



Record-Keeping and R&D Planning

Generous, easy to access support

The R&D Tax Incentive is the Australian Government's principal measure to encourage industry investment in research and development (R&D).

It is a broad-based, market-driven program that aims to boost company competitiveness, improve productivity and deliver economy-wide benefits to Australia.

The *R&D Tax Incentive* is jointly administered by AusIndustry (on behalf of Innovation Australia) and the Australian Taxation Office (ATO).

Record-keeping requirements

The *R&D Tax Incentive* operates on a self-assessment basis. This means claimants are responsible for determining whether their activities and expenditure meet the eligibility criteria of the program, and for maintaining records to support their registration or claim.

What records should be maintained?

Companies must keep adequate records to demonstrate to both AusIndustry and the ATO that:

- they carried out eligible research and development activities (i.e. core R&D activities and supporting R&D activities);
- they incurred eligible expenditure in relation to those activities¹; and
- their R&D activities and expenditure met all other legislative requirements under the program².

Relevant records include those normally maintained to support income tax claims and those that cover the planning and progress of R&D activities. The records kept by individual claimants will vary depending on the nature of their business and their R&D activities.

Records of eligible R&D activities

Records about core R&D activities should establish that they met all aspects of the legislative definition. This should include:

- the state of knowledge or technology that existed when the R&D was undertaken and what new knowledge (including new knowledge in the form of improved materials, products, devices, processes or services) was being sought through the R&D;
- evidence or documents that show that the knowledge or information was not already publicly available. For example this might include:
 - literature reviews
 - patent or other searches
 - scientific or technological reviews and articles
 - trade journals
- documents that describe: the hypothesis (i.e. the idea or theory) for determining the new knowledge; the experiments undertaken to test the hypothesis; the results of the experiments; and, the analysis of the results; and
- documents that record any changes to the hypothesis or experiments throughout the course of the R&D.

Records about supporting R&D activities should establish that the relevant activities met all aspects of the legislative definition.

Depending on the nature of the activity, this will either mean demonstrating that the supporting R&D activity was directly related to core R&D activities; or that it was both directly related to core R&D activities and undertaken for the dominant purpose of supporting core R&D activities³.

1 Special rules apply to expenditure incurred to associates. See the ATO website for more information.

2 See the [business.gov.au](https://www.business.gov.au) and ATO websites for more information.

3 Information on 'directly related' and 'dominant purpose' are available on the [business.gov.au](https://www.business.gov.au) website.

R&D planning and knowledge management

Effective R&D planning requires companies to think strategically about their R&D activities as a critical part of their business. Planning is ongoing in an effective R&D project. Throughout an R&D project life cycle, lessons are learned and opportunities for improvement are discovered.

Knowledge management is particularly important in R&D projects. This includes the management of results, knowledge and 'lessons learned'.

Good knowledge and records management help a company self-assess its eligibility, meet its compliance obligations, and potentially identify new areas where it can access the benefits of the *R&D Tax Incentive*.

Maintaining these documents is advantageous to companies as it will minimise the costs that may be associated with a compliance review.

It also assists the company to conduct its work and re-visit ideas, processes and solutions in the future. If the company seeks to commercialise its work, potential investors will expect to have access to a wide variety of records.

Record keeping for tax purposes

A company's business records must be sufficient to verify:

- the amount of expenditure incurred on R&D activities;
- the nature of the R&D activities; and
- the relationship between the expenditure and the R&D activities.

It is the company's responsibility to satisfy the ATO of the accuracy of the method used to allocate and calculate the proportion of expenditure on core R&D activities and supporting R&D activities.

If the R&D activity is undertaken by a contractor, documents relating to the contract, the R&D activities and the project report and invoices should contain:

- the date the R&D activities are undertaken;
- sufficient detail to ascertain the amount of expenditure on the R&D activities; and
- a description of the activities performed by the contractor to link the fee with a particular R&D activity.

Under tax law, records must generally be kept for a minimum of five years.

For more information about what types of records taxpayers need to keep in relation to income tax and other taxes, refer to the ATO website ato.gov.au.