

R&D TAX INCENTIVES AND CAPITAL ACCESS

25 August 2021

Webinar reminders

- This webinar is being recorded and will be made available to all participants along with the presentation slides and other related materials.
- There will be a Q&A session at the end of the presentation.
- Enter your questions in the Q&A box located at the bottom of your screen.
- Exciting ***prize*** for best question asked!
- The webinar will run for approximately 1 hour.
- All participant/attendee lines will be muted.
- For further information about our speakers, the topics or about RSM, visit rsm.com.au.

Speakers



Jessica Olivier

National R&D Partner
RSM Australia



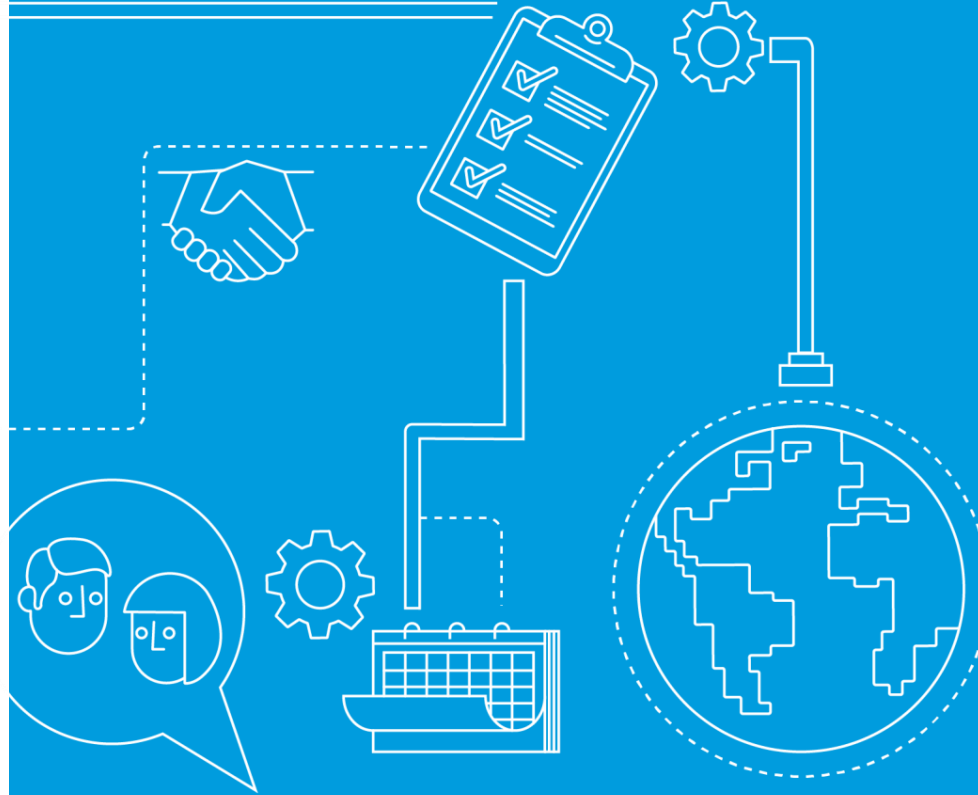
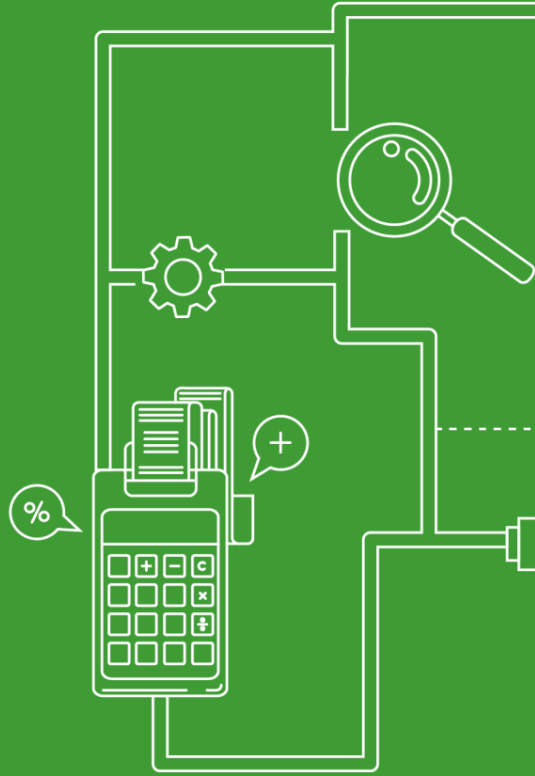
Patrick Stewart

State Manager for NSW
Radium Capital



Samara Chandran

State Manager for QLD
Radium Capital



THE R&D TAX INCENTIVE – 2021 UPDATES

25 August 2021

Introduction



Jessica Olivier

National R&D
Partner

- Started out as a Chartered Accountant/Tax Advisor in the UK
- Over 15 years of experience assisting Start-ups, Small to Medium sized businesses and Multinational companies to claim the R&D Tax Incentive.
- Works with companies to prepare and lodge R&D claims, from start to finish, to provide a seamless process and defensible, robust claim.
- Ensures you correctly identify and claim the R&D activities in your business to optimise the R&D refund.
- Has worked with many varied companies across a diverse range of industries including Technology (FinTech, EdTech, HealthTech etc), Pharmaceutical, Construction & Engineering, Manufacturing.

Benefits / Takeaways From Today's Session



**THE R&D TAX
INCENTIVE & RECENT
PROGRAM CHANGES**



**KEY AREAS OF
REGULATORY
FOCUS**



**IDENTIFYING
ELIGIBLE
ACTIVITIES AND
EXPENSES**



**POTENTIAL
INDUSTRY-RELATED
GOVERNMENT
GRANTS**

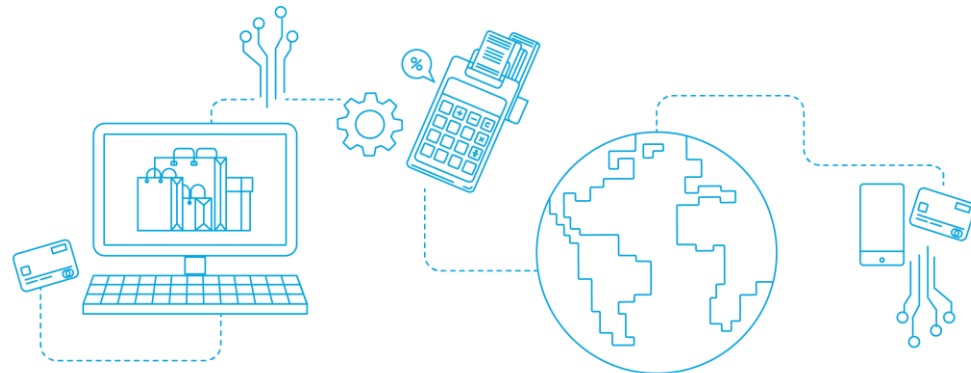


THE R&D TAX INCENTIVE & RECENT PROGRAM CHANGES

R&D Tax Incentive – Benefit for <\$20m turnover entities

Assume Base Rate Entity

Income Year	R&D Tax Rate	Corporate Tax Rate	'Permanent' additional R&D Tax Benefit (R&D Tax Rate – Corp Tax Rate)	Potential Refundable Portion
2019/20	43.5% refundable R&D Tax Offset	27.5%	16%	43.5%
2020/21	43.5% refundable R&D Tax Offset	26%	17.5%	43.5%
2021/22+	Refundable R&D Tax Offset of the company tax rate plus 18.5%.	25%	18.5%	43.5% (25% + 18.5%)



