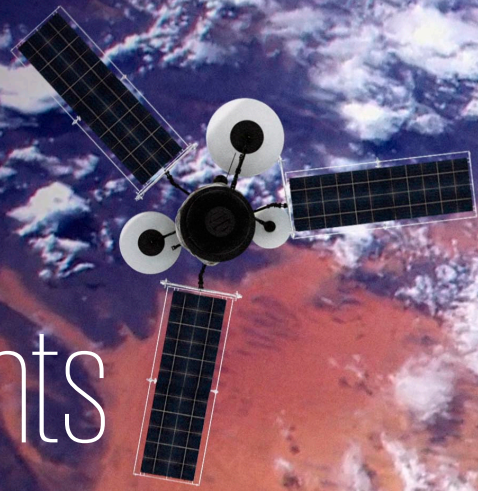




# R&D Tax Incentive & Government Grants

## Defence, Cyber and Space



### R&D Tax Incentive – benefits reloaded

Changes to the R&D Tax Incentive announced as part of the 2020-21 Federal Budget offer increased benefits and an end to uncertainty around the foreseeable future of the program.

The Federal Government has committed an additional \$2 billion to an exciting new growth phase for the R&D Tax Incentive, providing **net benefits of up to 18.5%**.

When compared to the changes foreshadowed, **almost all claimants will be better off** under the revised program. Companies with high R&D intensity will see benefit rates **increase by up to 90%**, reaffirming the R&D Tax Incentive’s role as a key driver of innovation in Australia.

**R&D Intensity**  
Eligible R&D expenditure as a proportion of total company expenditure.

**Intensity Premium**  
The R&D tax offset rate above the company tax rate, comprising of two tiers for larger companies.

### How will my R&D claim change?

For income years commencing on or after 1 July 2021\*, a variable intensity premium will enable access to higher R&D tax offsets for larger companies incurring more than 2% R&D expenditure. For smaller companies, the R&D premium will increase to 18.5%.

**Larger Companies**

For companies with aggregated turnover of \$20 million or more, the intensity premium will scale upwards based on R&D intensity.

<b>8.5%</b>	<b>16.5%</b>
Intensity premium on expenditure <b>up to 2% R&amp;D intensity</b>	Intensity premium on expenditure <b>over 2% R&amp;D intensity</b>

**Smaller companies**

For companies with aggregated turnover below \$20 million, the R&D premium will be fixed.

<b>18.5%</b>	<b>43.5%</b>
R&D premium	Maximum cash refund

\*Treasury Laws Amendment (A Tax Plan for the COVID-19 Economic Recovery) Act 2020

## Government grants for defence, cyber and space

The Federal Government's 2020-21 Budget has support for economic growth as its top priority. Some significant funding programs for defence, cyber and space are outlined below.

Initiative	Details
Accelerated Defence Initiatives	<ul style="list-style-type: none"> <li>This is a pool of <b>\$1 billion to be spent over two years</b> across a range of initiatives, including several likely to involve collaboration with industry such as the Defence innovation grants and Australian Defence Force (ADF) capability development projects.</li> </ul>
Joint Strike Fighter Industry Support Program	<ul style="list-style-type: none"> <li>The Government will provide <b>\$4 million over four years</b> from 2020-21 which will provide grants to support Australian industry participation in the production, sustainment and modernisation phases of the Joint Strike Fighter Program.</li> </ul>
Australian Naval Infrastructure	<ul style="list-style-type: none"> <li>The amount isn't disclosed, but the Budget notes a significant equity investment in Australian Naval Infrastructures Pty Ltd which is part of its <b>\$90 billion Naval Shipbuilding Program</b>.</li> </ul>
National Security Agencies	<ul style="list-style-type: none"> <li>The Government will provide <b>\$173.5 million over four years</b> to help meet national security objectives. Further detail is not disclosed.</li> </ul>
Deferral of regulatory charging arrangements	<ul style="list-style-type: none"> <li>The Government will defer the commencement of a regulatory charging arrangement under the <i>Space (Launches and Returns) Act 2018</i> to 1 July 2021, to support the civil space industry through the impacts of COVID-19.</li> </ul>
Cyber Enhanced Situational Awareness and Response (CESAR) package	<ul style="list-style-type: none"> <li>The Government will provide <b>\$1.4 billion over 10 years</b> from 2020-21 to the Australian Signals Directorate, Australian Cyber Security Centre and the Department of Defence to identify cyber threats, disrupt foreign cyber criminals and increase partnerships with industry and other governments.</li> </ul>
Australia's Cyber Security Strategy 2020	<ul style="list-style-type: none"> <li>The Government will provide <b>\$37.7 million over four years</b> from 2020-21 for the Department of Industry, Science, Energy and Resources (DISER) to support industry and academia to develop innovative approaches to improve cyber security skills and long-term workforce planning.</li> <li>DISER will also receive \$8.3 million over two years from 2020-21 to improve the cyber security resilience of Australia's small and medium enterprises.</li> </ul>

