UNDERSTANDING R&D AND OTHER GRANTS

Primary speaker: Nicola Purser, R&D Partner, BDO in Brisbane

Additional speakers:
Dylan Byrne, Business Services Partner, BDO in Brisbane
Simon Wu, R&D Manager, BDO in Brisbane

Nicola Purser:

So I just wanted to talk today about R&D tax incentive mainly, and then go into some of the other government grants that are available for companies who are undertaking R&D and commercialisation activities. I guess in the context of where we are in today, the R&D program in Australia has been the flagship program to support innovation in its federal government program. In 2012, there was quite a significant change to the program to really give further support to the SME sector to be able to give cash refunds of their tax to enable them to reinvest that in further R&D activity. Over the last five years, at the margins, there has been some people pushing the boundaries of the R&D scheme. And because of that, it now has a little bit of a taint on it that there is a widespread broadening of the program.

And Scott Morrison even said that in the speech to the banking inquiry last year, that he felt that, particularly the larger end of town, we're using R&D tax incentives to lower their corporate tax rates. With that, the government has recently introduced some proposed changes which I'll talk about to the tax incentive, and in the background to that, we're having a very, very aggressive ATO at the moment, particularly with the small and medium businesses. So if you do have any clients that are claiming R&D, they do need to be careful, particularly if they do get an ATO review of to how they respond to that and deal with that in the first instance, because we are seeing the ATO bullying clients into paying back money that they shouldn't be in a position to be paying back.

So what is the R&D tax incentive? So broadly, it's a broad-based entitlement program available to all companies across all industries, and that's one of the key hallmarks of the program. Back before we had R&D tax incentives, most government funding was provided through grant programs, and there was a feeling that the government wasn't very good at picking winners, and I think Canada was one of the first countries to introduce a tax incentive back in the 80s, and Australia followed that lead because it seemed to be the easiest way to get money into the hands of business, and to not be pick and choosing as to who may be best to give that money to.

With the changes that I'll talk to you about shortly, one of the problems that we have with it is that it is no longer going to be industry-agnostic. There is very much bias against manufacturing, agricultural, mining companies, and water and focused towards the service industries and biotechs. So obviously, claimants must be undertaking eligible research and development projects, so I'll talk a little bit about what's eligible research development. It's an interesting one to deal with the program because it's jointly administered, so it's jointly administered between AusIndustry, Department of Industry and the ATO. So AusIndustry has the running of the administration of the

program and responsibility over the eligibility of your R&D activities, whereas the claimant costs to the income tax return. So the ATO gets involved in terms of eligible expenditure. There is quite a bit of crossover obviously in those responsibilities. The ATO will argue it needs to understand the activities to determine whether the costs you're claiming have nexus to those activities.

So if you want to claim the R&D tax incentive, you need to register your activities with AusIndustry within 10 months of your year end. So it's a retrospective programming that we're looking back at the previous financial year, you look at the activities you did in that year, and you fill out a registration application form and lodge that with AusIndustry within that 10 months, the year end. So if a 30 June year-end company, they've got till 30 April, 31 December, 31 October, and so on. So nationally since the introduction of the R&D tax incentive, which came in in 2012, as I mentioned, there's been an increase in the number of claimants. So back in 2010 or 11, 12, there was about 10, 11,000. We've now gone up to about 15,400 as of the beginning of this year. Interesting enough, you'll see that R&D expenditure is dropping. And now, that's the result of two legislative changes that came in over the last few years. One is that they've kept the amount of R&D expenditure that anyone can claim at $100 million per annum.

And you may think, who does 100 million of R&D, well, CBA does much more than a hundred million of R&D. So that really affected the big banks, the big mining companies, etc, who all had multiple hundreds of millions of dollar claims. And the other thing is that they did a slight lowering of the benefits that were available in 2016 and 17 as well. So just on a Queensland basis. Interesting enough, Queensland, the amount of R&D expenditure hasn't dropped as significantly, and I would say that that is because where you're launching your application, most of the bigger players are going to be Sydney, Melbourne, Perth.

Speaker 2: Question from the audience

Nicola Purser:

Yeah. So you have to spend at least 20,000 to claim. To be honest, at 20,000, you needn't bother. It costs you more in compliance than the benefit you get from that. So in terms of the benefits, and this is, I'm talking about the 2017 financial year, the legislation that we've got before parliament at the moment is supposed to be backdated to 1 July 18. So this is for the 17/18 year. For companies with under 20 million turnover, it was a 43.5 percent refundable tax offset. If you're over 20 million, it's a 38.5 percent nonrefundable tax offset. So I'm not sure how much tax knowledge people have, but if you think about how your tax works, if you've got assessable income, you take off your deductions, you get taxable income, and you pay tax on that taxable income. With the R&D, your R&D becomes non-deductible. But then you get the offset at that. So at the rates there, the 43.5 percent and the 38.5 percent.

