="text"/>	<b>F</b> <input type="text"/> / <input type="text"/>	<b>G</b> <input type="text"/>
17 Total claim – including concession Transfer the amount at <b>L</b> to <b>L R&amp;D tax concession – not including label M</b> item 7 on page 2 of the <i>Company tax return 2006</i> . If the amount at <b>L</b> here (on the schedule) is negative, print <b>L</b> at the right of the amount at <b>L</b> on the company tax return.				<b>L</b> <input type="text"/> / <input type="text"/>

## PART B Amount of expenditure on the following items

1 Cooperative research centre (CRC) contributions	<b>I</b> <input type="text"/> -00
2 Trading stock expenditure	<b>J</b> <input type="text"/> -00
3 Royalties paid to non-residents for the use of core technology	<b>K</b> <input type="text"/> -00
4 Total expenditure on plant and depreciating assets	<b>N</b> <input type="text"/> -00
5 Total expenditure on core technology	<b>O</b> <input type="text"/> -00
6 Building expenditure and other adjustments required to the company's aggregate R&D amount	<b>X</b> <input type="text"/> -00

**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**  .00

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

Do you wish to claim the incremental tax concession? Print **Y** for yes or **N** for no

To calculate eligibility for the research and development incremental tax concession deduction, see **Part D Research and development incremental tax concession** in the instructions.

		Show whole dollars only.			
1		Y <sup>0</sup>	Y <sup>-1</sup>	Y <sup>-2</sup>	Y <sup>-3</sup>
	Entity name	Incremental expenditure	Incremental expenditure	Incremental expenditure	Incremental expenditure
a					
b					
c					
d					
e					
f	Adjustment to Y <sup>0</sup> incremental spend of the company at row (a) above— <b>not</b> deductible at 125%				
g	Adjustment to Y <sup>0</sup> incremental spend of the company at row (a) above—deductible at 125%				
h	Total of additional schedule where applicable				
<b>R&amp;D spend</b>		<b>Q</b>	<b>R</b>	<b>S</b>	<b>T</b>

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

Please indicate whether the company, or any of its group members, was eligible to claim the increment in 2005 and/or 2004. Note: Only select "Yes" in the relevant year(s) if the company satisfies the requirements of Sections 73T(3), 73T(4) and 73V(3) of the *Income Tax Assessment Act 1936*. Print **Y** for yes or **N** for no  2005  
Print **Y** for yes or **N** for no  2004

**2** Research and development incremental concession

Research and development incremental concession as calculated in Table 14 in **Part D Research and development incremental tax concession**, in the instructions.

Transfer this amount to **M** Incremental R&D (additional 50%) deduction item 7 on page 2 of the *Company tax return 2006*. **M**  .00

**PART E** Research and development tax offset

Do you wish to claim the R&D tax offset? Print **Y** for yes or **N** for no

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

		Show whole dollars only.	
1		Aggregate R&D amount	Entity turnover
	Entity name	Tax file number	
a			
b			
c			
d			
e			
g	Total of additional schedule where applicable		
<b>Group totals</b>		<b>B</b>	<b>C</b>

Transfer the above totals to A and B respectively of Table 15 in **Part E Research and development tax offset** 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 at **C** Table 16 in **Part E Research and development tax offset** in the instructions.

Transfer this amount to **Y** R&D tax offset, if chosen item 7 on page 2 of the *Company tax return 2006*. **Y**  .00

**3** Research and development tax offset amount

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

Include this amount at **U** R&D tax offset in the **Calculation statement** on page 4 of the *Company tax return 2006*. **U**  :



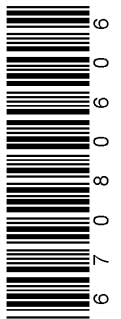
**Australian Government**  
**Australian Taxation Office**

# Research and development tax concession schedule

# 2006

Use the *Research and development tax concession schedule instructions 2006* (the instructions) to complete this schedule.

**Companies are to complete and attach this schedule to their 2006 tax return.**



**Original claim**  or **Amended claim**  Print X in the appropriate box.

Company name

Tax file number (TFN)

Signature as prescribed in tax return

AusIndustry/IRDB registration number

Australian business number (ABN)

## Preliminary calculation – Write-back of R&D accounting expenditure

Refer to both the *Company tax return instructions 2006* and the *Research and development tax concession schedule instructions 2006* to complete this label. This amount must also be included at **D Accounting expenditure in item 6 subject to R&D tax concession item 7** in the *Company tax return 2006*.