R&D Tax Incentive – Benefit for >\$20m turnover entities

Current benefit (prior to 1 July 2021)

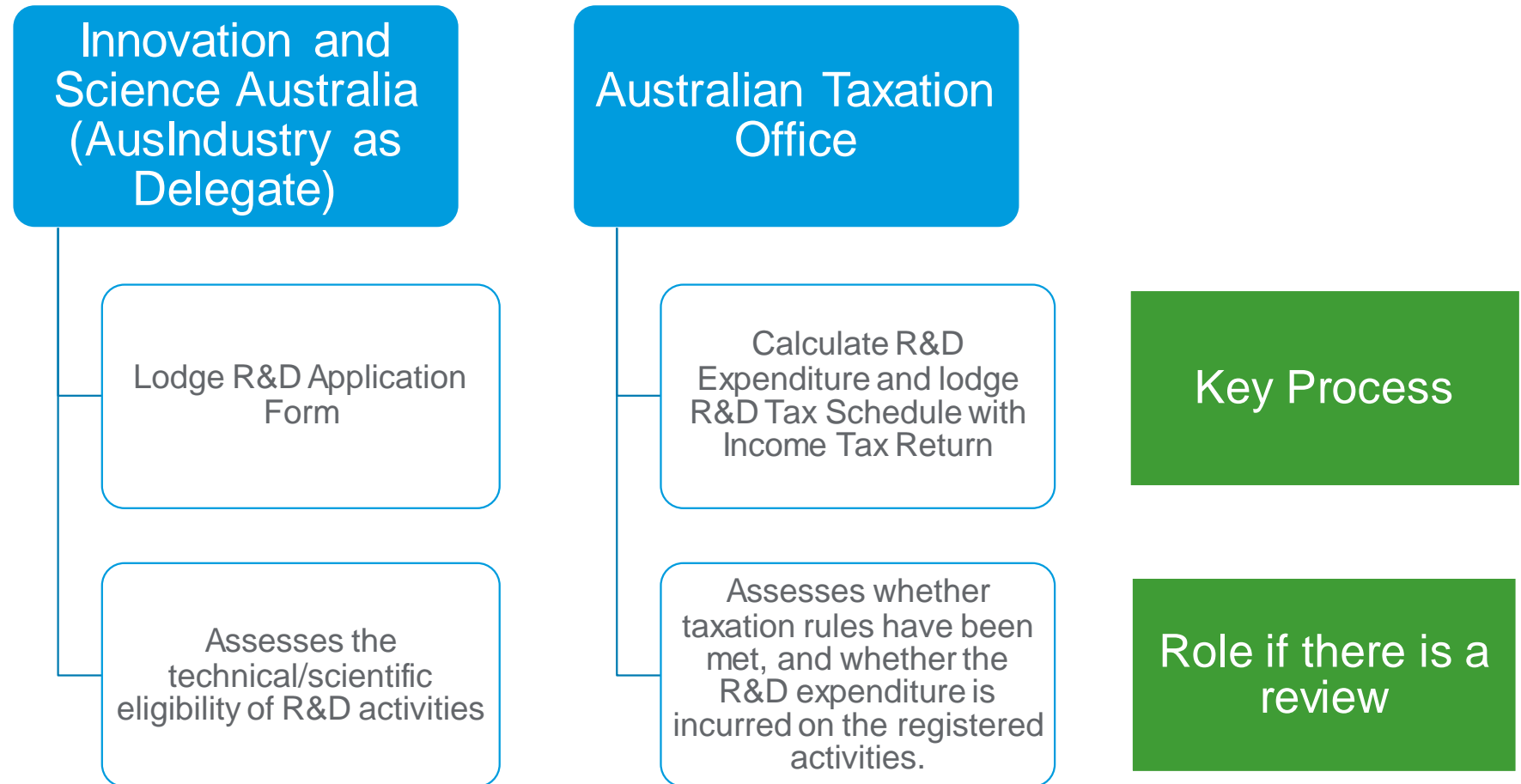
- ✓ 38.5% non-refundable R&D Tax Offset. Permanent benefit can be 11% or 8.5% (depends on whether 27.5% or 30% corporate tax rate).
- ✓ If in tax loss position, carried forward into later years and can be utilised against future taxable income (assuming integrity tests met).

From 1 July 2021*

- ✓ Benefit increases with increased R&D intensity (broadly speaking, R&D intensity calculated based on R&D expenditure in year / total expenses in the year).
 - First 2% R&D intensity attracts **8.5% benefit**.
 - R&D expenditure >2% R&D intensity attracts a much **higher 16.5% benefit**.
- ✓ Difficult to forecast exact permanent benefit as dependant on R&D intensity, however generally will provide higher benefit than current program.