So with the refundable offset, the good thing about that is that if the company is in losses, it can actually cash out those losses. And if they've got sufficient losses, they get up to that 43.5 percent on every dollar they've spent on R&D, they can get that cash back from the ATO. If then over the 20 million, and they're in losses, then the

additional amount becomes further losses that they can carry forward and offset against future income. Does that kind of make sense?

Speaker 1:

Question from the audience
Is that really just to give that cash back to the small companies? The incentive part is fine.

Nicola Purser:

Yep. That's right. But the interesting thing is, and this is not well understood, is that the refund will offset, it's a cash flow, it's a timing thing. You get the cash now, but one, you lose the carry-forward losses of the 27.5 percent that you would otherwise be paying as a small, small business. But also, once you become profitable, you cannot pave out frank dividends until it's clawed back all the refunds that you'd previously received. So a lot of people sort of skip that story, and when we explain it to clients, most of them say, "I don't care. I just want the cash now." But for ones who are transitioning between becoming profitable, it is an issue for them if they haven't quite realised that that's the case. So just some basic eligibility criteria.

So you have to be Australian company or a permanent establishment. Makes sense, you need to be lodging a tax return in Australia. Obviously, you need to be carrying out research and development, and it needs to be your research and development, and you need to be conducting eligible R&D activities, and as we mentioned, you need to be incurring at least 20,000 to put in a claim unless you're just paying what we call a research service provider. Then you can be under 20,000 to claim.

Speaker 1:

Question from the audience
Just a quick question on that. You mentioned that the 20,000's probably not enough to cover the compliance costs. But what do you think the point would be that it would be worthwhile?

Nicola Purser:

It depends on the business, how complicated their R&D program is. Because when you register with AusIndustry, you need to set out to AusIndustry, what's the objective of your project? What was the new knowledge that you seek to gain? How did you know that that wasn't already available on the market? What were the actual core activities you did in that year? What were the supporting activities, and you need to have all the contemporaneous documentation to support that. You need to obviously put your tax scheduled together to lodge with the ATO, so the time involved in that process, if you've got all that information readily available and you're a small business and you're desperate for cash, or a one man operator, you might choose at 20,000 to lodge a claim, but we find less than 100,000, it's marginal as to whether you would.

Speaker 3:

Question from the audience
So some of the grants are more beneficial in that space?

Nicola Purser:

That's right. Sorry, one thing I do want to make sure I mentioned to you is that you must be a company. So you can't be operating through a trust. So it's only companies that are able to claim.

Speaker 4:

Question from the audience
It's got to be a company?

Nicola Purser:

That must be a PTY, LTD, or a public company.

Simon Wu:

I was going to say, when that fellow over there was saying, is it better to go for grants? This R&D program is an entitlement program. So if you've done the activities and spent the money, then you're entitled to the offset, whereas grants are generally a competitive process, so you're competing against 100 other companies to go for one grant, and it's a harder process. Absolutely. And also its perspective with grant funding. So you kind of already spent for the majority of grant programs, you can't have already spent the money.

Nicola Purser:

So the important thing is to be able to claim, you have to have a core R&D activity. So core R&D activities are described as experimental activities where the outcome couldn't be known in advance based on current information, knowledge, or experience. And with that knowledge or experience, we're looking at what we call the competent engineer test. So people with competency in that field believe that it couldn't be known without going through that experimental process, it would have to be done using a systematic progression of work based on principles of established science. And here, we're talking about the computer and physical sciences. So we're not talking about humanities, etc. And the need to proceed from hypothesis to experiment, observation, evaluation, lead logical conclusion, and be conducted for the purpose of generating new knowledge, whether that's in the form of new or improved products, processes, services, materials, devices.

Funnily enough, when the tax incentive first came in, and this language came into the tax incentive from the old tax concession that we had, AusIndustry were very much of the view, "Don't worry about the words hypothesis, that sort of thing. We know in business that's not the language that you speak. So that's fine. Just have an aim." Now when we register activities, we have to have a valid hypothesis, and it's quite a prescribed format that they want to see every experiment written up as part of the application form. So we have moved, I guess to this much more, what's the right word, pedantic, I don't know, environment. So once you've got a core R&D activity, you're entitled to claim the R&D tax incentive. But obviously, if we narrow the scope of activities too much to just core R&D activities and you're only providing funding for that, your project might not progress because it's not providing enough incentive for you to continue.