**D**  -00

## 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% pre 8/96
1 Contracted expenditure – RRA	<b>A</b> <input type="text"/> -00	<b>B</b> <input type="text"/> -00	<b>C</b> <input type="text"/> -00	<b>D</b> <input type="text"/> -00
2 Salary expenditure	<b>E</b> <input type="text"/> -00	<b>F</b> <input type="text"/> -00	<b>G</b> <input type="text"/> -00	<input type="text"/>
3 Other R&D expenditure	<b>H</b> <input type="text"/> -00	<b>I</b> <input type="text"/> -00	<b>J</b> <input type="text"/> -00	<b>K</b> <input type="text"/> -00
4 Contract – other	<b>N</b> <input type="text"/> -00	<b>O</b> <input type="text"/> -00	<b>P</b> <input type="text"/> -00	<b>Q</b> <input type="text"/> -00
5 Plant leasing	<b>R</b> <input type="text"/> -00	<b>S</b> <input type="text"/> -00	<b>T</b> <input type="text"/> -00	<b>U</b> <input type="text"/> -00
6 Eligible feedstock expenditure	<b>V</b> <input type="text"/> -00	<b>W</b> <input type="text"/> -00	<b>X</b> <input type="text"/> -00	<input type="text"/>
7 Plant/pilot deductions – pre-29 January 2001 (including disposal losses)	<b>A</b> <input type="text"/> -00	<b>B</b> <input type="text"/> -00	<b>C</b> <input type="text"/> -00	<b>D</b> <input type="text"/> -00
8 <b>Less</b> pre-29 January 2001 disposal profits	<b>E</b> <input type="text"/> -00	<b>F</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
9 Plant and depreciating assets – post-29 January 2001 (decline in value)	<b>H</b> <input type="text"/> -00	<b>I</b> <input type="text"/> -00	<b>J</b> <input type="text"/> -00	<input type="text"/>
10 Post-29 January 2001 disposal losses	<b>K</b> <input type="text"/> -00	<b>N</b> <input type="text"/> -00	<b>O</b> <input type="text"/> -00	<input type="text"/>
11 <b>Less</b> post-29 January 2001 disposal profits	<b>P</b> <input type="text"/> -00	<b>Q</b> <input type="text"/> -00	<b>R</b> <input type="text"/> -00	<input type="text"/>
12 Core technology – deductible amount	<b>S</b> <input type="text"/> -00	<b>T</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
13 Interest or amounts in the nature of interest	<b>U</b> <input type="text"/> -00	<b>V</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
14 Residual feedstock expenditure	<b>W</b> <input type="text"/> -00	<b>X</b> <input type="text"/> -00	<input type="text"/>	<input type="text"/>
15 Total of allocated base amounts	<b>A</b> <input type="text"/> / <input type="text"/>	<b>B</b> <input type="text"/> / <input type="text"/>	<b>C</b> <input type="text"/> / <input type="text"/>	<b>D</b> <input type="text"/> / <input type="text"/>
16 Claims including concession (base amount plus 0%, 25% or 50%)		<b>E</b> <input type="text"/> / <input type="text"/>	<b>F</b> <input type="text"/> / <input type="text"/>	<b>G</b> <input type="text"/> / <input type="text"/>
17 Total claim – including concession Transfer the amount at <b>L</b> to <b>L R&amp;D tax concession – not including label M</b> item 7 on page 2 of the <i>Company tax return 2006</i> . If the amount at <b>L</b> here (on the schedule) is negative, print <b>L</b> at the right of the amount at <b>L</b> on the company tax return.				<b>L</b> <input type="text"/> / <input type="text"/>

## PART B Amount of expenditure on the following items

1 Cooperative research centre (CRC) contributions	<b>I</b> <input type="text"/> -00
2 Trading stock expenditure	<b>J</b> <input type="text"/> -00
3 Royalties paid to non-residents for the use of core technology	<b>K</b> <input type="text"/> -00
4 Total expenditure on plant and depreciating assets	<b>N</b> <input type="text"/> -00
5 Total expenditure on core technology	<b>O</b> <input type="text"/> -00
6 Building expenditure and other adjustments required to the company's aggregate R&D amount	<b>X</b> <input type="text"/> -00

**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**  .00

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

Do you wish to claim the incremental tax concession? Print **Y** for yes or **N** for no

To calculate eligibility for the research and development incremental tax concession deduction, see **Part D Research and development incremental tax concession** in the instructions.

		Show whole dollars only.				
1	Entity name	Tax file number	Y <sup>0</sup> Incremental expenditure	Y <sup>-1</sup> Incremental expenditure	Y <sup>-2</sup> Incremental expenditure	Y <sup>-3</sup> Incremental expenditure
a						
b						
c						
d						
e						
f	Adjustment to Y <sup>0</sup> incremental spend of the company at row (a) above— <b>not</b> deductible at 125%					
g	Adjustment to Y <sup>0</sup> incremental spend of the company at row (a) above—deductible at 125%					
h	Total of additional schedule where applicable					
	<b>R&amp;D spend</b>		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.

