



## AIDE MEMOIRE

### Research & Development Tax Incentive Update - 9 April 2021

<b>Date:</b>	9 April 2021	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	MBIE: 2021-3157 CI: B21-008 IR: 2021/164.

#### Information for Minister(s)

Hon Dr Megan Woods  
**Minister of Research, Science and Innovation**

Hon David Parker  
**Minister of Revenue**

#### Contact for telephone discussion (if required)

Name	Position	Telephone	1st contact
Dr Jess Robertson	Manager, Innovation Policy		
Mary Mulholland	Principal Policy Advisor, Innovation Policy	-	✓
Privacy of natural persons	Group Lead, Inland Revenue		
Esther Livingston	Chief Operating Officer Internal Partnering, Callaghan Innovation		
Danielle Hannan	Operational Policy Lead, Callaghan Innovation	-	

#### The following departments/agencies have been consulted

--

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**

# AIDE MEMOIRE

## Research & Development Tax Incentive Update - 9 April 2021

<b>Date:</b>	9 April 2021	<b>Priority:</b>	High
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	MBIE: 2021-2215 CI: B21-008 IR: 2021/164.

### Purpose

---

This aide memoire provides an update on the implementation of the Research & Development Tax Incentive (RDTI) over the past few weeks and an overview of next steps.

<p>Dr Jess Robertson <b>Manager, Innovation Policy</b> Labour, Science &amp; Enterprise, MBIE</p> <p>09/ 04 / 2021</p>	<p>Privacy of natural persons</p> <p><b>Group Lead</b> Inland Revenue</p> <p>09/ 04 / 2021</p>	<p>Esther Livingston <b>Chief Operating Officer</b> <b>Internal Partnering</b> Callaghan Innovation</p> <p>09 / 04 / 2021</p>
--	--	---

---

## Progress update

---

- 1 Since our last joint update [2021- 2215 refers] the agencies have made good progress in addressing the findings of the PwC early implementation review on the approach to the R&D eligibility criteria and on engagement.

### **We have recalibrated the R&D activity eligibility criteria to reflect the policy intent and confirmed that the new approach is consistent with the RDTI legislation**

- 2 The agencies have worked together with stakeholders to identify areas of the eligibility test and the language in the guidance which were leading to a narrower approach to eligible R&D than the policy intended. Through a process of separating out the elements of the tests in the legislation for eligible R&D activity and clarifying what the intended standard was for each test, we have demonstrated that a broader approach to eligible R&D activity is available under the existing legislative definition.
- 3 The new approach is reflected in two documents which agencies have worked together and with stakeholders to produce over the past few weeks:
  - a. A one page RDTI eligibility tool/guide (final draft attached as Annex 1)
  - b. Short supporting guidance on eligible R&D activity (attached as Annex 2)
- 4 The short guidance document has now been published on Inland Revenue's website and the RDTI hub. The eligibility tool is being used to facilitate engagement with businesses and advisors.
- 5 Inland Revenue legal services reviewed these documents throughout their development and have confirmed that the final drafts remain consistent with the legislation. Therefore, we do not need a change in the legislative definition of R&D in order to implement the recalibrated approach currently.

### **We are now working to embed the recalibrated approach in the assessment process and to establish a continuous improvement process**

- 6 The agencies, led by Callaghan Innovation, are working to ensure that the assessment team has the right mix of capabilities, structure, tools and training to implement the new approach and feel empowered to do so.
- 7 The recalibration is not a set-and-forget exercise. The approach in the new guidance materials will be elaborated on as it is validated against new R&D applications. We will also validate it further with businesses to ensure that the language and concepts we used are, and remain, relevant to them. We will establish a continuous improvement process to ensure we maintain the right calibration. This will involve regular cross-agency calibration meetings to provide insights from the assessment process. These insights will inform engagement activity and policy development and ensure eligibility assessment processes stay connected to the policy intent while providing a good experience for businesses.
- 8 The implementation of the new approach will also be supported by the development of sector-specific (e.g. software) guidance on eligible R&D activity. This guidance will be co-developed with stakeholders from the relevant sectors.

### **A strategic communications plan is being developed to communicate the changes to businesses**

- 9 Callaghan Innovation are leading the development of this plan. This will be shared with your office to support your engagement with businesses on the RDTI.

- 10 In addition to making businesses aware of the changes through the usual channels (e.g. emailing all enrolled businesses), the plan will involve socialising the changes to the eligibility criteria with businesses to ensure we use language to describe eligible R&D that is meaningful to businesses. We will use the same language in our R&D assessments and in our policy work. Feedback from this process will inform updates or additions (e.g. examples) to the guidance and the development of sector-specific guidance.