So the program also supports what we call supporting activities. So those are the activities that are directly related to the carrying on of your core activity, and there's a couple of circumstances where you can only claim those directly related activities if they're undertaken for the dominant purpose of supporting the core R&D activities, and that's where you're producing goods or services, or where the activities relate to what we call excluded core activities, which I'll mention in a second. So examples of supporting activities are things like project management, research into existing technologies, fabrication of standard components that you might need to then use for testing your prototypes, etc. So it's all those things that aren't the experimental activities themselves, but are necessary for you to complete your R&D activity.

So there's a number of things, and this isn't an exhaustive list. There's a number of things that are listed in the legislation as being ineligible to be core R&D activities. They can still be supporting activities provided they meet that dominant purpose test. So they're fairly common sense, I guess, for the main part. I guess the bottom one there, the bottom three there are probably the ones that we come across the most. There's actually a court case in regards to the statutory compliance where it's come out in favour of AusIndustry stating that anything to do with statutory compliance and standards, and in this case, it was in regard to environmental regulations should be excluded activity. That one, it's interesting because we did have a case a couple of years ago where AIT said that it should be read more narrowly than that. So it's interesting at the moment.

That case is likely to be appealed, the one that was just handed down the other day. So we expect that that might get overturned as well. As I mentioned, we're only looking at physical and computer sciences, so research in social science, arts and humanities is not what we're looking at here.

Speaker 4:

Question from the audience
Just to clarify, even things, I guess, as an example, software to allow business to more efficiently manage their statuary compliance obligations would not be a supported activity?

Nicola Purser:

No, it could be. So this goes into the last one as well, in that developing, modifying or customising in computer software for the dominant purpose of internal business administration is not eligible as a core activity. It can be supporting activity. What we're talking about with internal business administration is the functions that any business would have. So things like, normally your ERP systems, but your payroll, inventory management, those types of systems, anything that's considered customer-facing. So anything where a customer is interacting is not considered to be internal business administration. So it really depends. I guess with the activities with statutory compliance, the way we've always interpreted that is if you're just doing stuff to meet standards as part of your project, that's not eligible. If you have to undertake R&D activities to be able to meet that standard, then potentially, you are in. But this new case is now saying that latter could be excluded as well.

Nicola Purser:

So that's sort of overview as to what is eligible in R&D. It is quite gray, and this is where I guess we get into debates with AusIndustry quite regularly about our view as to whether it's R&D, or their view, their view is obviously more likely it's not. AusIndustry has changed its role over the years. Its role used to be to support the scheme and bring people into the scheme. It now sees itself as a place of the activities. So moving onto expenditure. So basically, you claim your costs associated with your project, and normally, that salary and wages is your main cost and/or other people costs, so contractors as well. The other direct costs, so travel, consumables, overheads, all those sorts of things can also be included. We can't claim the cost, the outright cost of tangible depreciating equipment, you can only claim the depreciation on that whilst it's being used in R&D activities. So it doesn't fund the new equipment just being installed into a business and turnkey operations. It really funds the research into developing that equipment, or perhaps integrating that equipment, but not the actual cost of that equipment itself.

And importantly, as I said, overheads are a proportion of all your other P&L costs. So traditionally, people have always proportioned their overheads based on salary time. So I work out, out of my 100,000 salaries, 10,000 is spent on R&D. Therefore, I take 10 percent of my rent, my electricity, everything else. The ATO is now saying that it doesn't like that anymore. It prefers you to look on an individual line item by line item basis, and work and apportionment methodology that makes sense for that line item. So it might be floor space, it might be headcount. You need to look at the particular expense item and work out what the best method is. So obviously, with all these things, as I mentioned before, with what AusIndustry is now asking us to do, what the ATO is now asking us to do, those compliance costs are going up and up. And so that benefit in claiming, there needs to be a substantial amount of R&D to make it worthwhile. I probably won't go into this too much. Just some of the issues that we're seeing from AusIndustry in terms of the way they want things scoped.

It's always a bit of a challenge to work out what is the most cost effective way to present the activities for a client versus what AusIndustry want at that level of detail. This is what I was mentioning before about the fact that they're questioning whether your hypothesis is unclear, etc. Skipping over a bit. Importantly, we have seen instances where companies, particularly startup companies, they try and claim a cost, a sweat equity cost that's not an incurred cost for tax purposes. So if you want to claim your own time, there has to be a salary cost that's gone through the P&L of the company. You can't just make up a cost. If costs incurred to associates have to be actually paid, so not just incurred for tax purposes, but they actually have to be paid in that financial year.