**for 31 December year end companies, this is effective 1 January 2022*

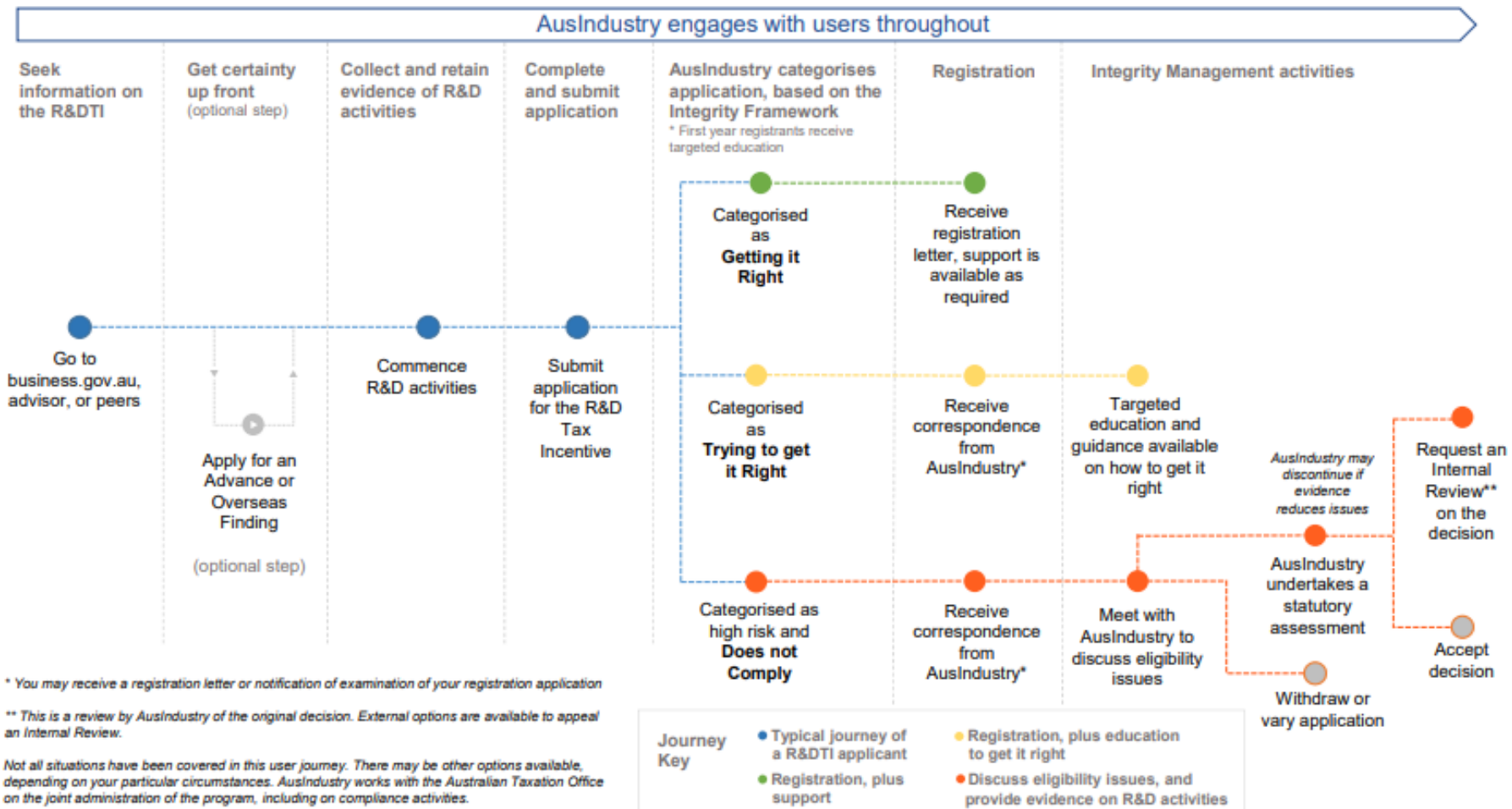
R&D Tax Incentive – Dual Agency Administration



New Integrity Framework – User Journey

Impact of the Ombudsman Report and Moreton case

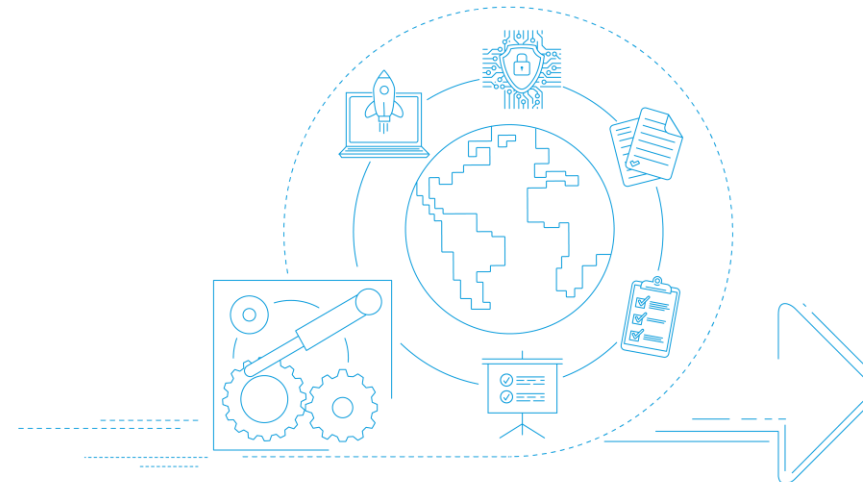
Steps in the user journey



R&D Tax Incentive – new claim process

For all R&D Applications lodged from 1 July 2022

- ✓ Lodgement for R&D Application Forms via new online portal
- ✓ Need to provide R&D tax agent with authorisation to access the online portal
- ✓ Use portal to lodge extension requests, Overseas / Advance Findings
- ✓ Introduction of hard character limits, removal of ability to add attachments, photographs, diagrams etc
- ✓ Requirement to complete a checklist of documentation maintained to substantiate eligibility of R&D activities (there is no requirement to provide the underlying documentation upfront)
- ✓ Renewed focus on describing the existing sources of information and knowledge consulted to prove that experimentation was required to prove or disprove technical or scientific concepts.





KEY AREAS OF REGULATORY FOCUS

R&D Tax Incentive – What is the process?

Claim Process | How do I claim?

1. Retrospective claim, to be lodged within 10 months of income year end – **Self assessment program** (so for the year ended 30 June 2021, lodgement deadline is **30 April 2022**)
2. Registration of R&D Projects and activities – The R&D Application Form
3. R&D Expenditure – include in the Company Income Tax Return (R&D ATO schedule)
4. Documentation / evidence for technical and financial support – Must be maintained throughout the undertaking of the R&D activities (contemporaneous documentation)



The compliance landscape – A Snapshot

2016 – 2018

FINANCIAL REVIEW

— Exclusive

Airtasker hit by R&D incentive tax crackdown that threatens tech firms

— Exclusive

How CBA, Deloitte triggered the R&D incentive crackdown

mybusiness

Home / Finance / Tech firms 'must pay back millions' after R&D audits

Tech firms 'must pay back millions' after R&D audits

FINANCE ADAM ZUCHETTI 04 December 2018 — 4 minute read

2019 – 2021

12 December 2019

Ombudsman recommends sweeping changes to R&D Tax Incentive administration

The Australian Small Business and Family Enterprise Ombudsman Kate Carnell is recommending [a suite of reforms](#) to the administration of the Research and Development Tax Incentive (R&DTI), as part of a comprehensive report released today.

LAWYERLY

Moreton wins appeal over R&D tax credits for failed coal gasification project

Tech Metals: Northern Minerals to get its R&D refund after all

February 25, 2020

Things could be looking up for rare earths producer **Northern Minerals (ASX:NTU)** after AusIndustry reversed its initial findings and decided that most of the company's activities were actually in fact eligible for the R&D tax offset.

