



Guidelines for Research and Development Plans 2001

I, LAURENCE STUART HAMMOND, Acting Chairperson of the Industry Research and Development Board, acting on behalf of the Industry Research and Development Board, make these Guidelines under section 39KA of the *Industry Research and Development Act 1986*.

Dated 15 December 2001

Laurence Stuart Hammond
Acting Chairperson of the Industry Research and
Development Board

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Part 1 Introductory

1 **Name of Guidelines**

These Guidelines are the *Guidelines for Research and Development Plans 2001*.

2 **Commencement**

These Guidelines commence on gazettal.

3 **Definitions**

In these Guidelines:

R&D Plan means a Research and Development Plan.

small company, in relation to an R&D Plan, means a company with fewer than 20 employees on the day when the Plan is approved.

Note For the definition of **Board**, see section 4 of the *Industry Research and Development Act 1986*.

4 **Application**

These Guidelines apply in relation to a company that wishes to claim a deduction under section 73 of the *Income Tax Assessment Act 1936* for a year of income in relation to research and development activities undertaken by the company on or after 1 July 2002.

Note Under subsection 73B (2B) of the *Income Tax Assessment Act 1936*, activities are not covered by the definition of **research and development activities** in subsection 73B (1) of that Act unless they are carried on in accordance with a plan that complies with any guidelines formulated by the Board under section 39KA of the *Industry Research and Development Act 1986*.

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Part 2 Contents of R&D Plans**5 R&D Plans**

- (1) The company must prepare an R&D Plan in accordance with this Part.
- (2) The Plan must be separated into 2 parts; Part A and Part B.
- (3) Part A is to be called the *R&D Plan Authorisation* and Part B is to contain one or more individual plans each called an *R&D Project Plan*.

6 Requirements for Part A

- (1) Part A of an R&D Plan must include a list of all of the R&D projects proposed to be undertaken by the company, or by a contractor on behalf of the company, to which the claim relates.
- (2) Part A must also include:
 - (a) a description of the strategic business objective of the company; and
 - (b) a description of how each R&D project supports that objective.
- (3) In addition, Part A must include a signed statement of approval for the Plan completed in accordance with sections 9 and 10.

7 Requirements for Part B — standard companies

- (1) This section applies if the company preparing the R&D Plan is not a small company.
- (2) Part B of the Plan must include an R&D Project Plan for each project listed in Part A.
- (3) However, if an R&D project forms part of a larger project, with its own project planning process, a separate R&D Project Plan is not required for the smaller project if the Plan for the larger project enables the information mentioned in subsection (4) to be readily identified.
- (4) An R&D Project Plan for a project must include, as a minimum, the following information:
 - (a) the title of the project;
 - (b) the name of the project manager;
 - (c) the date when the Plan is prepared or last updated;
 - (d) background information, including the reasons for undertaking the project and a description of how the project will enhance the commercial success of the company;
 - (e) a brief description of any preliminary work undertaken before the commencement of the project;

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- (f) a statement of the technical objective or specific technical aim of the project;
- (g) a description of the steps involved in commercialising or implementing the results of the project activities;
- (h) a statement of the scope of the project, including the starting and finishing dates, relevant time lines or Gantt charts covering major activities and milestones forming part of the project;
- (i) a statement of the resources allocated to the project, including budget or forecast funding for the personnel, plant and facilities necessary for the project.

Note Major activities may simply be listed under convenient R&D headings (eg Feasibility Studies, Project Design/Definition, Laboratory Investigations, Initial Engineering Design, Prototype Design and Construction, Prototype Testing and Feedback R&D etc). The number and type of R&D project activities will vary depending on the technology concerned, the industry, and the complexity and size of the R&D project itself.

The Board does not wish to set prescriptive limits in relation to the length of the R&D project plan and the degree of detail required. However, a minimum of 2 pages is likely to be required to cover the information outlined above for each project plan.

- (5) However, if, immediately before the R&D Plan is approved, any of the information mentioned in subsection (4) has not been determined:
 - (a) a statement to that effect must be included in the Plan before it is approved; and
 - (b) if any of that information becomes available after the Plan has been approved, the company must include the information in the Plan as soon as practicable.
- (6) Information mentioned in paragraph (4) (d), (e), (f), (g), (h) or (i) may be included in the Plan by reference to another document.