So this is where a lot of businesses we find running all the R&D through a trust that they've got a company that they own the IP. That company needs to pay to be able to pay the trust prior to the end of the financial year. Similarly, if you're an owner of a business, you'd be considered to be an associate. Therefore, you have to pay your costs prior to the end of that financial year to claim it in that year. If it's not paid in that year, you can still claim it, but not until it's paid. And you can't take a deduction in the prior year if it's not paid until the latter year.

Nicola Purser:

And yeah, one of the biggest things we're seeing at the moment is the tax office are very much focused on records and particularly time sheets for people involved in R&D. I've got a case going at the moment where the company, has solely doing R&D, they've had success in the past selling products, things to people like Sony, etc. But they've, over the last few years, dedicated themselves to this particular technology. They have managed to have 28 patents granted during that period and the ATO is now arguing that because those people didn't keep time sheets, there was no evidence that they did R&D during that period. So we've given the ATO 15 lever arch files of documents to consider.

As I mentioned, that message needs to be your R&D. So all the law says is that the R&D is conducted for you and not to a substantial extent to another party. Over the years the tax office has issued a ruling and that was actually in the year onto the legislation, the exposure from the memorandum to the legislation that basically we look at three tests and it's on the balance of those tests. So who has control of the direction of the R&D activity, who bears the financial burden of those activities and who effectively owned the IP, not necessarily legally.

So one of the key things is most people think to claim R&D, you have to be the owner of the IP. That's not necessarily the case. So the key thing we always look at there from the financial side is, "Am I being paid a lump sum to develop something or am I being paid time and materials?" If it's the latter, then I'm probably not at financial risk. So we're always looking at here is to, particularly where you're doing R&D for a client or that who's R&D actually is it?

So some of the things that we come across, and these are actual examples that we haven't given too much detail on to protect the names of our clients, but there's a couple of the ones we've come across recently. So the first one there, design, develop and integrate an advanced web and eCommerce platform. So one of the things when you think about manufacturing type clients, you might forget the IT systems, as I said before, where the IT is for the internal business admin, then you can't claim it, but anything that's got that customer facing element could be potentially eligible. Improved processes is one that comes up a lot. So again, it's not necessarily new. It can be improvements provided we make those other tests that they've got to go through that experimental process and the outcome could be deduced and advanced by competent professional. So yeah, and anytime you're looking at efficiency and improving the business, you might have an element of R&D associated with it.

One of the things I thought might just be interesting is there's a whole stack of the batik R&D lenders that have cropped up over the last few years, particularly because of the refundable tax offset. So they all vary in the way they do this and I don't know much about finance, so I'm not good at it. Generally they're only looking at the refundable clients. They want to know that they've got sufficient tax losses, they don't want other ATO debts because ATO obviously takes their money first and they don't want any securities over the assets in the entity.

We've had a few clients come to us and the other clients will not or others come to us and ask for this letter of comfort that to give to their lender as to the likelihood of them receiving that refund and all of the strength of the claim. So we're obviously more

comfortable doing the ones that we actually do the R&D claims for. We had one recently where we just had to say no to because we weren't comfortable with it at all. But yeah, there are a few of these providers that have popped up from time to time. Macquarie were probably the first ones to get into it. Incredibly expensive.

Right. Actually, there's only four things that are explicitly in the law, excluded from R&D being eligible R&D cost, the building expenditure, plant and equipment ... they're other outright clients to plant equipment, what we call core technology. So that's when you purchasing somebody else's R&D and interest.

So budget reform changes. So for the under $20 millions, it's not that significant. When they first introduced R&D in 1986, the corporate tax rate was 48% and it was 150% deduction. So basically your benefit was 24%. Over the years, the tech corporate tax rates dropped and the R&D rate dropped. So it came down to a standard rate for most companies of 7.5%. So in 2012 when they did this reform of the tax concession to the new R&D tax incentive, they said we want to turn it into a tax offset, not a tax deduction because we want to decouple the R&D rate from the corporate tax rate. So for the changes in the corporate tax rate, the R&D stays the same.

So originally it was a 15% refundable rate and a 10% non-refundable rate. Then as the corporate tax rates were reduced to 28.5%, they introduced legislation to reduce the R&D rates by 1.5% to coincide with that and since then the corporate tax rate for the company is under $25 million which has dropped to 27.5% and the R&D rate is now at a 43.5%. So it's basically a 16% benefit. So they don't like this. So now with the proposed changes, they're introducing that the R&D rate will be 13.5% above the corporate tax rate, whatever that rate may be. So with the current proposals to reduce the corporate tax rate for companies under 50 million to 25%, that will effectively reduce their offset rate to 38.5% from the 45% it was when the scale was first introduced.

