

Exploring the R&D Tax Incentives Transparency Report

Insights from Australia's first transparency report on Research and Development Tax Incentive (RDTI) claimants.

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Executive Summary

On 3 October 2024, the Australian Taxation Office (ATO) released its first report on research and development (R&D) expenditure data in Australia. This initiative aims to promote accountability and enhance tax transparency and has generated significant interest and discussion within the Australian business community.

RSM Australia has taken a proactive approach by extracting useful insights from this data, benefiting the innovation community in different sectors and enabling them to make key decisions into the future. Our analysis leverages the expertise of our experienced data analytics team and in-house economist to provide valuable, data-driven insights. We have taken the limited dataset provided by the ATO and paired it with publicly available data on the industry in which each listed company operates and its geographical location within Australia.

Our intent with this report is to provide fresh insights into R&D trends for each industry to help companies strategically position themselves for future growth.

How can this data benefit you?

- **Industry trends:** Gain a comprehensive understanding of which industries are leading in R&D activity and investment.
- **Benchmarking:** Compare your RDTI claims with industry peers to assess your relative standing.
- **Strategic planning:** Identify high-growth industries and regions with elevated R&D activity, potentially revealing new opportunities for investment or collaboration.

Background

Legal context and purpose behind the transparency measures

The RDTI transparency report was released by the ATO following the reforms introduced by the *Treasury Laws Amendment (A Tax Plan for the COVID-19 Economic Recovery) Act 2020*, which came into effect in July 2021. The report compiles data from R&D entities that filed RDTI claims in their 2022 company tax returns for income years starting on or after 1 July 2021.

By publishing this data, the ATO aims to foster a culture of innovation and accountability in the R&D sector. Enhanced transparency is expected to promote voluntary compliance, raise public awareness, and encourage greater participation in the RDTI program.

The ATO is required to report data two years after the end of the financial year to which the data relates.

Overview of published data

This initial report publishes data for income years that commenced on or after 1 July 2021 for entities that claimed the RDTI in their 2022 company tax return.

The published data was obtained from each company's RDTI schedule and that was lodged with the company's income tax return. It includes:

- Name of the R&D entity claiming the RDTI.
- Australian Business Number (ABN) or Australian Company Number (ACN).
- Total R&D expenditure*, based on the total notional deductions claimed at label Z in Part A of the RDTI schedule, less any feedstock adjustments at label B in Part B of the RDTI schedule.

The following was not included in the report:

- The R&D activities conducted by the entity.
- The calculations behind notional deductions and feedstock adjustments.
- Clawback amounts other than feedstock adjustments.
- The amount of R&D tax offset the entity received.
- Whether the R&D tax offset received was Refundable or Non-Refundable.
- The extent and nature of any ATO activity, including any past or ongoing audit or compliance activities.
- Whether the R&D entity was entitled to or received the R&D tax offset.

* Our analysis refers to 'amended R&D expenditure' where applicable.

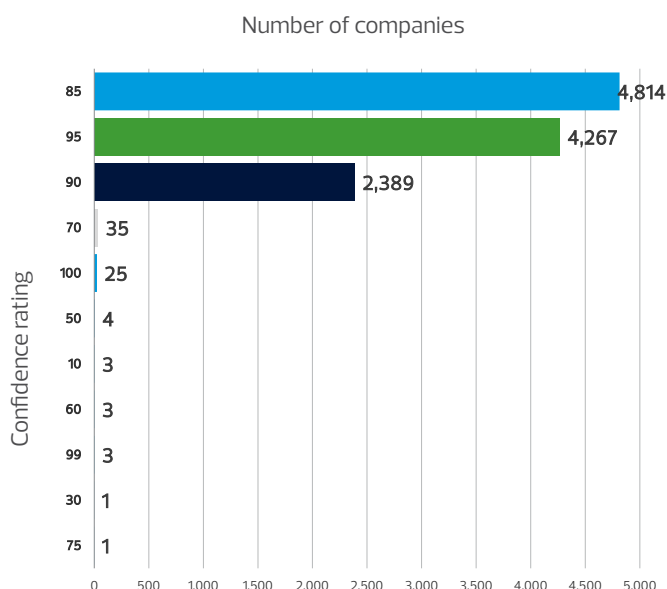
Our approach

This report incorporates advanced data analytics techniques, including the use of generative artificial intelligence (AI), to provide additional insight into RDTI claimants in Australia.