8 Requirements for Part B — small companies

- (1) This section applies if the company preparing the R&D Plan is a small company.
- (2) Part B of the Plan must include an R&D Project Plan for each project listed in Part A.
- (3) However, if an R&D project forms part of a larger project, with its own project planning process, a separate R&D Project Plan is not required for the smaller project if the Plan for the larger project enables the information mentioned in subsection (4) in relation to the smaller plan to be readily identified.
- (4) An R&D Project Plan for a project must include, as a minimum, the following information:
 - (a) the title of the project;
 - (b) the date when the Plan is prepared or last updated;

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- (c) background information, including the reasons for undertaking the project and a description of how the project will enhance the commercial success of the company;
 - (d) a statement of the technical objective or specific technical aim of the project;
 - (e) relevant time lines or Gantt charts covering major activities and milestones forming part of the project;
 - (f) a statement of the resources allocated to the project, including budgeted funding for the personnel, plant and facilities necessary for the project.
- (5) However, if, immediately before the R&D Plan is approved, any of the information mentioned in subsection (4) has not been determined:
- (a) a statement to that effect must be included in the Plan before it is approved; and
 - (b) if any of that information becomes available after the Plan has been approved, the company must include the information in the Plan as soon as practicable.
- (6) The R&D Project Plan for a project may also include, if appropriate:
- (a) the name of the project manager; and
 - (b) a brief description of any preliminary work undertaken before the commencement of the project; and
 - (c) a description of the steps involved in commercialising or implementing the results of the project activities.
- (7) Information mentioned in paragraph (4) (c), (d), (e) or (f) or (6) (b) or (c) may be included in the Plan by reference to another document.

Note Major activities may simply be listed under convenient R&D headings (eg Feasibility Studies, Project Design/Definition, Laboratory Investigations, Initial Engineering Design, Prototype Design and Construction, Prototype Testing and Feedback R&D etc). The number and type of R&D project activities will vary depending on the technology concerned, the industry, and the complexity and size of the R&D project itself.

The Board does not wish to set prescriptive limits in relation to the length of the R&D project plan and the degree of detail required. However, a minimum of 1 page is likely to be required to cover the information outlined above for each project plan.

Part 3 Miscellaneous

9 **When must the Plan be prepared and approved?**

The company must:

- (a) prepare an R&D Plan in accordance with these Guidelines; and
- (b) ensure that the Plan is approved before the commencement of any activities included in the Plan other than preliminary activities that the company needs to undertake to determine the technical objective of a project to be included in the Plan.

Note See subsections 7 (5) and 8 (5) about including information in an R&D Plan after the Plan has been approved, and section 11 about amending the R&D Project Plan for a project included in an R&D Plan, after approval.

10 **Who must approve the Plan?**

- (1) The board of directors of the company or an authorised officer may approve an R&D Plan prepared by the company.
- (2) If an authorised officer approves the Plan, the approval must include:
 - (a) the name of the authorised officer; and
 - (b) the position of the officer; and
 - (c) the date on which approval was given.

- (3) For this section:

authorised officer means a person who has the authority of the board of directors of the company to commit resources and funding to the activities mentioned in the R&D Plan.

Note Ideally, the Board would like an R&D Plan to be approved by the board of directors of the company, as evidence that the research and development activities proposed are part of the strategic planning process of the company and that the company is fully committed to those activities.

11 **What if an R&D project changes after approval?**

- (1) The company may amend the R&D Project Plan for a project after approval has been given for the R&D Plan of which the R&D Project Plan is a part.
- (2) Any amendment of an R&D Project Plan may be approved by either:
 - (a) an authorised officer, within the meaning of subsection 10 (3); or
 - (b) the person selected by the company to manage the project.
- (3) The approval of an amendment must include:
 - (a) the name of the authorised officer or project manager; and
 - (b) the position of the person; and

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- (c) the date on which approval was given.

Note It is an inevitable part of the R&D process that projects will not proceed according to plan and therefore changes to the R&D Project Plan may be required from time to time. The Board expects companies to update R&D Plans as significant variations in relation to the budget, technical objectives, or major activities or milestones occur.

12 Producing R&D Plans on request

- (1) The company must keep an R&D Plan prepared by the company as part of the company's records.
- (2) The company must show the Plan, or a copy of the Plan, to the Board or staff assisting the Board, on request.

Reader's Notes

Purpose of the Notes

The purpose of the Reader's Notes is to help the reader to understand the *Guidelines for Research and Development Plans 2001* (the *Guidelines*). However, the Reader's Notes do not form part of the Guidelines.

Purpose of the Guidelines

Subsection 73B (2B) of the *Income Tax Assessment Act 1936* has recently been inserted, as has new section 39KA of the *Industry Research and Development Act 1986*. The effect of the new provisions is to require a company that undertakes research and development activities to prepare a research and development plan (*R&D Plan*) that complies with the Guidelines, which covers the research and development activities undertaken by the company. A tax deduction is not allowable for activities commenced after 30 June 2002 that are not included in an R&D Plan.