The other thing they're doing, and this is where I was going back to, the fact that the program is supposed to be industry agnostic, is that they're introducing a cap on the amount of refunds that companies can get. And that cap's going to be $4 million except if it relates to clinical trials. And this was something that biotech pushed very hard for and they managed to get into the draft legislation, went a little into the bill. In the background we've had the iMac, which is support to the small companies trying to push forward for exclusion from the cap for projects that already have investment on the basis of the R&D refunds. So particularly around the lithium ion type projects that they've got over in NWA and the government said, "No." So they're allowed in clinical trials, but not these other projects.

But that's the changes for the refundable offset. One of the interesting things with the changes that have been announced is they're announced in a bill entitled making us multinationals pay their first fair share of Australian tax. There are some proposals in that bill around thin capitalisation and transfer pricing, but the vast majority of it relates to the R&D tax incentive and how that is making multinationals pay their fair share of tax. I'm not quite sure. The other thing that they said is that the purpose of introducing these new images is to stop companies claiming businesses usual expenses and to improve the integrity of the program, but all the majors do is reduce the rates available to companies. So it's pretty obviously just a cost saving measure.

Back when we had the 2016, there was a thing called the triple F review, which was Bill Ferris, Michael Fraser and Alan Finkel and they did a review of the tax incentive and came up with six recommendations and then the government sat on that proposal for quite a long time. And then has introduced only the proposal, the recommendations that relate to reducing the amount of money they're going to spend and they've actually twisted them slightly.

So with the non-refundable, this is where it gets a bit messy, so the proposal for the companies with over 20 million turnover and a company over 20 million is not a large business necessarily. What they're introducing there is the R&D rate available will be based on the company's R&D intensity and that intensity is worked out by taking what would be the R&D expenditure worked out under the tax provisions at the end of the year and taking over their accounting expenditure worked out under accounting standards. They've now softened that slightly to say that we recognise that not everyone gets audited, so therefore, as long as it's still under accounting principles. So what they're proposing is that if you have nought to 2% R&D intensity, you get a 4% rate. The next 3%, you get at 6.5%, the next 5% at 9%, and over 10% at 12.5%. And those rates work like your marginal tax rates. It's not, "I spend over 10%, therefore I'm entitled to 12.5%." So we've got a large technology client that currently spend about 20% of income on R&D activity. Anyone who's spending over $20 million to have that higher intensity is quite rare that their effective rate is going to go from the current 8.5% to 9.3%. So these rates aren't nearly as generous as they look. You have to be spending over 13.25% of your total expenses on our R&D activity to be better off under these proposed changes than previously. So very few businesses will be better off. Majority of companies in the manufacturing, agricultural space and mining space are going to be in that first bracket at 4%. And globally there's been a lot of studies done on this and 4% is not enough to incentivise, 4% is also not enough to outweigh the cost of compliance, so majority of those companies would drop out of the program.

Companies are interesting. A lot at the moment of our software development clients are over that percentage. But in addition, they really like the fact they get the immediate deduction that their software development is R&D. For tax purposes, it would be over two and a half years. So they will keep claiming regardless of whether they're in that bracket or not. But a lot of the manufacturing etc standard normal industry type clients are likely to drop out of the program.

A couple of other measures. So at the moment that $100 million cap is going to be increased to 150 million. So the proposal is that this is going to encourage large companies to undertake additional higher intensity R&D, we don't think that's going to achieve that at all. The changes are supposed to take place from 1 July, 2018. They've just been introduced into the house on Tuesday and I'm likely to go to sit at committee. And so it could be quite a while before we get these changes. So we don't know basically whether they're going to come through in the current form or not. And obviously companies that are already making decisions as to what benefit they're going to get there, they don't know that at this stage.

When they introduced a tax incentive in 2012, it took about two and a half years for them to get around to that. So that was originally proposed in 2008 and came through 2012. So whether we get this next year or not, it's a bit unclear, but the thing that we

do know is that Scott Morrison is very much for these proposed changes. Labour are sort of on the fence. They haven't made up their mind if they're going to support it or not yet.

So that was the R&D tax incentive. Do you have any other questions on that?

Speaker 7:

Question from the audience

Nicola Purser:

No. So you claim retrospectively, but you've only got 10 months after year end to register those activities. So they could go back, if they want to go back to 2017, 18', they've got time to do that. They wouldn't be able to go back to prior to that. So any activity that happened in that year, they could still claim. I should say, if you can prove exceptional circumstances then you can ask for permission to go back further, but they're trying to stamp that out.