The analysis [provided by the ATO](#) showed that 43% of all RDTI claims are in the Professional, Scientific, and Technical Services industry. We found this grouping to be too broad, so we reclassified the Australian and New Zealand Standard Industrial Classification (ANZSIC) codes into more specific RSM categories to gain more meaningful insights.

To classify all 11,545 companies individually, we used generative AI. This involved analysing each company's primary activity, matching it to a Business Industry Code (BIC), and mapping that to an ANZSIC code. We then applied our own industry labels to ensure each group accurately reflects the work being done.

AI confidence rating for each classification



This chart illustrates the AI's confidence level in the classifications, with a confidence range of 85–95%, to indicate how certain the AI is that the classifications are accurate.

We have also sourced the primary business location data of each company from the Australian Business Register and mapped each postcode location to a 'Capital City,' 'City' or 'Regional' classification to provide an additional dimension of insight.

For more detailed insights into our methodology and data analytics capabilities, please contact our data analytics team. They can provide detailed insights into our approach and offer more comprehensive analysis tailored to your specific needs.

[View ATO published data](#)

[Contact our data analytics team](#)

[Contact our RDTI tax team](#)

Analysing the impact on Australian businesses

Opportunities unearthed by the published data

- By identifying high-growth industries and regions with elevated R&D activity, businesses can uncover new opportunities for investment or collaboration.
- Sectors with the lowest current RDTI claim sizes might benefit from exploring the RDTI opportunities available.
- The geographical distribution of R&D expenditure suggests that Australia may need to do more to encourage and support R&D initiatives in smaller cities and regional areas to drive innovation and economic growth in these regions.

Challenges posed by enhanced transparency

- With increased tax authority attention on governance, coupled with the transparency reports, companies may need to revisit their current governance processes to ensure their RDTI claims are backed by strong and robust processes. RSM works with our clients contemporaneously to ensure this is achieved.
- Public disclosure of RDTI claim amounts can reveal sensitive information about a company's innovation activities and financial strategies. Competitors might use this information to gain an edge.
- The public and media might misinterpret the data, leading to negative perceptions. For instance, large claims might be seen as excessive or unjustified, potentially damaging a company's reputation.

Key insights



During the 2021–22 income year, **11,545 companies** reported spending **\$11.2bn** on R&D in Australia.



Analysis performed by the ATO shows that of the total 11,545 claimants, **48% (5,574) were small businesses.**



1.75% of claimants have **>\$100m turnover***.

**Based on the number of companies that appeared in the ATO's corporate tax transparency reports.*



IT & Computer Services has the highest number of claimants and total RDTI expenditure.



Healthcare & Life Sciences has a high average RDTI claim amount.



The **Agriculture** industry is particularly prominent in regional Australia, accounting for a significant portion of regional RDTI claims.

Top five industries by total R&D expenditure claimed

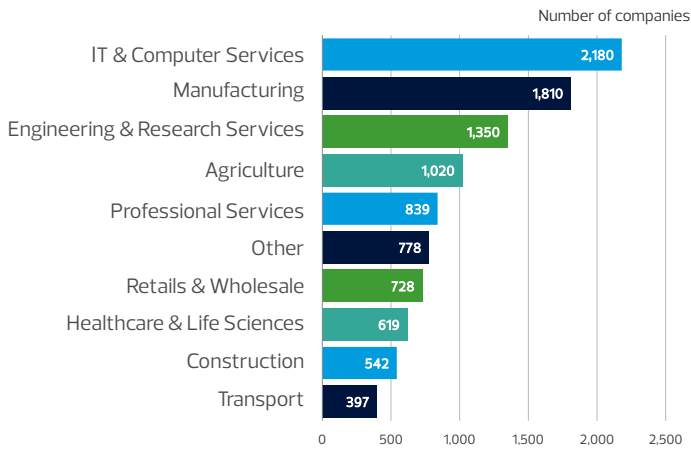
- 1 IT & Computer Services** – 2,184 claimants, \$1m average claim, total claimed >\$2.2bn
- 2 Manufacturing** – 1818 claimants, \$1.1m average claim, total claimed >\$2bn
- 3 Engineering & Research Services** – 1348 claimants, \$925k average claim, total claimed >\$1.2bn
- 4 Healthcare & Life Sciences** – 619 claimants, \$1.4m average claim, total claimed >\$862m
- 5 Agriculture** – 1,023 claimants, \$734k average claim, total claimed >\$751m

