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Eligible notional deductions

You may be entitled to an R&D tax offset if your total notional deductions for an income year are at least \$20,000.

If your total notional deductions are less than \$20,000, you will only be able to obtain the R&D tax offset for:

- expenditure incurred to a Research Service Provider (RSP) for services within a research field for which the RSP is registered under the IR&D Act, where that RSP isn't an associate of the R&D entity
- expenditure incurred as a monetary contribution under the Co-operative Research Centre (CRC) program.

Before making a claim for the R&D tax incentive, you need to determine whether your expenditure is eligible or ineligible under the R&D incentive.

Eligible expenditure

If you are an R&D entity your notional deductions may be for:

- expenditure incurred on R&D activities, including expenditure on overseas activities covered by an advance finding from Innovation Australia, amounts paid to associates and expenditure to an RSP
- the decline in value of assets used for conducting R&D activities (including R&D partnership assets)
- balancing adjustments for assets used only for conducting R&D activities (including R&D partnership assets)
- expenditure in relation to goods and materials transformed or processed during R&D activities to produce marketable products (feedstock expenditure)
- monetary contributions under the CRC program.

You are entitled to a notional R&D deduction in relation to expenditure described above to the extent that:

- your expenditure is of a kind eligible for the R&D tax incentive
- you incur expenditure during the income year (other than an amount you incur to an associate but do not pay until a later income year) on one or more registered R&D activities.

As a result, the general rule is that expenditure on R&D activities is claimable in the income year it is incurred. The exceptions to this rule are when:

- an amount of expenditure is incurred but not paid to an associate
- the prepayment rules apply in relation to expenditure for services to be provided over a period.
- Eligible expenditure on your R&D activities must be claimed under the R&D tax incentive. If you choose not to claim eligible expenditure under the R&D tax incentive, you cannot claim it elsewhere in your tax return. This is different to the former R&D tax concession, where you could choose to claim an amount under another deduction provision.

Ineligible expenditure

You cannot notionally deduct the following types of expenditure under the R&D tax incentive:

- interest expenditure (within the meaning of interest in the withholding tax rules)

- expenditure that is not at risk
- core technology expenditure
- expenditure included in the cost of a depreciating asset (decline in value notional deductions may apply however)
- expenditure incurred to acquire or construct a building (or part of a building or an extension, alteration or improvement to a building).

These types of expenditure do not warrant the enhanced tax benefits available under the R&D tax offsets. However, they should be considered under the normal deduction provisions of the income tax law because you may still be able to deduct these amounts from your assessable income.

See also:

- [Research and development tax incentive - amounts you can claim \(/Business/Research-and-development-tax-incentive/In-detail/Guides/Amounts-you-can-claim/\) \(/Business/Research-and-development-tax-incentive/In-detail/Guides/Who-can-claim/\)](#)

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