One of the things that I didn't have in those slides just for interest is the R&D activity has to happen in Australia unless you get what we call an approved overseas finding. So you can say, "I need to undertake this activity overseas." And if you get approval for that, then you can claim overseas costs. What we need to show there is that, I guess it's three things we need to show, one is that there's a scientific link between what's happening overseas and what's happening in Australia. And what we look at there is you couldn't complete the activities you're doing in Australia without the assistance of that overseas. We need to show that you couldn't do that activity in Australia due to the facilities, expertise, whatever the case may be and we need to show that the actual and reasonably anticipated costs of the project more are going to happen in Australia over the life of the project than overseas. If you've got that to prove, then you can claim that overseas cost.

What's interesting is, going back to what I mentioned before about that exemption for clinical trials, is the main people who have got what we call these overseas findings because of clinical trials that are happening overseas for Australian based Biotechs and the exemption on the formula and cap doesn't make a lot of sense to me because we're now incentivising activity that's happening overseas and not in Australia. So it's just one of the concerns we have about the proposed changes as well.

I've just also mentioned that most countries have an R&D tax incentive of some description. We've got kind of a company in Australia that has an overseas finding and it is also undertaking activity in the US. We're managing to be able to claim that activity, both the Australian R&D tax incentive, the US federal tax incentive and the relevant state tax incentive that they have there at the same expenditure.

Just wanted to touch briefly on the early stage investor program. This is not something that I particularly get involved in, but you may have heard of it. This may be of more interest to you personally. This came in around July 2016 basically to try and encourage people to invest in early stage startups. So where you're a sophisticated investor, you can get a 20% non-refundable tax offset to offset the cost of your investment. So the maximum you can claim is 200,000. So at 20% the maximum you're putting into a

potential entity is a million dollars. If you're not considered to be a sophisticated investor, then the maximum you can put in is 50,000.

So the early stage investment company has to satisfy some criteria. I guess there's two kind of baskets it can fall in. The first is that it has expenditure of less than a million dollars in the prior year, it's been incorporated in that last three income years, less than 200,000 assessable income, and it's not listed on the stock exchange.

But you have to also show that the company is focused on developing commercialising high grid. There's kind of a criteria just to work out whether your company is considered one of these or not. It's a self-assessment basis, but you can go for an ATO ruling as to whether that company satisfies the definition. Have you done any of those Dylan or no?

Dylan Byrne:

Specific. Yeah. And you can't take more than 30% equity in that business. So I just briefly wanted to touch on that one. Another one a lot of companies get involved in is a thing called accelerating commercialisation. So this is part of what a federal government puts under a program called entrepreneurs infrastructure program. There's three links to that program, but this is the one that most people are interested in. So this provides much funding up to a million dollars, say $2 million project, to basically look at a new innovative product, process, service, whatever the case may be.

Nicola Purser:

It's quite difficult to get. One of the difficulties with it is that you need to show that you can share your fund of the project, but you also need to show that you couldn't fund the rest of it and that you've exhausted other opportunities. So you've approached the bank, you've approached the VC market, you've got evidence that you've done all of that and no one's going to give you the money. And this is always the thing that I scratch my head at. If nobody else thinks it's a good investment, I don't know why the taxpayer should be funding it.

The only good thing about this program is that the AusIndustry have what they call commercialisation advisers. So they're contracted to AusIndustry to provide advice around the entrepreneur's infrastructure program, but in particular with this program, they will guide you through applying for it. They won't discourage you from putting an expression of interest in and going for a full application unless they think you're likely to not succeed. These programs are open continuously. It's got a panel that meets about every three to four months to assess applications and provide funding because of that process where the companies are guided through eligibility or not, about 60% of those that put in full applications do get funding. So, if your commercialisation adviser is encouraging you to do this, then you probably should because you're probably going to get the money. Again, we see quite a few of these in the biotech space. They really like something that's quite innovative to Australia.

So this is probably one that Dylan knows more about the Advanced Manufacturing Early Stage Research Fund. These guys have got money. So, this comes under the Advanced Manufacturing Growth Centre. They've been approaching us saying they've got money to give away and not enough people are approaching them. The good thing about this one

as well is they actually basically write your grant application for you. So, again, a little bit like your commercialisation adviser, they'll come in and talk you through whether you're likely to get some funding. But, unlike commercialisation Australia where you've got to get and then go away, write up a whole application, have all your revenue models, etc, they do it all for you. So, if you've got any clients that might fit into this criteria, we've got the contact details of the guys and they're definitely after particularly anything in defence industry.

Dylan Byrne:

Assessment criteria is not based on turnover on that one. It's based on the number of employees. We've mentioned this, it may be 200 employees or less, could be a very big business.

Nicola Purser:

Yes. So, that's quite standard. The 200 employees- this is a federal program, but the 200 employees is what the state government seems to be using as it's criteria for the small medium businesses. And we're finding the state is even a little bit flexible on that if they find something that they want to fund.