Which industry has the highest number of companies submitting RDTI claims?

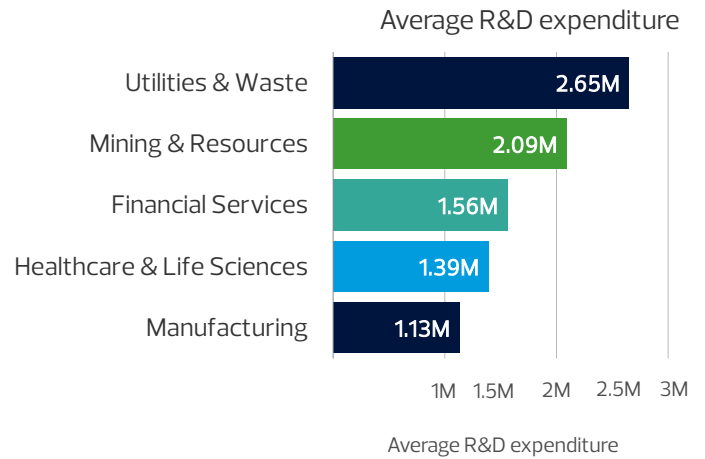
However, we realised that including the average claim amount per industry is necessary to fully understand how RDTI benefits are distributed across various sectors.

We made this chart to show how RDTI claims are distributed across different industries in Australia.

Top ten industries by number of claims



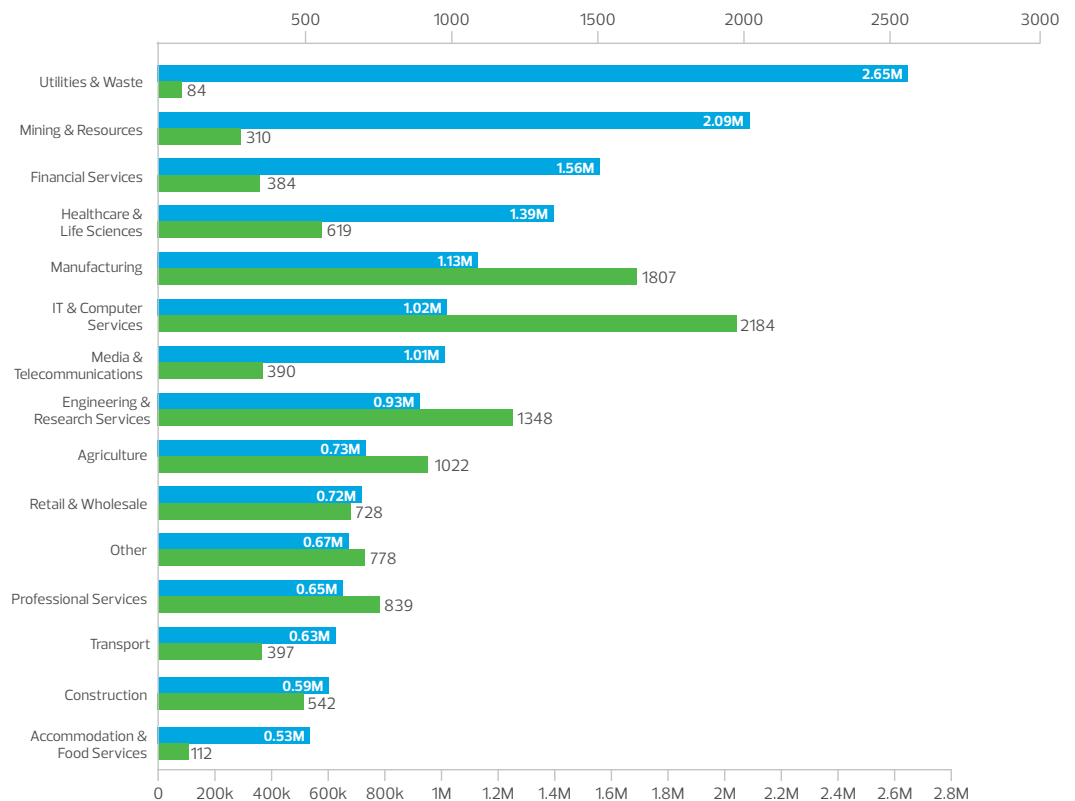
Top five industries with the highest average claim amounts