24 March 2021 PKWK and Innovation and Science Australia (Taxation) [2021] AATA 706

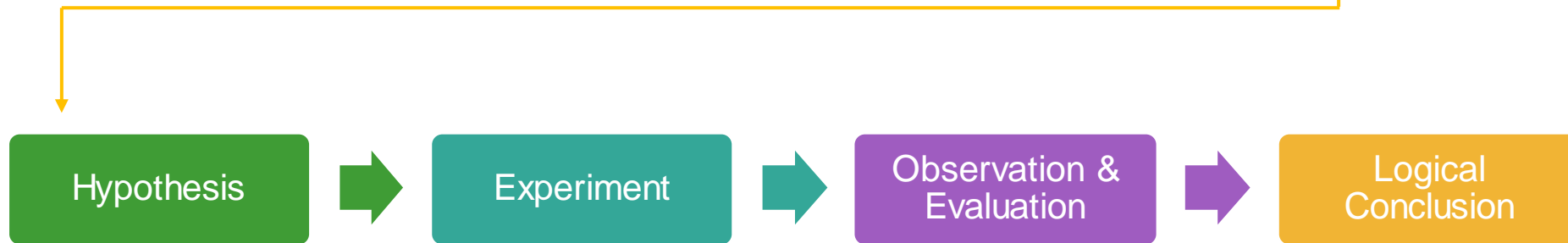


IDENTIFYING ELIGIBLE ACTIVITIES AND EXPENSES

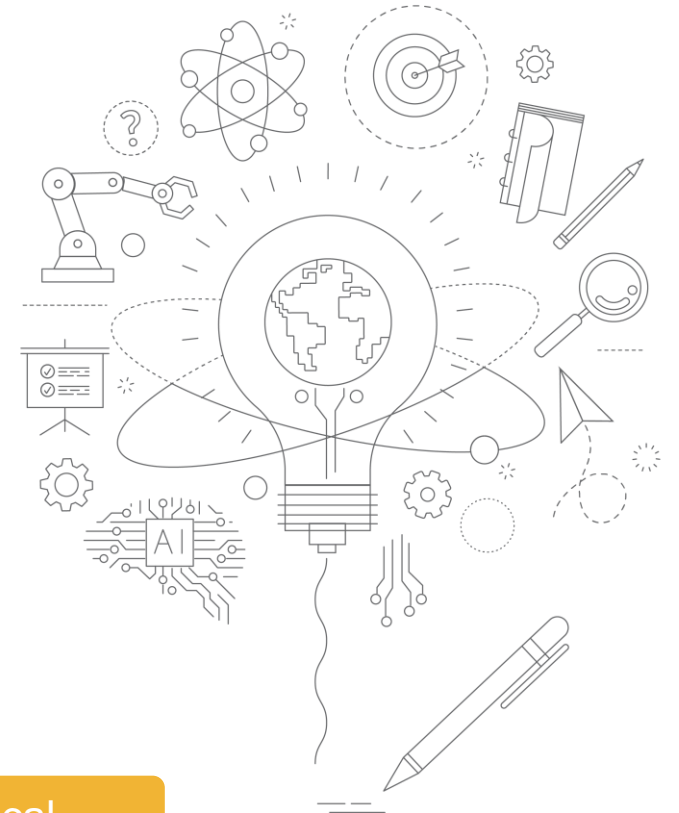
What is an eligible core R&D activity? – Any R&D Claim

An eligible R&D project must contain at least one “core” R&D activity which is:

- ✓ An **experimental** activity
- ✓ The **outcome of the activity cannot be known** or determined in advance
- ✓ Are conducted for the **purpose of generating new knowledge** (including new or improved products, processes, technologies etc.)
- ✓ Can only be determined by a systematic progression of work that is based on principles of established science and proceeds from:



Can also claim “supporting” R&D activities



Activities excluded from “Core R&D Activities”

Activities falling into the below **cannot be eligible core R&D activities**.

Market research,
market testing,
market development

Sales promotion
and consumer
surveys

Certain types of
prospecting, drilling
for minerals etc.

Management
studies or efficiency
surveys

Research into social
sciences, arts or
humanities

Certain patenting
and licencing
activities
(legal/commercial)

Complying with
statutory standards
or reproduce
commercial
products/processes

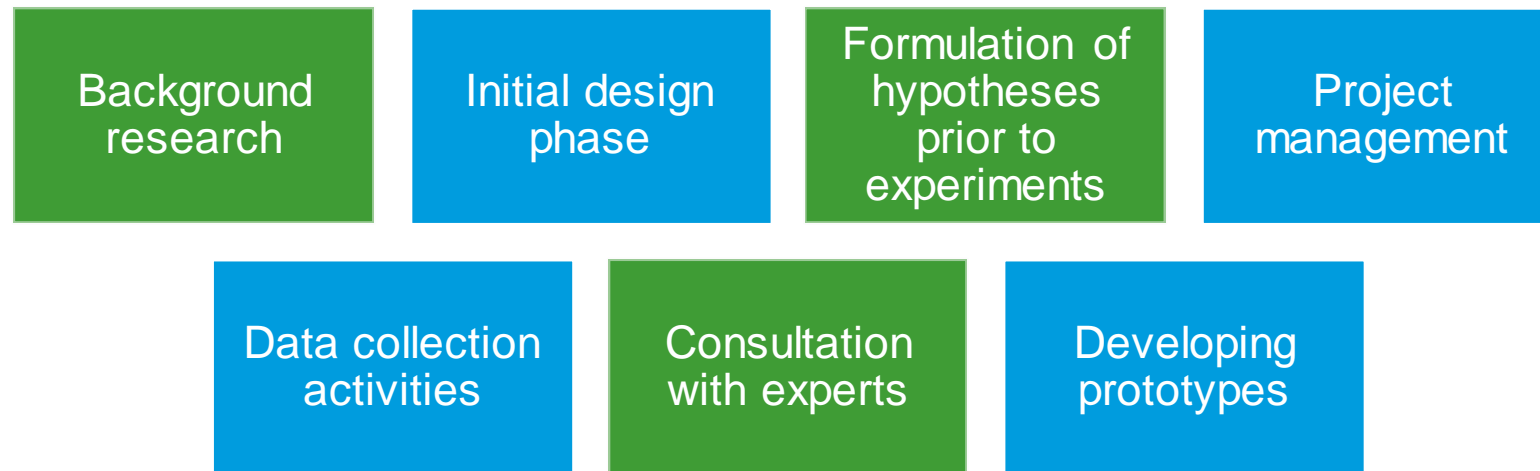
Dominant purpose
of producing internal
admin software

- The above activities can still be eligible as supporting R&D activities – provided a separate core R&D activity is eligible
- Can only claim portion which were undertaken for the “dominant purpose” of supporting core R&D activities (i.e. during the time where there is a significant purpose of providing an input, or relating to the core R&D activities).

What is an eligible supporting R&D activity?