## Modern Manufacturing Strategy

The Government will provide **\$1.5 billion over five years** designed to strengthen Australia's manufacturing sector across a number of National Manufacturing Priorities (NMPs), including **Defence and Space**. This will include programs to address supply chain resilience, manufacturing modernisation, collaboration, translation and integration.

### Funding under the MMS will be delivered via the following key initiatives:

Initiative	Funding available	Funding ratio	Status	Considerations
Manufacturing Modernisation Fund (MMF)	\$100,000 to \$1M (\$52.8M total)	3:1	round 2 to open before Dec 2020	<ul style="list-style-type: none"> <li>SMEs in manufacturing seeking technology upgrades</li> <li>&lt;200 employees</li> </ul>
Modern Manufacturing Initiative (MMI) (Collaboration Stream)	~\$80M (\$1.3B total)	1:2	commencing first half 2021	<ul style="list-style-type: none"> <li>Long-term, large-scale production or R&amp;D facilities</li> <li>Very large collaborative projects (B2B &amp; B2Research), delivering economies of scale</li> </ul>
MMI (Translation/Integration Streams)	~\$4M (\$1.3B total)	1:1	commencing first half 2021	<ul style="list-style-type: none"> <li>Industry-led projects translating research and bringing new products to market</li> <li>Manufacturers seeking to translate good ideas into commercial outcomes and encourage investment in non-R&amp;D innovation</li> </ul>

# Why KPMG

Accelerating Business Growth with confidence and efficiency



## Unrivalled expertise

With one of Australia's largest team of government incentives specialists, KPMG's Accelerating Business Growth (ABG) practice is unrivalled in experience, resource flexibility, performance and efficiency.



## In touch with regulators

We meet regularly with the ATO and AusIndustry to keep in touch with the latest guidance and requirements. Our proven methods will help you navigate the complexities of the R&D Tax Incentive with confidence.



## Claim preparation simplified

Our real time R&D identification and recording processes integrate with your existing systems to allow for preparation of robust claims in a transparent and efficient way, capturing all eligible activities and costs with minimal disruption to your operations.



## Not just R&D Tax

Our specialists take a holistic view of your business and the full range of government funding opportunities that align with your plans for the future. We provide strategic advice and hands-on assistance in preparing strong applications for grants and other discretionary funding.

Contact us to discuss funding opportunities available.



**Alex Demetriou**  
Partner  
Adelaide/Perth  
T: +61 8 8236 3233  
E: ademetriou1@kpmg.com.au



**David Gelb**  
Partner  
Melbourne  
T: +61 3 9288 6160  
E: dgelb@kpmg.com.au



**Kristina Kipper**  
Partner  
Sydney  
T: +61 2 9335 7847  
E: kkipper1@kpmg.com.au



**Ramanie Naidoo**  
Partner  
Brisbane  
T: +61 7 3225 6988  
E: rnaidoo2@kpmg.com.au



**Alun Needham**  
Principal Director  
Melbourne  
T: +61 3 8663 8886  
E: aneedham@kpmg.com.au

**KPMG.com.au**



©2020 KPMG, an Australian partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

The information contained in this document is of a general nature and is not intended to address the objectives, financial situation or needs of any particular individual or entity. It is provided for information purposes only and does not constitute, nor should it be regarded in any manner whatsoever, as advice and is not intended to influence a person in making a decision, including, if applicable, in relation to any financial product or an interest in a financial product. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

To the extent permissible by law, KPMG and its associated entities shall not be liable for any errors, omissions, defects or misrepresentations in the information or for any loss or damage suffered by persons who use or rely on such information (including for reasons of negligence, negligent misstatement or otherwise).

Liability limited by a scheme approved under Professional Standards Legislation.