Average RDTI claim by industry

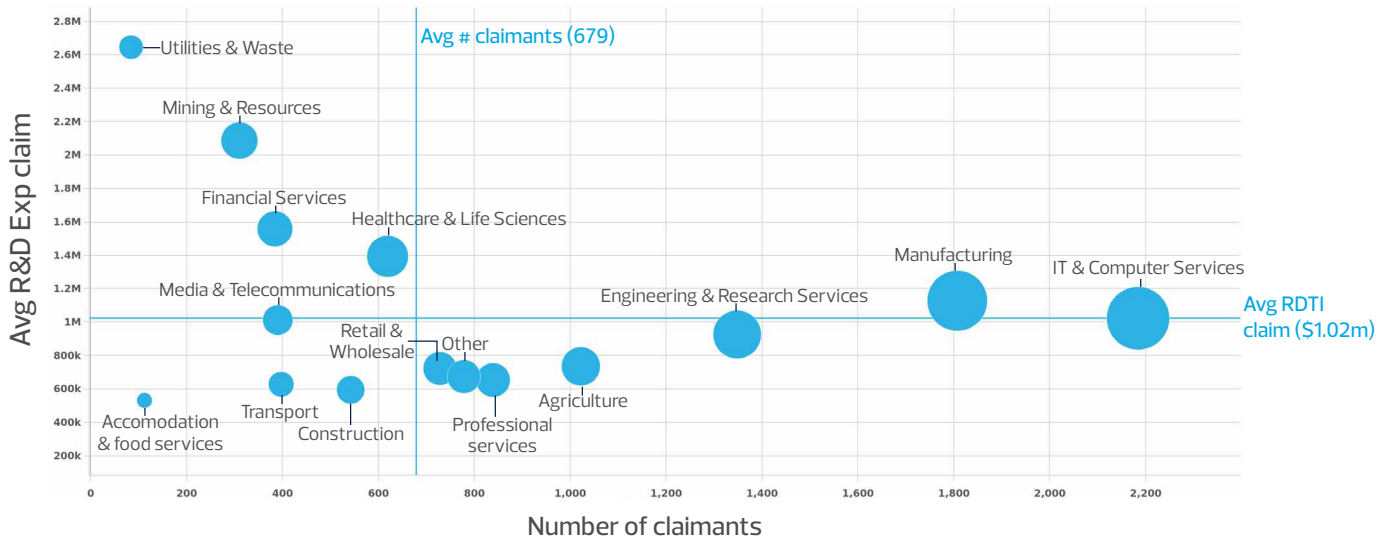
This revealed an interesting contrast between industries such as Manufacturing and IT & Computer Services, in which the number of claimants was quite high, but the average RDTI claimed stayed relatively low.

This observation suggests that companies operating within these sectors may greatly benefit from seeking guidance from an RDTI adviser to ensure they fully maximise the potential benefits of the RDTI. Furthermore, engaging with industry specialists with deep knowledge and experience in R&D can be particularly advantageous in critically evaluating the quality of the R&D activities and ensuring their alignment with the RDTI criteria.



This is a stark contrast to the Utilities & Waste and Mining & Resources industries, where the number of claimants were very low, but the average claim size were high. This could indicate to companies operating in those sectors that R&D is an area they should invest in.