Purpose of requirement for R&D Plans

The requirement for R&D Plans has been introduced to reinforce the need for companies to think strategically about their research and development activities as a critical and ongoing part of their business.

R&D Plans are intended to support the successful management of R&D projects, providing focus and structure to research and development activities and thereby enhancing the likelihood of successful outcomes.

Both the Industry Research and Development Board (the *Board*) and the Australian Taxation Office have, for some time, promoted the need to properly document R&D activities and expenditure. The new requirement for an R&D Plan clarifies, in part, the nature of the records necessary to substantiate R&D claims. It should be noted that expenditure records to substantiate expenditure still need to be maintained along with other records, such as progress and final reports, which will vary in size and format with the complexity of the project.

Relationship with registration for the R&D Tax Concession

A tax deduction may be given to a company for a year of income in relation to research and development activities only if the company is registered with the Board in accordance with section 39J of the *Industry Research and Development Act 1986* and in accordance with the relevant provisions of the *Income Tax Assessment Act 1936*.

As part of the annual registration process, a company seeking to claim a tax deduction for a year of income in relation to research and development activities will be required to declare that the company prepared and approved an R&D Plan before undertaking the research and development activities. It is not necessary for a company to submit its R&D Plan with its application for the deduction. It is only necessary for the company to make a declaration as to its existence.

R&D Plans should be held by companies as part of their own records and must be made available to the Board or its officers upon request.

Simplified requirement for small companies

The requirements set out in the Guidelines by the Board for R&D Plans are simplified for small companies. The requirements have been simplified to ensure that small companies are able to prepare an R&D Plan without experiencing undue hardship.

Definition of a small company

For the purposes of determining which companies need to prepare only a simplified R&D Plan, the Board has adopted the Australian Bureau of Statistics definition of a small business: a company with fewer than 20 employees at the relevant time (see the Guidelines, section 3).

What documentation needs to be kept

R&D Plans need to be properly documented. However, the Board does not intend that the preparation of R&D Plans should impose unnecessary burdens on companies.

R&D Plan documentation:

- may be based on existing documentation, where possible, provided that the required content is covered
- may be adapted from existing documentation to ensure that the required content is covered
- may use R&D Start planning documentation for R&D Start related projects
- does not necessarily have to consist of a single document, but may incorporate other documents, or parts of documents, into the Plan document by cross reference, as appropriate.

The Board will make available to companies that have no existing R&D planning process pro-formas that may be used. The pro-formas (Forms 1 and 2) are attached to the Reader's Notes. However, companies are not obliged to use either of Form 1 or Form 2, and may develop their own planning documentation in a manner that is most useful for the company, provided that the content described in Part 2 of the Guidelines is included.

In situations where the R&D activities involved in a project are undertaken by a contractor, the company on whose behalf the activities are undertaken should keep the Plan documentation to establish its role in the management of the project. This applies even if the documentation is prepared by the contractor.

Will the Plan replace descriptions required for Schedule 2 to application forms for registration?

Previously, a company applying for registration for a tax concession in relation to research and development activities to be undertaken in a year of income was required to complete Schedule 2 to the application form only if the company claimed to have spent at least \$500 000 on research and development activities for that year of income.

The Board has raised the threshold at which companies are required to complete Schedule 2 to the registration application form.

As a result of this change, the majority of applicants will not be required to complete Schedule 2 to their application form. However, preparing an R&D Plan will assist the remaining applicants to complete their Schedule 2, as the information required for both Schedule 2 and the Plan is similar.

The Board will reconsider the ongoing need for Schedule 2 once the requirement to prepare R&D Plans comes into effect, and the Board's decision about whether Schedule 2 information is needed will be reflected in the application form approved by the Board from time to time.

The requirement to prepare an R&D Plan applies to all claimants irrespective of the expected level of expenditure on research and development activities.

What about projects and activities already under way?

The requirement to prepare R&D Plans applies to activities that commence on or after 1 July 2002.

However, as an R&D Plan relates to an R&D project, the Board would expect the plan to cover the full life of the project, including activities undertaken both before and after 1 July 2002.

How will the planning requirement be monitored?

The Board will continue to monitor research and development activities and provide advice to companies in accordance with its risk-based compliance monitoring strategies. These strategies involve visits by AusIndustry Customer Service Managers (*CSMs*) to a significant number of companies that are registered for the Research and Development Tax Concession. During these visits, CSMs will ask companies to produce their R&D Plans.

Form 1 Suggested format for a standard R&D Plan

Note Form 1 is not part of the Guidelines.