**The next phase of engagement will focus on bringing businesses into the RDTI using the new guidance and validating the new guidance**

- 11 Callaghan Innovation is strategically selecting a group of 60 businesses to trial the approach with. This sample set of businesses are from the healthcare, life sciences, manufacturing, clean tech, high tech products and digital technologies sectors. They have been selected based on the type of R&D, exposure to the RDTI, and their willingness to provide feedback. The group includes both Growth Grant and non-Growth Grant recipients.
- 12 As part of this work, these businesses will be asked to provide feedback on the guidance. This includes how effectively it captures the type of R&D they are conducting, whether it has made it easier to structure their RDTI applications and helped to reduce their compliance costs, as well as gathering any other feedback on what is needed to support their RDTI journey and sustainably comply with the RDTI requirements.
- 13 The timeframe for this work is to target an initial set of 20 businesses by the end of April, with additional sets of 20 businesses added at the start of May. In mid-May the feedback will be collated and reported on, which will be used to inform the next phase of the engagement plan. After mid-May it is anticipated that the engagement will be quickly ramped up to capture all other Growth Grant recipients, and eventually all Callaghan Innovation customers.
- 14 Callaghan Innovation is recruiting engagement specialists, with a team of eight planned. These specialists will create a link between the R&D assessment process and the communication and support provided to businesses by Callaghan Innovation's Primary Relationship Managers (PRMs). For example, where the assessment team are seeing trends in common mistakes made in applications, or information gaps, the engagement specialists will take this insight and use it to inform the information and support provided to businesses before they apply.
- 15 In the longer term, PRMs will play a crucial role in ensuring that businesses understand the requirements of the RDTI and how to access it. Fully implementing the new engagement model and supporting the PRMs to play this role is dependent on the work outlined above to socialise, validate and embed the changes to the R&D eligibility criteria.
- 16 Once we have established a common language between Callaghan Innovation and businesses around the R&D eligibility criteria, PRMs will need to be able to carry forward these conversations and ensure that eligible businesses can successfully and sustainably access the RDTI. Work to train the PRMs will start by in May and will be ongoing as we get new insights on businesses' experiences, reflecting a continuous improvement approach to implementing the RDTI.
- 17 Good information sharing arrangements are critical to enable this work and evaluate its success. We will be working to resolve this as a matter of urgency over the next two weeks to ensure we have a fit-for-purpose data-sharing framework in place that supports effective engagement.

**The uptake numbers are improving, a full picture of the outcomes for year one will be available in middle of the year**

- 18 As of 7 April 2021, the number of businesses enrolled in the RDTI has increased to 786. We expect that most enrolments (but not necessarily all) will become applications (supplementary returns for Year One, or General Approvals for Year Two) close to their income year due dates. Year One applications (supplementary returns) are due to be filed by 30 April 2021 and will take a couple of months to process.
- 19 As of 31 March 2021, Year One applications had sought support for approximately \$18m of gross R&D expenditure, equating to approximately \$2.7m in RDTI support.
- 20 The following provides updated application numbers as at 7 April 2021:

Year	Applied/ filed	Processing	Approved	Declined/ Withdrawn
Year One – 2019/20 Supplementary return due: 30 April 2021	280	186	47	47
Year Two – 2020/21 General Approval <sup>1</sup> due 7 August 2021 <sup>2</sup> (reflects Covid extension)	294	179	32	83 <sup>3</sup>

## Next steps

---

- 21 Our next steps are as follows:
- Working with the R&D assessment team to embed the recalibrated criteria into operational practice. We will update on progress in this area towards the end of April.
  - Communicating the change to businesses including working with your office on material and opportunities to support your engagement with businesses on the RDTI.
  - Developing sector specific guidelines starting this month. We will provide a further update on how we plan to approach this process and prioritise sectors in the next few weeks.
- 22 We anticipate proactively releasing the PwC early implementation report and our response in April. We will provide you with advice and relevant material on the proposed release separately.

---

<sup>1</sup> General Approvals (GAs) are applications for approval of a businesses' R&D activity, businesses will then submit supplementary returns (with their R&D expenses) when they file their income tax returns. Businesses may submit more than one GA application if they have multiple R&D activities – the number of GA's does not reflect the number of businesses applying in Year Two.

<sup>2</sup> For businesses with a standard income year (1 April 2020 – 31 March 2021).

<sup>3</sup> 18 of these were "converted" to year one applications (supplementary returns) because the business had completed the wrong form.

## Annexes

---

Free and frank opinions

Annex Two: refreshed guidance on eligible R&D activity