Export market grants, like the R&D, they're an entitlement program. So, it was not competitive merit based. If you've spent money on eligible promotional activity, then you're entitled to get up to 50% reimbursement. To be able to apply, you need to have spent a minimum of $15,000. Austrade take a five grand admin fee, they call it, and then you can get up to 50% of what's remaining back from the government regardless of what year end you have, the program opens 1 July and closes 30 November. Although there are extensions to 28 February, if needed.

It doesn't fund the salary and wages except for where you've got somebody overseas on a long-term basis. So, if you're going to put somebody in Singapore on a greater than 12-month contract, then you can claim up to $200,000 of their costs and get up to that 100,000 back. It kind of covers the costs of marketing visits, so, if you're a principal in the business and you go wanting to go and try and set up a new export market, then to a different country then it covers the cost of your airfares and a daily allowance of $350, it doesn't cover your salary or wage costs. It covers marketing consultants, so, that's a third party, a little bit like your overseas reps, but more they can be local or overseas to look at marketing expenses for you. Things like advertising on Facebook, those sorts of things to the extent that's got international flavour, you can claim those costs.

Patents, trademarks, registered designs, all those things, to the extent again that they've international, you can claim up to 50,000 per annum, bringing customers to Australia. Free samples up to $15,000 per annum. So, unlike R&D, you don't have to describe in detail what you're doing. You don't need to fill out some schedules of what you've actually spent. They do audit every first year applicant, and then every so often after that. The program has been a little bit oversubscribed. Unlike R&D, it's got a set pool of funding, given to it every year and there's been more and more applicants and they've been claiming more and more expenditure. So, last year where we say it's up to 50 %, it really depends on how much money everyone is asking for and how many

applicants. So, last year what they did is they paid out the first 40,000 that people were entitled to and then the balance of that was paid out at twenty nine cents in the dollar, whereas the year before had been about sixty three cents on the dollar, so dropped quite dramatically last year.

As I said, it's a good one in that it's entitlement. So, the schedules aren't that hard to fill out. So, if you've got any companies that are exporting, it's worth them getting this money. You do have to be less than 50 million turnover, but that's 50 million per entity. So, if you've got a group, then, they don't aggregate the revenues of different companies in a group.

Made in Queensland, this is one state development program. Unfortunately, this one's currently closed. But, there's currently assessing round two. This one was really around funding significant improvement to the business, whether that's capital improvement or systems improvement. So, with this, sorry, I just noticed here that you've got the round one criteria there. They changed the criteria for round from round one, but basically you put in an expression of interest of what equipment she wanted to purchase. So, this does cover capital equipment. They're assessing those at the moment and they're looking at value for money. So, you needed to provide at least three different quotes of different equipment. A lot of the businesses we spoke to, they found that quite difficult because, they know exactly what equipment they want, they know the supply that they've dealt with, all their other equipment is from a particular supplier. Why are they going to go and get three quotes- but that's government process. You have to have less than 200 full time equivalent employees, then, the likelihood is they'll get 50 % of the project costs.

So, last year the government put some money into this program. They ran it slightly differently. As I said here, you had to get a benchmarking report done. So, you put your details online, the government paid for the consultant to come out and do a benchmarking study of your business. They wrote a report and recommended some projects that you should apply for. What happened with that is that about 400 companies did that, went through that benchmarking process and very few went on and actually put an application in for funding. So, they had $20,000,000 to give away and they gave away 9 million.

They've now put an extra $40 million into the program. So, they've now got a $51 million and there's some rumours around saying that round two is going to be the end of that program and they're going to give out all of that money. We've got one client that was a bit haphazard in its application. They went in about two minutes to five on the deadline with some errors in it, but, state development have been coming back, asking more and more questions. They had representatives go out there last week. The company now has about 300 employees and we're pretty sure they're going to get the money because the government wants to give away this money.

Audience:

So, three different quotes?

Nicola Purser:

Yes. For Maiden Queensland, was it three quotes?

Simon Wu:

Yeah, at least three quotes.

Nicola Purser:

The other problem with this program is that applications opened earlier, especially interest earlier this year, full applications, people were invited to put an application in beginning of August, had to have the full application in by the end of August. They're providing supposedly going to give funding outcomes sometime towards the end of this year, beginning of next year, and then you have to complete a project in 12 months, but a lot of this equipment that we're looking at, it takes 18 months lead time to order. So, it's going to be interesting to see how it all pans out.

Simon Wu:

Just to make a quick point on that. I had a client apply for this grant and we were asked to supply a letter to support. So, interestingly enough, in the grant application, well, they asked for a financier and an alternate shareholder to say that they support the additional 50 %. It's actually that the financier can't take charge over the equipment.

Nicola Purser:

Yes.