In the scatter plot below, industries in the bottom-right quadrant have an above-average number of claimants but a below-average RDTI claim size. The most prominent industries in this quadrant are Retail & Wholesale, Professional Services and Agriculture. Companies in these industries may benefit from engaging with RDTI specialists to evaluate whether they are maximising their RDTI claim.



Food for thought – could these activities be relevant to your business?

- New product development of food & beverages using new ingredient formulations and manufacturing processes.
- Using data analytics and tracking technology to manage crowds.
- Developing novel manufacturing processes.
- Designing modifications to plant & equipment for improved efficiency and throughput.
- Testing new processes to turn waste into energy.

Consider speaking to an RDTI specialist with industry experience. There may be opportunities to explore that you simply hadn't considered.

Geographical distribution of claimants within Australia.

Note: The geographical distribution is based on the current main business location, not where the R&D research is located. Business location data is sourced from the Australian Business Register..

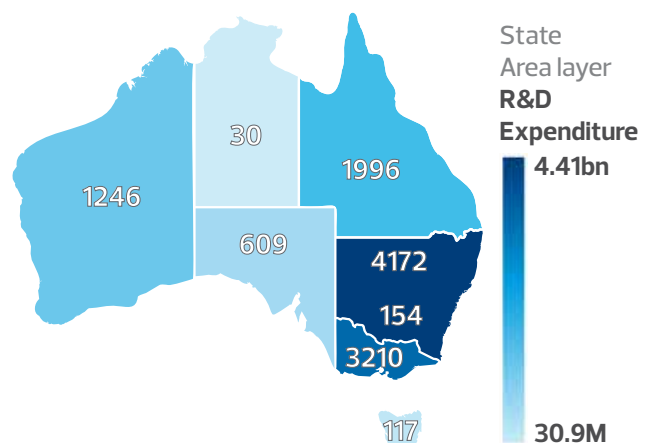
It should come as no surprise to see that the southeast corner of Australia dominates our R&D expenditure.

Our data revealed that New South Wales (NSW) has the highest RDTI claim size expenditure, while the Northern Territory (NT) has the lowest R&D expenditure among the states and territories in Australia

Regional Australia holds 11% of claimants.

And only 9% of RDTI claimants are from a non-capital city.

To bridge this gap, it's important to encourage and support R&D initiatives in smaller cities and regional areas to drive innovation and economic growth across the board.



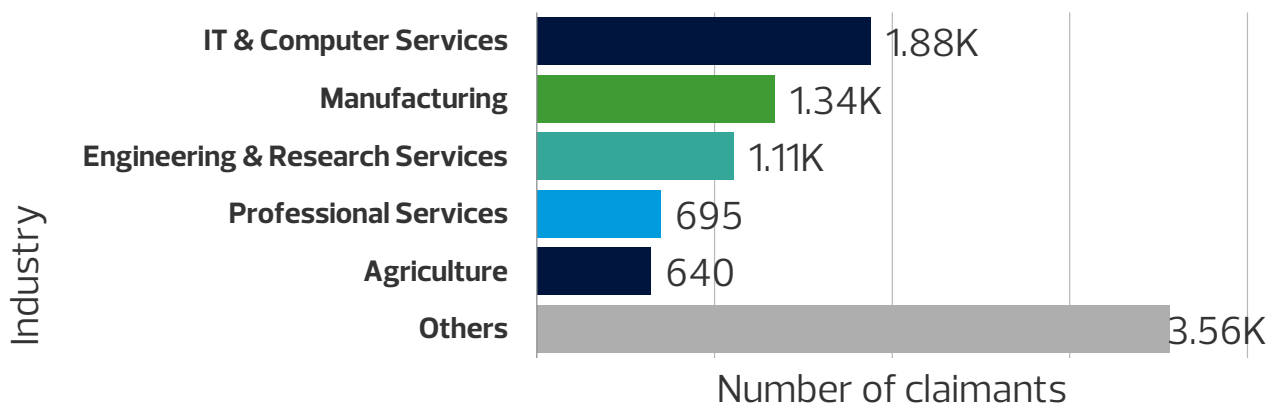
Industry breakdown by region

Capital cities

Australia's capital cities account for 80% of all R&D claims, based on the number of claimants. In these cities, the IT & Computer Services industry heavily invests in R&D, leading in both expenditure and number of claimants. Overall, the R&D expenditure from IT & Computer Services businesses in capital cities accounts for 21% of Australia's total R&D spend.