An eligible R&D project may contain one or more “supporting” R&D activities which:

- ✓ Are “directly related” to one or more core R&D activities
- ✓ In certain circumstances involving the production of goods or services or on the list in the previous slide (excluded core R&D activities – eligible when undertaken for the “dominant purpose” of supporting core R&D activities



*RDTI website updated and launched 10 May 2021 and include fact sheets, insights podcasts, animation video and guides.
New Software R&D guidance – working with representatives from software sector, includes examples and case studies.*

Practical Illustration – Documentation

Some examples of documentation for a software R&D activity is extracted below. Remember there are no set types of documentation required and each business is different – **stick to the principle “would a layperson understand my activities and how it meets the criteria from these documents?”**

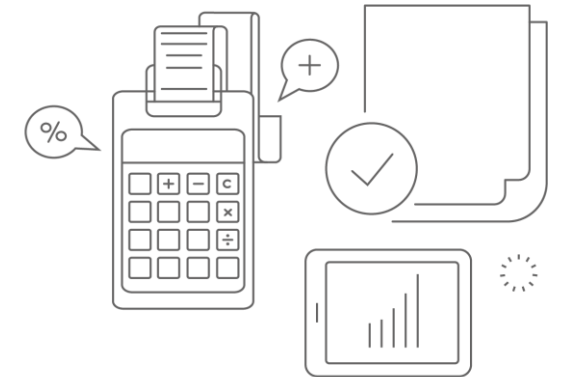
Activity	Type of activity	Example of supporting documentation
Background research / concept design	Support	Patent searches, competitor analysis, Business cases, design specifications, internal presentations.
Investigations of current processes	Support	SWOT analysis, internal presentations, Business requirement documents, client feedback reports.
Design and development of new methodologies	Support	Technical specifications, Solutions architecture, Interface designs, Risks and opportunities analysis.
Detailed computer modelling of possible design solutions	Arguably core or support	Modelling objective and schedule documents, Lessons learnt logs.
Undertaking trials of individual modules, algorithms or components	Core	Systems testing/Sprint test programs and plans, Test GANTT charts, Test Cases, Steering Committee presentations, JIRAs, Lessons learnt documents and logs.
Experimentation, testing or trialling on prototypes or final product	Core	Systems testing/Sprint test programs and plans, Test GANTT charts, Test Cases, Steering Committee presentations, JIRAs.
Modifications to design based on test results	Support / Core	Updated iterations of design documents, release plans and final specification documents.

R&D Tax Incentive

Costs | What costs can I include?

Specific examples of R&D Expenditure – must be attached to the registered R&D activities

- ✓ Wages and salaries – hours spent on the eligible R&D activities
- ✓ Items directly related to the R&D activities (e.g. testing costs, software costs, hire of equipment for testing)
- ✓ Contract expenditure (e.g. sub-contractors, specialists, consultants)
- ✓ Depreciation on plant and equipment used in R&D activities – see next slide
- ✓ Other expenses directly related to R&D activities (e.g. travel, conferences, training)
- ✓ A portion of site or project overheads (e.g. administrative staff, office & factory rent, electricity, telephone, internet etc.)



Ongoing areas of ATO scrutiny include salary amounts, overheads, payments to associates and overseas costs

Additional R&D Expenditure Considerations & Funding Opportunities

- **“COVID” Budget 2020** – accessing RDTI with Generous Rules for Depreciating Assets (Instant Asset Write-offs and Accelerated Depreciation)
 - Historically can only claim decline in value of tangible depreciating assets if used during R&D activities.
 - Recent measures introduced in 2019 and 2020 provided potential avenue to include accelerated depreciation or full expensing of tangible assets in R&D.
 - Opportunity to fast track investment in major assets to take advantage of increased R&D rate and full expensing of asset cost.
- **Budget 2021** – government announces it will extend the above temporary full expensing measures (TFE) until 30 June 2023
- **Ability to finance refundable R&D claims in advance via R&D factoring options in order to access a portion the R&D rebate earlier.**





OTHER GRANT FUNDING OPPORTUNITIES

State-based Grants

Minimum Viable Product (NSW)

- Development of an “MVP” providing a matched funding grant of up to 50% of approved project costs, to a maximum of \$25,000.
- Successful grant applicants will receive 35% of the funding up-front and 65% after completion and validation of the MVP.



Ignite Ideas Fund (QLD)

Two tiers of funding are available:

- Tier 1 - up to \$100,000 (excluding GST) for projects of up to 12 months duration.
- Tier 2 - greater than \$100,000 and up to \$200,000 (excluding GST) for projects of up to 24 months duration



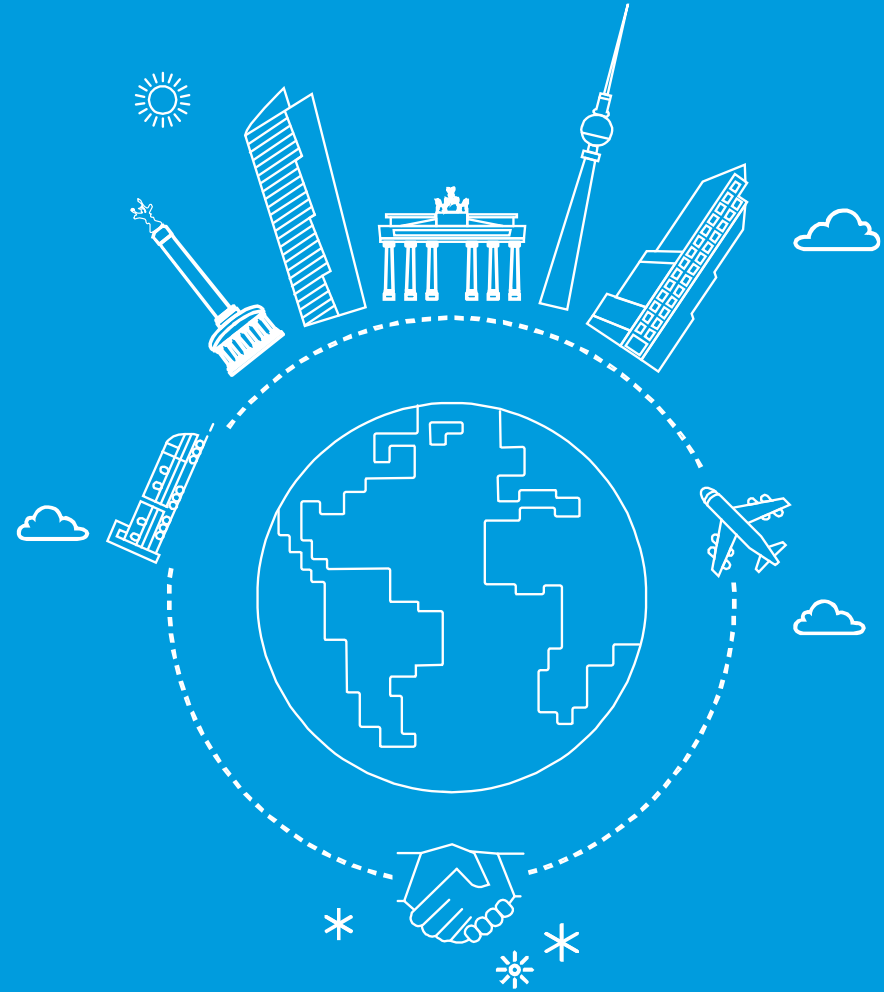
The R&D Tax Incentive – 2021 Updates

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Thank you



A clever part of your
capital and cash flow mix

Who we are

Created by entrepreneurs for entrepreneurs.