Audience:

At all? So you just have to tread carefully with any support of that because, we can't register or charge out the equipment.

Nicola Purser:

Yeah. We had a couple of instances of that-

Simon Wu:

Yeah we had to go back and amend the letter to security over other assets of the business and not the asset that's being the subject of the grant. Yeah.

It's got to be pretty strong.

Nicola Purser:

Yeah. There's a whole stack of programs, I guess, under what we call Advance Queensland. So, Advance Queensland, a startup, the Labour government originally with $350 million allocated to it to give away and that's now gone up to over 500 million and it's really around the smaller medium enterprises. There's a few different programs in it and probably the most popular is a thing called Ignite Ideas. It's really aimed at that small media of the very small micro businesses who have an idea that they've taken to product stage so that it's not just an idea as such, they need to have got to the point where they're ready to start marketing or field testing of that product. It's been highly competitive, so I think in the first round there are about 500 applications of which about 35 got grant funding.

The last round, which was round four, they had about the same number of applicants, but about 75 got funding. It provides match funding up to 100,000. It really depends on how many employees you've got. So, one to five employees, you don't actually have to provide any match funding above that. It goes up to 40 % of funding and then tier two is match funding up to 250,000 and it's matched funding 50 %. It's interesting with this one.

Again, you have to have less than 200 full time equivalent employees. They were talking to advance Queensland. They're quite lenient on that. So, if you're a large business and had a separate company that only had less than 200, they might consider it. Does something slightly different to the rest of the business. They might consider that to still qualify.

It's competitive merit based, as I mentioned. One of the interesting things is it's a little bit of flak over some of the ideas that have been funded. The one that came up and was even talked about in Parliament, a few weeks ago, was a weight loss App for pets, but it was developed out of cans and one of the key focuses of the last round of this program was that it was, to really support regional Queensland. So, that wasn't in the previous rounds. So, one of the things we do find with these grants, they're not necessarily consistent, so they have merit criteria depending on who's assessing that and depending on what the flavour is for that particular grant. Interesting. Back with the Made in Queensland, that program was specifically developed for a client that used to be a client of ours, which had been a long-term, well known Queensland brand business that was struggling. So, this program was put together for them. They applied and they didn't get grant funding. So, that can happen because the people who were developing these programs aren't necessarily the ones assessing criteria.

So, that was pretty much all I was going to cover. There are, as I said, a lot of programs under Advance Queensland, so, we have things like the business development fund, where an investor wants to put money into your business, they approach and pitch to the state government, the state government will then match that funding and take equity in that business as well, and then that private investor can buy the government share out over time. So, there's few different programs like that available.

Audience:

Is this something that you would take your customers through like Capex programs and the grant programs and you take them through the grants that are available? Do you do that?

Nicola Purser:

I'd like to say we were that proactive. We're probably a little bit more reactive. Dylan probably does more of that because he does more of the study.

One of the things that people struggle with is that grants are coming up all over the place at different times, different states, different agencies, and just keeping up to date with what is available and being in the right position to apply for those grants at the right time. We have noticed over the last couple of years a lot more people asking about grants than we've ever had before, and across all sizes of businesses. One of our clients is around 300 million turnover, started asking us about grant funding for a

project they've already completed but the problem is if you're not planning ahead and you need the money now but you can't start the project until you get the grant.

Audience:

You mentioned that the expenditure has to be Australian. A lot of the software companies need to code software. You need to code it obviously so, a lot of the time, so, can they claim that? And second question, this one with the grants, can they apply for more than one grant at a time if they qualify?

Nicola Purser:

So, in your first question, as I mentioned, if the actual activity's happening overseas, they can only claim that if they've got preapproval from AusIndustry. So, we've got a couple in the software space where we've been able to argue that there are people in Australia that have those coding skills, but they can't get them in the numbers that they need in the timeframe they need and therefore they have to go to Southeast Asia or wherever the case may be. It's not just for cost reasons, to be able to get that approved. Yeah. One of the issues we struggle with is how far do we need to go. So, if I subcontract my coding to a company in Australia and they subcontract to somebody in India, do I have to trace that all the way through. The ATO is a bit silent on that. So, I guess it's making sure we ask the questions, but they want to see the activity happening in Australia.

Your second question, you can apply for many grants, generally. Some of the grant programs will say that you can only apply one company, one project, but there's no reason you can't be getting multiple as long as they are one state, one federal, they normally let you double dip like that. So, there's no restriction on applying for different grants. Our clients that love grants will go for everything they can.

I didn't mention actually one of the most popular at the moment is the waste management ones that have just come up from state development as well. So, if you've got any clients in the waste management industry, there's some quite good grants available there as well.