Top five industries in Australian capital cities:

- IT & Computer Services** – 1881 claimants, \$1.1m average claim, total claimed >\$2bn
- Manufacturing** – 1338 claimants, \$1.2m average claim, total claimed >\$1.6bn
- Engineering & Research Services** – 1114 claimants, \$998k average claim, total claimed >\$1.1bn
- Agriculture** – 640 claimants, \$805k, average claim, total claimed >\$515m
- Professional Services** – 695 claimants, \$637k average claim, total claimed >\$442m



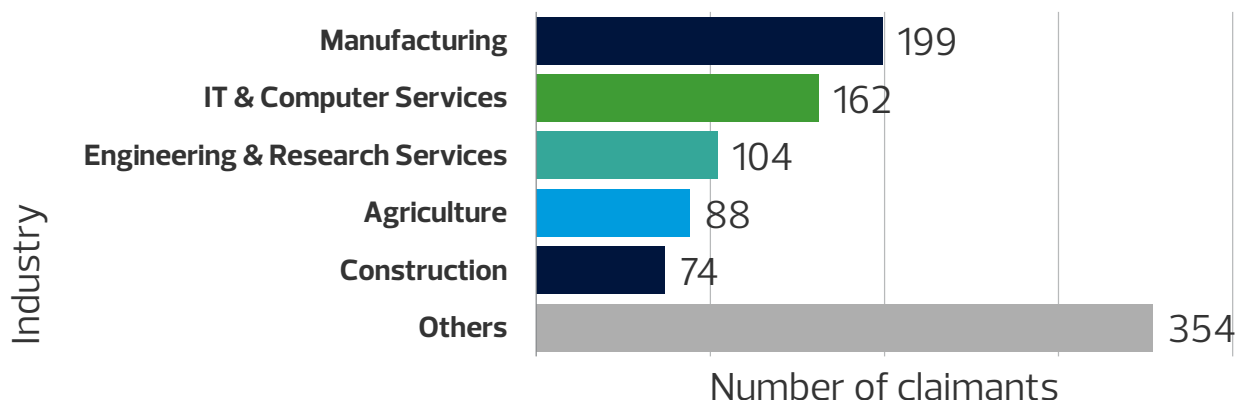
City (non-capital)

Interestingly, when we look at our non-capital cities, the Manufacturing industry displaces IT & Computer Services with the highest number of claimants, showing that IT & Computer Services businesses are less prevalent in smaller cities or regional areas where they account for 16% and 8% of total RDTI claimed, respectively.

- IT, Manufacturing and Engineering feature in the top five industries claiming the RDTI across all geographies.
- The Construction industry also has a significant presence in non-capital cities.

Top five industries in non-capital cities:

- Manufacturing** – 199 claimants, \$589k average claim, total claimed >\$117m
- IT & Computer Services** – 162 claimants, \$581k average claim, total claimed >\$94m
- Engineering & Research Services** – 104 claimants, \$579k average claim, total claimed >\$60m
- Agriculture** – 88 claimants, \$427k average claim, total claimed >\$37m
- Retail & Wholesale** – 70 claimants, \$589k average claim, total claimed >\$41m



