

Conducting Business in Australia for Foreign Entities

FREQUENTLY ASKED QUESTIONS



SETTING UP IN AUSTRALIA

Do I need to set up an Australian Company?

You can only claim an R&D tax offset if you are an R&D entity. You are an R&D entity if you are a company that is any of the following:

- incorporated under an Australian law
- incorporated under a foreign law but an Australian resident for income purposes
- a foreign company that is resident of a country with which Australia has a double tax agreement and is carrying on business in Australia through a permanent establishment (branch office)

To have certainty that you are an eligible R&D entity we recommend that you set up an Australian company to conduct the R&D activities in Australia.

What do I need to do to set up an Australian Company?

It is a relatively simple process to set up an Australian Company and can be done on line. The company is registered with the Australian Securities and Investment Commission (ASIC).

Do I need to appoint a local director?

If you set up an Australian Company at least one of the directors needs to be a resident of Australia.

Can the Australian company be wholly owned by a foreign entity?

Yes, the Australian Company can be 100% owned by a foreign entity. Where an Australian company is controlled by a foreign company there are some additional reporting requirements which we have set out below.

What other registrations are required?

To carry on business and conduct R&D activities in Australia the Australian entity will need to apply for an Australian Business Number (ABN); a Tax File Number (TFN) and register for the Goods and Services Tax (GST).



OPERATING AN ENTITY IN AUSTRALIA

Will the company need to have a bank account?

The company will need to set up an Australian bank account so it can pay for the R&D activities it conducts.

How should the company be funded and does it need a bank account?

To be eligible to claim the R&D Tax incentive the Australian R&D entity will need to incur and pay for the R&D expenditure. This may be funded by a combination of equity and debt. The company will need to open a bank account.

Will the Australian R&D entity need to employ people?

There is no requirement to employ people. However to meet its commercial and R&D objectives, the R&D entity may need to engage local expertise and contract with local research organisations so it can properly control and conduct its R&D activities.



TAXATION AND FINANCIAL REPORTING

What are the main taxes that will apply?

The taxation system in Australia is administered by the Australian Taxation Office (ATO). The following taxes may apply.

Company Tax

An Australian resident company is subject to company tax. The current default company tax rate is 30%. Where the grouped annual turnover is \$50m or below the company tax rate is reduced to 27.5%.

A non-resident company is taxed on its Australian source income at the same rate as a resident company.

Goods and Services Tax

The Goods and Services Tax (GST) is a national, broad-based consumer tax on most goods and services sold or consumed in Australia. The current rate of GST is 10%.

Most businesses are required to register for GST with the Australian Taxation Office. Businesses which have paid for business supplies inclusive of GST are entitled to claim an equivalent input tax credit.

When will the company need to lodge an income tax return?

In Australia, the financial year begins on the 1st July and ends on 30th June. For most small companies that use a registered tax agent the income tax return will need to be lodged by 28th February of the following year (for the first year) and by 15th May for subsequent years.

Prime are registered tax agents and can assist you with all of the tax return and lodgement requirements.

Can the company change its financial year?

Australian entities can apply to have their financial year changed so it aligns with the financial year of its foreign parent. Prime can advise and assist you with this process.

What are the financial reporting requirements?

A foreign controlled Australian company is required under the law to lodge financial statements with ASIC and in some cases have them audited. However if certain conditions are met ASIC will waive this requirement and instead require a simple annual return form that all small Australian companies are required to lodge. Prime can advise and assist you with this matter.

What other reporting requirements apply?

If the Australian entity is registered for the Goods and Services Tax (GST) then it will need to lodge a Business Activity Statement (BAS) either monthly or quarterly. The BAS sets out what GST the entity has collected on its sales and what GST the company has paid on its supplies. If the entity has collected more GST than it has paid it will be required to remit the net amount to the Australian Taxation Office (ATO). If the entity has paid more GST than it has collected it will be entitled to a refund for the net amount.

Start up entities that are purely conducting R&D activities will be able to claim for a refund for GST they have paid on their business supplies which includes most operating expenses, contractor fees etc.

Let's start the journey!

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