Part A — R&D Plan Authorisation

Strategic Perspective

Describe the strategic business objective of the company and how the R&D project(s) listed below support(s) the achievement of these objectives (eg creating a new business opportunity, or enhancing a technological competency).

Projects

No	Project Title	Start Date	Finish Date	\$ Forecast / budgeted
	TOTAL			

Approval by the company for the responsible officers to undertake the above projects

R&D Plan Approval: <i>[signature of person giving approval]</i>
Name of person giving approval:	
Position of person:	
Date:	/ /200

Note It is a requirement that the R&D Plan Authorisation be obtained from the company Board or an authorised officer (eg the CEO or a delegate of the Board) in advance of the company commencing the R&D.

Part B — R&D Project Plans

R&D Project Plan for Project 1

Project Title:	
Project Manager:	
Date prepared/updated:	

Background information

State:

- *the reasons for undertaking the project and a description of how the project will enhance the commercial success of the company*
- *the relationship of the project to the strategic business objectives of the company, and its relationship to other projects.*

Description of preliminary work

Describe any preliminary and planning work undertaken before the project was formally approved.

Technical objective

Provide a clear statement of the technical objective of the R&D project.

Note The technical objective should be specific, and identify the technical uncertainty and innovative concept of the project.

Identify the development or acquisition of new technologies/products/processes.

Route to commercialisation/implementation

Briefly identify significant milestones and the time lines for achieving specific outcomes including the proposed mechanism for commercialisation or implementation of R&D results.

Scope of project

Start date:

Finish date:

Proposed Program of Activities

List the major activities for the entire project. The major activities may be conveniently grouped under various R&D activity headings, (eg Feasibility Studies, Project Design/Definition, Laboratory Investigations, Initial Engineering Design, Prototype Design & Construction, Prototype Testing & Feedback R&D, etc). (The number and type of R&D project activities will vary depending on the technology concerned, the industry, and the complexity and size of the R&D project itself.)

No	Activity	Start Date	Finish Date	Milestones
1				
2				
3				
4				
5				
6				

Note If the project continues for more than one year, the activities should be updated at least annually and, where appropriate, should be reflected in Schedule 2 to the annual application form for registration.

Use of a Gantt chart would be a suitable alternative to the above table.

Resources

Forecast/budgeted project funding

Enter budgeted project funding for each income year.

Year	\$ Forecast / budget funding

Note Remember to maintain records of expenditure for substantiation purposes.

Personnel

Briefly describe the human resources allocated to the project and, where possible, list key researchers, technicians, major contractors and joint venture partners.

Plant and Facilities

Briefly describe the plant and facilities allocated to the project (specialist equipment, facilities, etc).

Form 2 Suggested format for a simplified R&D Plan

Note Form 2 is not part of the Guidelines.

Part A — R&D Plan Authorisation

Projects

No	Project Title	Start Date	Finish Date	\$ Forecast / budgeted
	TOTAL			

Approval by the company for the responsible officers to undertake the above projects

R&D Plan Approval: <i>[signature of person giving approval]</i>
Name of person giving approval:	
Position of person:	
Date:	/ /200

Note It is a requirement that the R&D Plan Authorisation be obtained from the company Board or an authorised officer (eg the CEO or a delegate of the Board) in advance of the company commencing the R&D.

Part B — R&D Project Plans

R&D Project Plan for Project 1

Project Title:	
Date prepared/updated:	

Background information

State:

- *the reasons for undertaking the project and a description of how the project will enhance the commercial success of the company*
- *the relationship of the project to the strategic business objectives of the company, and its relationship to other projects.*

Technical objective

Provide a clear statement of the technical objective of the R&D project.

Note The technical objective should be specific, and identify the technical uncertainty and innovative concept of the project.

Identify the development or acquisition of new technologies/products/processes.

Time line

Proposed Program of Activities

List the major activities for the entire project. The major activities may be conveniently grouped under various R&D activity headings, (eg Feasibility Studies, Project Design/Definition, Laboratory Investigations, Initial Engineering Design, Prototype Design & Construction, Prototype Testing & Feedback R&D, etc). (The number and type of R&D project activities will vary depending on the technology concerned, the industry, and the complexity and size of the R&D project itself.)

No	Activity	Start Date	Finish Date	Milestones
1				
2				
3				
4				
5				
6				

Note If the project continues for more than one year, the activities should be updated at least annually and, where appropriate, should be reflected in Schedule 2 to the annual application form for registration.

Use of a Gantt chart would be a suitable alternative to the above table.

Resources

Forecast/budgeted project funding

Enter forecast project funding for each income year.

Year	\$ Forecast / budget funding

Note Remember to maintain records of expenditure for substantiation purposes.