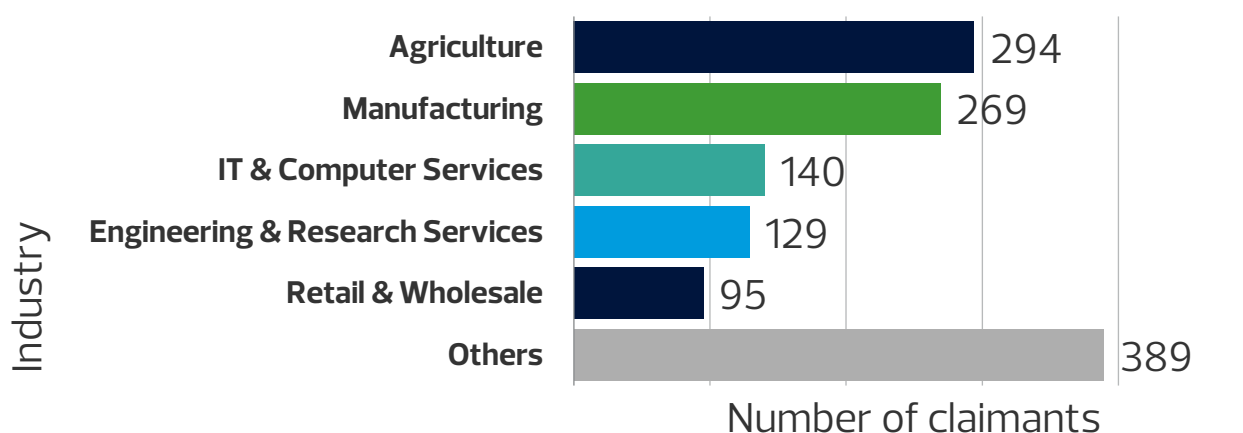
Regional Australia

In Regional Australia, Manufacturing and Agriculture vie for top place, with Agriculture having a higher number of claimants but Manufacturing claiming more.

Financial Services has the highest average claim at \$1.5m. The industry had only 28 claimants in Regional Australia, but spent over \$43m on R&D activities.

Top five industries in Regional Australia:

1. **Agriculture** – 294 claimants, \$673k average claim, total claimed >\$197m
2. **Manufacturing** – 269 claimants, \$810k average claim, total claimed >\$217m
3. **IT & Computer Services** – 140 claimants, \$468k average expenditure, total expenditure >\$65m
4. **Engineering & Research Services** – 129 claimants, \$581k average expenditure, total expenditure >\$75m
5. **Retail & Wholesale** – 95 claimants, \$354k average expenditure, total expenditure >\$33m



Economist perspective

The time period captured in this data falls between 2020 and 2022 when Australia experienced its first recession in nearly 30 years due to the COVID-19 pandemic.

The economy shrank sharply, with GDP falling by 7% in the June 2020 quarter. Unemployment peaked at 7.4% as lockdowns, border closures and global trade disruptions hit businesses hard. In response, the government implemented fiscal stimulus measures, like JobKeeper and JobSeeker, and the Reserve Bank of Australia (RBA) cut the cash rate to 0.1%, introducing quantitative easing to stabilise markets. These actions softened the recession's impact, although recovery was uneven due to continued outbreaks.

During this period, investment in R&D played a critical role in driving innovations such as vaccines, treatments and digital technologies that helped businesses adapt. R&D efforts not only addressed immediate challenges but also paved the way for long-term economic growth by fostering innovation and competitiveness.

Australia is currently dealing with a significantly changed macroeconomic situation. The RBA is maintaining high interest rates to address inflation, while a tight labour market is raising costs and putting pressure on businesses. Productivity is currently at a historically low level, highlighting the necessity for increased investment in R&D to discover cost-effective solutions and remain competitive.

By embracing new technologies, streamlining operations and fostering digital innovation, businesses can more effectively handle escalating expenses and labour shortages. In the long term, R&D enhances efficiency, improves profitability and promotes sustained economic growth, even in challenging circumstances.

Using these insights

Strategic recommendations for Australian businesses

This report emphasises the importance of transparency and data, even when it may be uncomfortable or make businesses feel vulnerable. The data provides a clearer picture of the trends and innovative work happening in Australia. By analysing this data, Australian businesses can gain a better understanding of their industry and use the insights to reassess their strategic priorities. It is important to consider where your company stands in comparison to others.

Are your peers investing significantly more in R&D than you? Or are they claiming expenses for activities that you didn't even know qualified as R&D? By examining the data and the insights it provides, Australian businesses can position themselves for future success and contribute to our country's overall economic development.

If you are interested in more personalised insights, we encourage you to connect with our RDTI advisers and our data analytics team.

Our data analytics team will be performing deeper analysis to uncover further insights. Data tells a story, and we hope you will stay tuned for future chapters.

For further enquiries, please contact our team at RSM:



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