Radium Capital was launched in 2017 by a small group of fintech entrepreneurs who shared the vision that innovation companies should have access to capital when they need it.

Radium has a presence in **Brisbane, Perth, Melbourne and Sydney**, servicing businesses of all sizes and industry verticals, and meeting the substantial demand for affordable R&D financing.

We are backed by a \$2billion U.S. hedge fund.

Our business



+300 clients across
20 industries



+\$250m
funded



Our client base
covers the **whole**
of **Australia**



40% of business
referred through our
Accountant partners

What we do



At Radium, financing **R&D tax advances is all we do**. We're experts in helping **you reinvest your own money, sooner**, because we're passionate about helping businesses of all sizes grow and thrive



Our platform-based approach **reduces the need for dilutionary capital**.

This allows you to **hold onto more of the equity** that you are working so hard to create

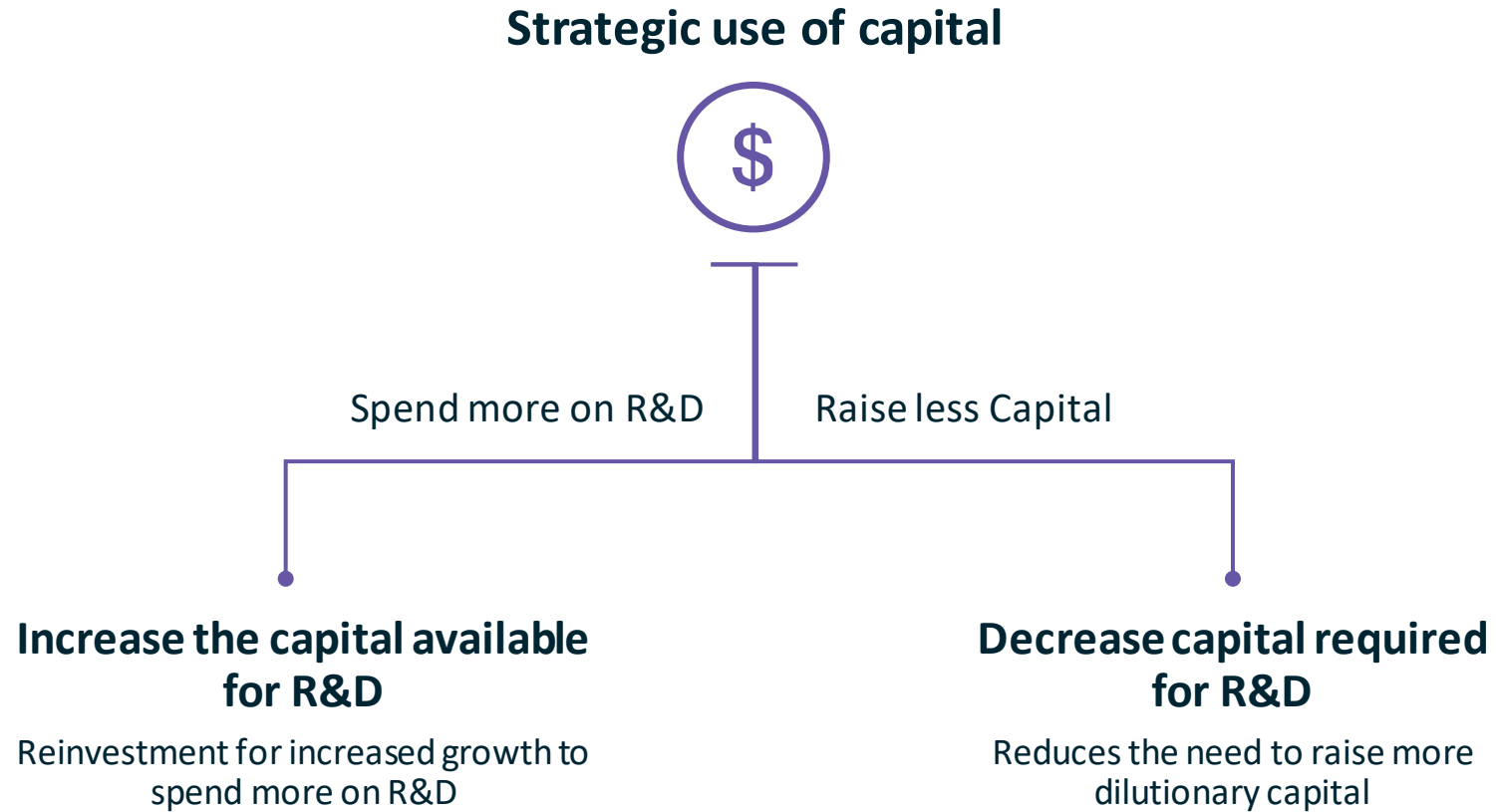


We also improve cash flow, by advancing R&D tax refunds **as and when** you need them. And, we don't think like a bank, so **see security differently**, helping you access your money faster



