

R&D TAX INCENTIVE PREPAYMENT FUNDING SERVICE

R&D companies with less than \$20 million in annual turnover who are eligible to receive a 45% refundable tax offset, may wish to use their prospective ATO refund as security to drawdown a prepayment loan of up to 80% of the calculated benefit.

TCF Services Pty Ltd provides non-dilutive funding to enable eligible R&D companies to reach their next major announceable R&D project milestone before going to the market to raise additional capital, thus increasing potential shareholder value.

THREE **3** FUNDING OPTIONS ARE AVAILABLE:

| FUNDING OPTIONS | FUNDING EXAMPLES | | | | | | |
|---|--|-----------------|-----------|-------------------|----------|------------------|----------|
| <p>Short term – prepayment of up to 80% of the calculated tax refund, against a current end of year claim relative to prior year's R&D expenses.</p> | <p>Short term - against a current claim lodgement:</p> <table border="0"> <tr> <td>R&D expenditure</td> <td>\$200,000</td> </tr> <tr> <td>In Tax Loss @ 45%</td> <td>\$90,000</td> </tr> <tr> <td>Prepayment @ 80%</td> <td>\$72,000</td> </tr> </table> <p>Principal loan, interest and claim preparation fees are repaid from ATO receipts, any remaining balance is refunded to the R&D client.</p> | R&D expenditure | \$200,000 | In Tax Loss @ 45% | \$90,000 | Prepayment @ 80% | \$72,000 |
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| In Tax Loss @ 45% | \$90,000 | | | | | | |
| Prepayment @ 80% | \$72,000 | | | | | | |
| <p>Mid-term – a quarterly or half-yearly drawdown of up to 80% of the expected tax refund after incurring current year expenses.</p> | <p>Mid-term – against the quarterly or half yearly incurring of R&D expenses.</p> <p>1st drawdown in October covers July to September R&D expenses = \$200,000 x 45% x 80% = \$72,000</p> <p>2nd drawdown in January covers October to December R&D expenses = \$500,000 x 45% x 80% = \$180,000</p> <p>3rd drawdown in April covers January to March R&D expenses = \$200,000 x 45% x 80% = \$72,000</p> <p>4th drawdown in July covers April to June R&D expenses = \$500,000 x 45% x 80% = \$180,000</p> <p>Interest paid monthly by R&D company and the \$630,000 refund repays the principal loan and claim preparation fees – any leftover balance is refunded back to the client.</p> | | | | | | |
| <p>Longer term – against a partially funded R&D plan and budget, backed by a positive Advanced Finding – whereby the prepayment loan will be provided at the commencement of a project or financial year (capped to 60% of the R&D capital on hand).</p> | <p>Long term – prepayment at the commencement of a financial year, based upon a fully budgeted R&D plan with a positive Advanced Finding.</p> <ul style="list-style-type: none"> • June/July each year – An R&D company's R&D plan/budget requires \$1m to fund its current financial year R&D activities • The R&D firm has allocated \$625,000 towards their R&D plan but require an additional 60% (\$375,000) to fully fund and complete the next milestone within the next financial year to better position itself to raise capital • TCF Services provides a \$375,000 prepayment which allows the R&D company to meet its budgeted \$1m R&D expenses within the financial year and claim back \$450,000. • Interest paid monthly by R&D company and the \$450,000 refund repays the principal loan of \$375,000 plus the claim preparation fees – any leftover balance is then refunded back to the R&D client. | | | | | | |

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|---------------------------------------|--|
| Establishment fee | 5% of initial prepayment amount (capped at \$15,000) payable upfront at settlement. |
| Annual review fee | \$1,000 - \$2,500 – for ongoing annual due diligence work if further prepayments are required in consequent year/s. |
| Interest rate | 1.25% - 1.5% per month, paid monthly for Options 2 and 3 (mid and long term) funding options. |
| Interest rate on undrawn funds | 5% per annum on undrawn funds – when an annual facility is provided requiring monthly drawdowns that are not fully required after the funds have been committed. |

FUNDING CRITERIA:

- Eligible R&D activities OR positive “Advanced Finding” ruling from Innovation Australia
- No Bank or other borrowing facilities requiring a PPSR registration
- No outstanding ATO debt
- Good record keeping and up-to-date accounting reports readily available
- Professional management team in place
- TCF Services contracted to undertake all R&D claim preparation, lodgement and audit work

FUNDING PAYMENT AND PREPAYMENT:

Following a preliminary review, TCF Services will issue a term sheet with the tailored terms. This term sheet can be used for your Board of Directors to approve the loan. Once you meet our due diligence requirements – and sign the R&D Tax Prepayment Agreement, payment can be made within 48 hours.

We can also discuss staged drawdowns of a loan facility to meet your individual requirements.

Once a prepayment loan agreement is in place, further drawdowns may take place after repayments have occurred for the prior year. Ongoing due diligence is required to confirm that the company is trading within the requirements of the loan agreement.

The principal loan amount, outstanding interest (for Option 1 only) and any fees for claim preparation and lodgement services are all netted-off the resultant ATO refund payment, which is irrevocably directed into TCF Services’ nominated trust clearing account. Any remaining balance is then refunded to the client.

CLIENT APPLICATION CHECK LIST:

- Signed Confidentiality & Service Agreement, letter of engagement and authority to deal with external accountant on tax matters to enable TCF Services to be authorized to handle claim preparation, lodgement and audit review work
- Signed and completed Prepayment Application form
- Director’s Statement of Financial position – may be required
- Monthly management accounts, 12 month forward budget and cash flow forecast
- Previous 3 year’s tax returns and statutory accounts
- Current age debtors & creditors report
- ATO Reports –
 - Income Tax Statement – Statement of Account
 - Integrated Client Account – Activity Statement List (BAS report)
 - Integrated Client Account – Itemised Account
 - Client Account List

When the due diligence is complete, the R&D Tax Prepayment Loan Agreement with TCF Services will set out the terms of the loan.

SECURITY REQUIRED:

- PPSR Registration – all present and after acquired property – no exceptions
- Irrevocable direction to your external accountant, to insert TCF Services’ trust clearing bank account into your tax return
- Loans to Private companies will require personal guarantees
- Positive Advanced finding ruling will be required for prepayments over \$200,000

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