Please indicate whether the company, or any of its group members, was eligible to claim the increment in 2005 and/or 2004. Note: Only select "Yes" in the relevant year(s) if the company satisfies the requirements of Sections 73T(3), 73T(4) and 73V(3) of the *Income Tax Assessment Act 1936*.  
 Print **Y** for yes or **N** for no  2005  
 Print **Y** for yes or **N** for no  2004

**2** Research and development incremental concession

Research and development incremental concession as calculated in Table 14 in **Part D Research and development incremental tax concession**, in the instructions.

Transfer this amount to **M** Incremental R&D (additional 50%) deduction item 7 on page 2 of the *Company tax return 2006*. **M**  .00

**PART E** Research and development tax offset

Do you wish to claim the R&D tax offset? Print **Y** for yes or **N** for no

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

		Show whole dollars only.		
1	Entity name	Tax file number	Aggregate R&D amount	Entity turnover
a				
b				
c				
d				
e				
g	Total of additional schedule where applicable			
	<b>Group totals</b>		B	C

Transfer the above totals to A and B respectively of Table 15 in **Part E Research and development tax offset** 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 at **C** Table 16 in **Part E Research and development tax offset** in the instructions.

Transfer this amount to **Y** R&D tax offset, if chosen item 7 on page 2 of the *Company tax return 2006*. **Y**  .00

**3** Research and development tax offset amount

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

Include this amount at **U** R&D tax offset in the **Calculation statement** on page 4 of the *Company tax return 2006*. **U**  :

# MORE INFORMATION

## INTERNET

- For general tax information and to download publications and rulings, visit [www.ato.gov.au](http://www.ato.gov.au)

## PUBLICATIONS

### Publications referred to in these instructions

- *Company tax return instructions 2006* (NAT 0669–6.2006)
- *Guide to depreciating assets 2006* (NAT 1996–6.2006)
- *Guide to the R&D tax concession\**
- *Income Tax Assessment Act 1936*
- *Income Tax Assessment Act 1997*
- *Industry Research and Development Act 1986*
- *ATO Interpretative Decision ATO ID 2003/989 – Research and development tax offset – eligibility where a group member company has a substituted accounting period*
- *ATO Interpretative Decision ATO ID 2004/973 – Research and development – additional deduction for incremental expenditure where a company has a transitional substituted accounting period in relation to the ‘deduction year’*
- *Taxation Determination TD 98/1 – Does ‘expenditure on research and development activities’ in subsection 73B(27A) and sections 73C and 73D of the Income Tax Assessment Act 1936, include ‘core technology expenditure’?*
- *Taxation Ruling IT 2442 – Concession for eligible research and development expenditure*
- *Taxation Ruling IT 2451 – Investor funding of research and development activities*
- *Taxation Ruling IT 2552 – Research and development (R&D) – costing of expenditure*
- *Taxation Ruling IT 2552A – Addendum – Research and development (R&D) – costing of expenditure*
- *Taxation Ruling TR 2002/1 – Research and development: plant expenditure (pre-29 January 2001)*

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## INFOLINES

### ■ Business tax **13 28 66**

General business tax enquiries including GST rulings, pay as you go (PAYG) instalments and withholding (from interest, dividends and royalties), business deductions, activity statements (including lodgment and payment), accounts and business registration (including Australian business number and tax file number)

### ■ Tax agents **13 72 86**

For enquiries from registered tax agents

### ■ Super Choice **13 28 64**

For information about choice of superannuation funds and the role of the employer

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For information about outstanding lodgment or payment obligations, for activity statements, PAYG withholding, income tax or fringe benefits tax

### ■ Personal tax **13 28 61**

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### ■ Superannuation **13 10 20**

### ■ Fax **13 28 60**

To get information about business, tax reform, superannuation, excise duty, fuel schemes, non-profit organisation or personal tax sent to your fax machine, phone **13 28 60** and follow the instructions.

## OTHER SERVICES

### ■ Translating and Interpreting Service **13 28 60**

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service for help with your call.

### National Relay Service **13 36 77**

- If you have a hearing or speech impairment and use a TTY or modem, phone the National Relay Service.

### Speech to Speech Relay Service **1300 555 727**

- If you have a speech impairment and do not use a TTY or modem, phone the Speech to Speech Relay Service.
- For 1800 free call numbers phone **1800 555 727** and quote the number you require.

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