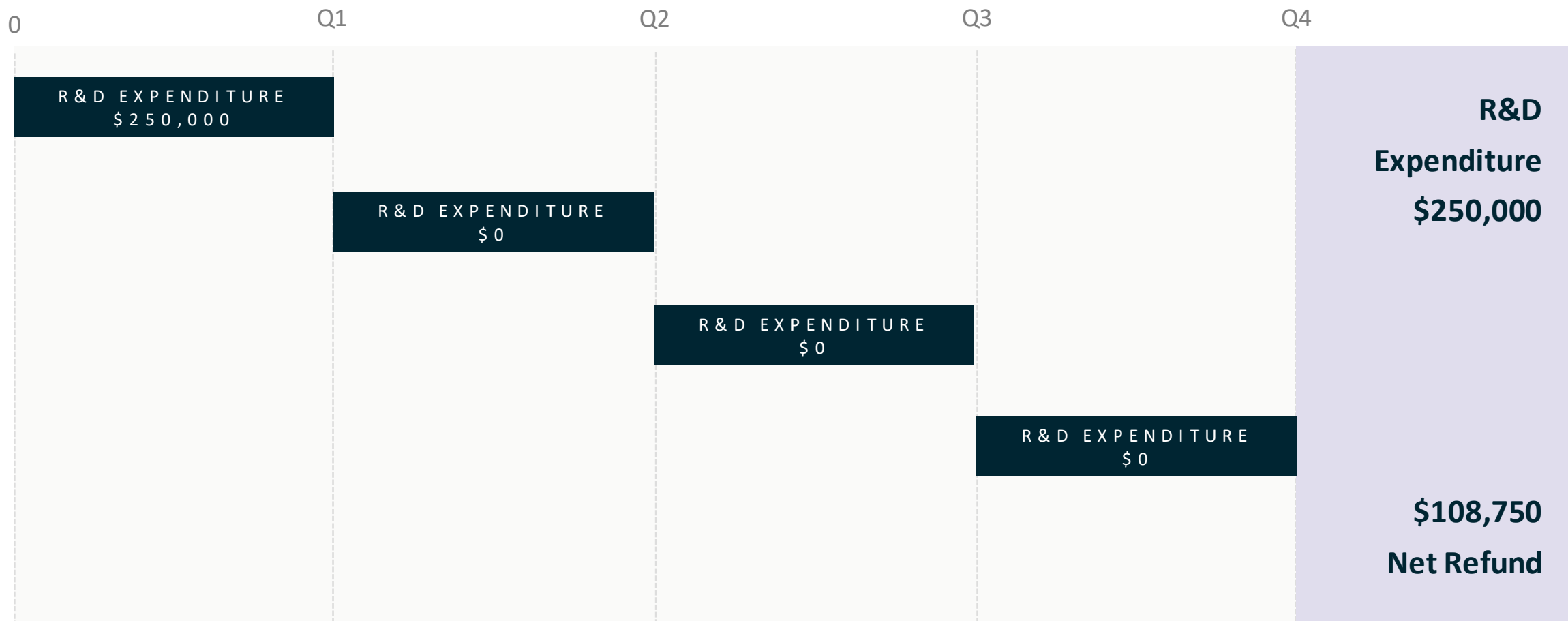
With technology that reduces costs and makes time for people, Radium delivers **confident service and outstanding results**. We are a clever part of your capital and cash flow mix

The real benefits

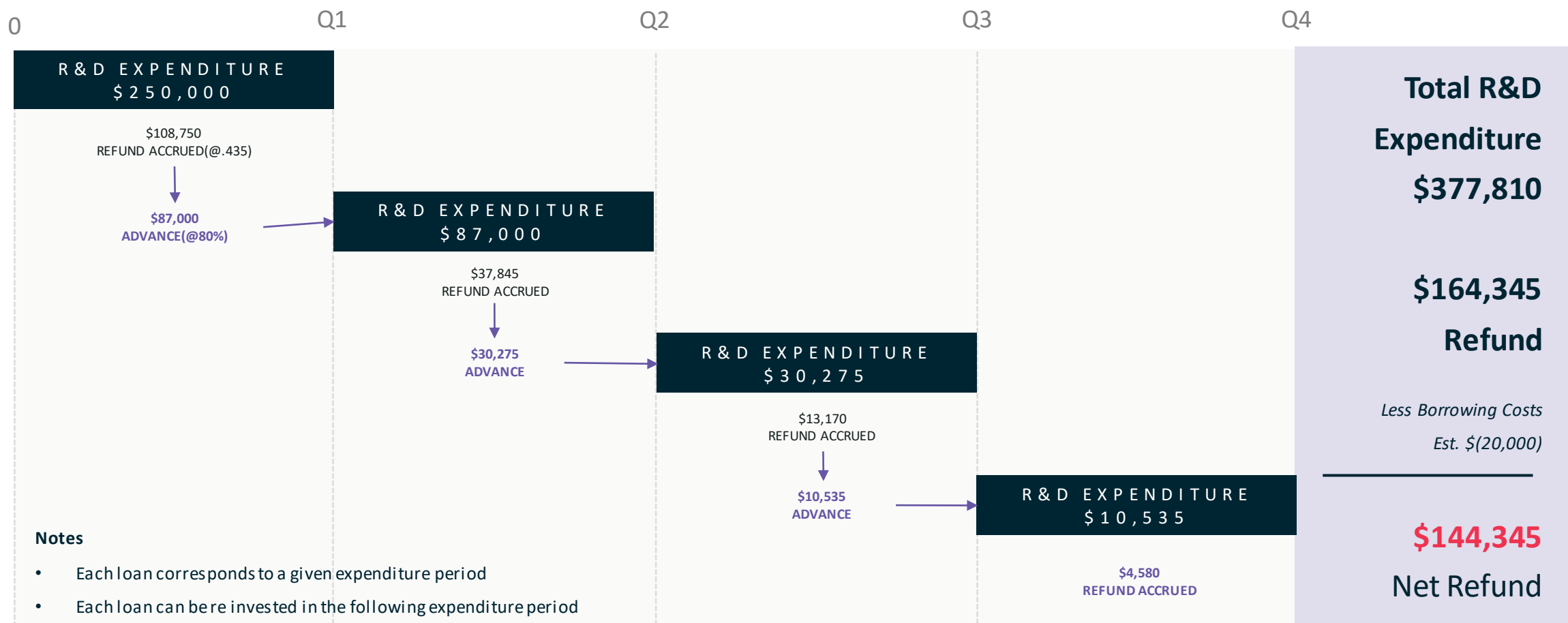


The Radium Effect

Standard R&D refund model



Radium quarterly advance model



Client Example

Client Example

Recce Pharmaceuticals Ltd (ASX:RCE)

- Recce Pharmaceuticals Ltd (“**Recce**”) is an Australian based globally-focussed, biotechnology company engaged in the development and commercialisation of a new class of antibiotics.
- Recce has synthesised and patented antibiotics that kill Gram-Positive and Gram-Negative bacteria, including antibiotic resistant bacteria-superbugs. RCE is currently focused on scaling-up the manufacture of their antibiotics for future worldwide supply of Pharmaceuticals.

RCE Statistics	ASX - 13/11/2019
Market Cap	\$34.12 million
ASX Size Rank	1,220 / 2,297
Date Listed	15 Jan 2016
Head Office	Sydney
vs ASX 200 (1yr)	+36.34%
vs Sector (1yr)	+16.25%

Client Example - continued

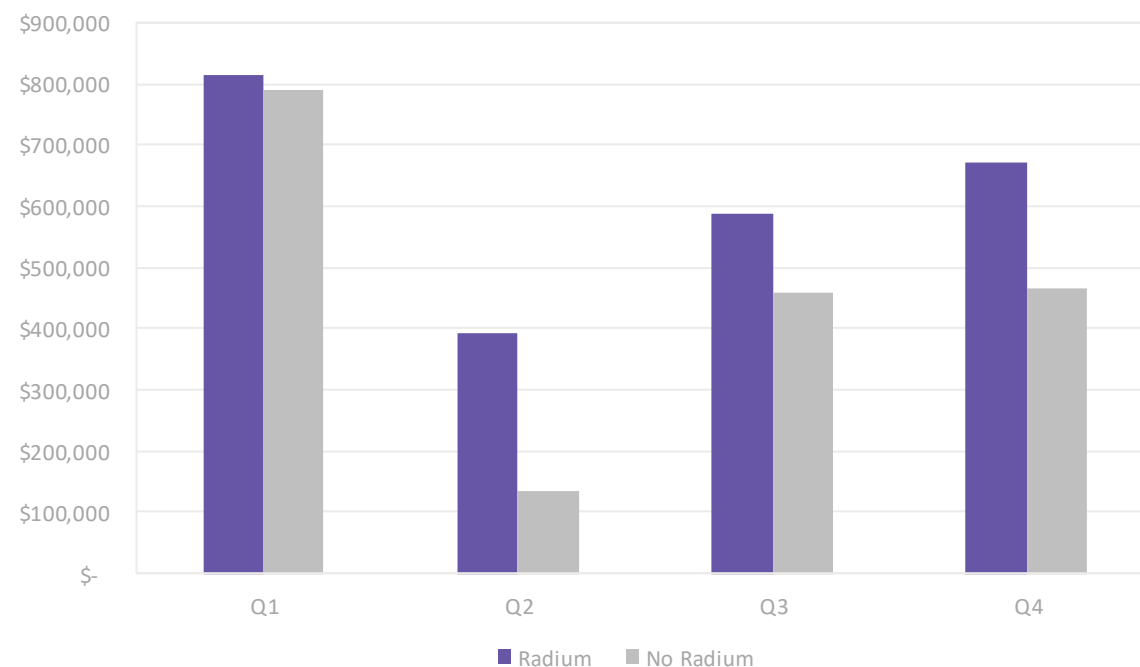
Recce R&D Expenditure for FY19

Recce wanted to maximise the capital they already had in the business. Having completed R&D expenditure during the financial year, they turned to Radium to maximise their investment in R&D.

By working with Radium, Recce were able to increase their R&D expenditure for FY19 by \$612,651 using Radium's quarterly advance model, representing a 33% increase.

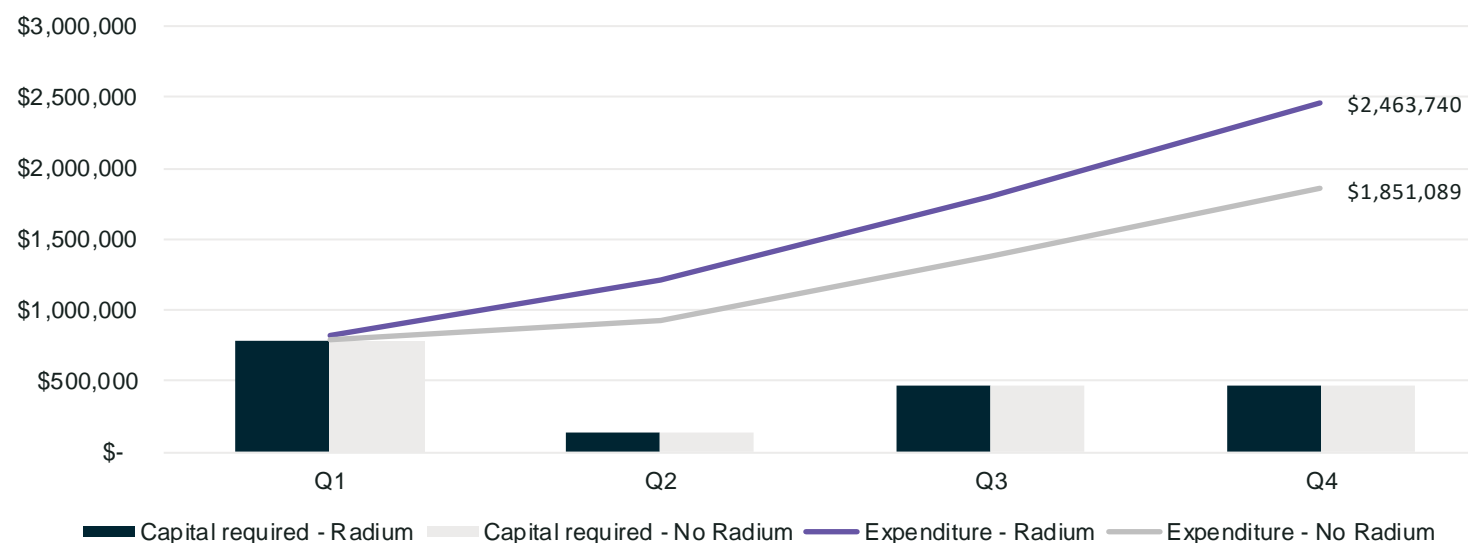
As a result of their increased expenditure Recce received an additional refund of \$205,243 (net of borrowing costs) - an increase of 25%.

Recce Pharmaceuticals FY19 R&D Expenditure



Client Example - continued

The Radium Effect with Recce



	Original	Radium	Improvement
Capital Required	\$1,851,089	\$1,851,089	Nil
R&D Expenditure	\$1,851,089	\$2,463,740	\$612,651(33%)
Refund	\$805,224	\$1,071,727	\$205,243 (25%)

Our process

Our online platform ensures applying for a Radium Advance is fast and easy



Submit
6 documents



Review & credit
approval within **48**
hours



Document
signing via
DocuSign



Funding
within **72**
hours

Key Features of a Radium Advance



Advance amount
80% of R&D refund



Reinvest
Up to 150% of R&D expenditure



Increase R&D spend
By up to 50% or reduce capital outlay by up to 33%



Establishment fee
\$699+GST per application



Interest rate
15% pa (14% pa repeat)



Frequency
Individual or regular advances



Repayment
ATO refund repaid directly to Radium



Security
First ranking charge over R&D refund*



Quick approvals and fund transfers

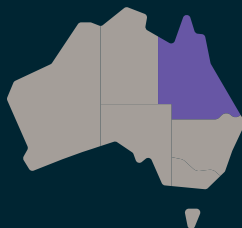
In Summary

- Businesses of all sizes deserve help to grow
- Keep more control over your business by keeping your equity
- You shouldn't have to risk everything for finance
- Expertise comes from understanding
- Efficient processes make more time for people
- Confident service and fixed price.
Every loan, every time

A clever part of your capital and cash flow mix



Contact Details

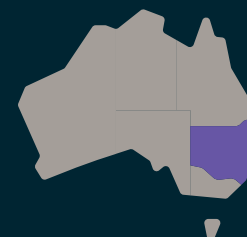


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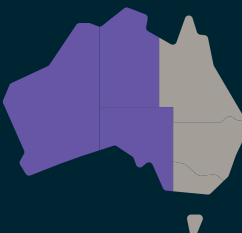


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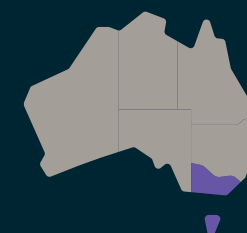


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It's about smarter capital,
not just smoother cash flow.

Questions and answers?

Thank you for your time and attention.

The latest information and webinar
details can be found at:

rsm.com.au



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