MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Inland Revenue
Te Tari Taake

BRIEFING

R&D Tax Incentive: Summary of Submissions

Date:	29 June 2018	**Priority:**	Medium
Security classification:	In Confidence	**Tracking number:**	3679 17-18 IR2018/380

Action sought

	Action sought	Deadline
Hon Dr Megan Woods **Minister of Research, Science and Innovation**	**Agree** to forward this briefing to the Minister of Finance	6 July 2018
Hon Stuart Nash **Minister of Revenue**	**Agree** to forward this briefing to the Minister of Finance	6 July 2018

Contact for telephone discussion (if required)

Name	Position	Telephone		1st contact
Richard Walley	Manager, Innovation Policy	04 901 4134	s 9(2)(a) [redacted]	✓
Keith Taylor	Policy Manager, Inland Revenue	04 890 2808		

The following departments/agencies have been consulted

Minister's office to complete:

- ☐ Approved
- ☐ Noted
- ☐ Seen
- ☐ See Minister's Notes
- ☐ Declined
- ☐ Needs change
- ☐ Overtaken by Events
- ☐ Withdrawn

Comments

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Purpose

To inform you of the main themes from submissions received during the consultation on the R&D Tax Incentive Discussion Document: *Fuelling Innovation to Transform our Economy.*

Recommended action

The Ministry of Business, Innovation and Employment and Inland Revenue recommend that you:

	Min. R,S&I	**Min. Revenue**
Note the main themes of the R&D Tax Incentive consultation submissions.	*Noted*	*Noted*
Note policy recommendations on the R&D Tax Incentive will be available in July	*Noted*	*Noted*
Agree to forward this briefing to the Minister of Finance.	*Agree / Disagree*	*Agree / Disagree*

s 9(2)(a)
[redacted]

Richard Walley
Manager, Innovation Policy
Labour, Science and Enterprise, MBIE

29 / 6 / 18

Hon Dr Megan Woods
Minister of Research, Science and Innovation

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s 9(2)(a)
[redacted]

Keith Taylor
Policy Manager
Inland Revenue

29 / 06 / 2018

Hon Stuart Nash
Minister of Revenue

..... / ...... / ......

Background and consultation process

1. The R&D Tax Incentive Discussion Document *Fuelling Innovation to Transform our Economy* ("the Discussion Document") was launched on 16 April 2018. The consultation period finished on 1 June, giving roughly six weeks for submitters to prepare their responses. A number of submissions received shortly after the consultation period closed have also been taken into account, the final cut-off date being 8 June.

2. In parallel to the written submissions, we also organised six technical workshops with select key stakeholder groups, including R&D performing firms, startups and SOEs. There were also twelve in-depth interviews with individual organisations, including the "Big Four" (EY, PWC, KPMG, Deloitte).

3. As at 29 May, two days before the end of the consultation period, the Discussion Document had been downloaded 2,327 times.

4. In total, we received 214 R&D Tax Incentive submissions. The table below contains the breakdown of the submitters by segment.

Segment	Count	Description
Business	141	Businesses, R&D performing or otherwise
Industry Group	34	Levy bodies, advocacy groups and unions
SOE CRI DHB TEO	17	State-Owned Enterprises (SOEs), Crown Research Institutes (CRIs), District Health Boards (DHBs) and Tertiary Education Organisations (TEOs)
Individual	13	Individuals responding on their own behalf, not that of their business
TLA EDA	5	Regional councils and development agencies
Intermediary	4	The "Big Four" accounting firms
Total	**214**	

5. The Spinoff article "Save our startups: an R&D SOS", published 27 May 2018, included a request for readers to submit a template response. We received 108 such emails. We wrote back to the senders, asking them to read the Discussion Document and submit a formal R&D Tax Incentive submission. These formal response submissions (of which there were five) were included in the final 214.

Response analysis

6. A group of MBIE officials analysed the submissions to identify the key themes in the responses. They broke down submissions by theme and assigned a code to each comment, based on the position of the respondent.

7. Not all respondents answered all questions. Moreover, the questions in the Discussion Document did not address all themes explicitly. As a result, the total number of coded responses to many themes is lower than the submission count.

8. Conversely, codes used to analyse the submissions on each theme were not mutually exclusive; one submitter could provide a response which met multiple codes. Where suitable, multiple questions have been folded into one theme. As a result, the number of coded responses for some themes may exceed the number of submissions (eg “R&D definition scope” has 315 responses).

Key themes of the responses

9. A number of key themes that are expected to inform policy recommendations are listed below. In addition, we have identified several common threads across responses:

   a. confusion about the credit in comparison with the Growth Grants

   b. concern about the lack of support for startups and businesses in tax loss, and

   c. concern that software businesses may be excluded from the scheme.

   There was also concern that business eligibility rules as proposed may discourage multinational corporations from establishing, or maintaining, R&D performing entities in New Zealand.

Overall support for the R&D Tax Incentive was mixed

10. Of 139 responses, around a third show strong support for the R&D Tax Incentive. Another third favour Growth Grants and the final third have a range of views – from wanting to see a mixture of the R&D Tax Incentive and Growth Grants to preferring a different mechanism altogether.

11. Reasons for opposition to the tax incentive included:

    a. The rate of R&D subsidy under the tax incentive proposal was considered less favourable than that of the Growth Grant.

    b. The submitter’s business needs cash injections to grow, which they understood would not be available (at least in the first year). This was particularly to the case for startups and businesses in tax loss.

    c. Preference for a complete review of the R&D support system before introducing new support mechanisms.

    d. A belief that the R&D Tax Incentive would complicate the tax system whereas lowering the corporate tax rate would be less bureaucratic and a better approach.

R&D definition and eligible activities were contentious

12. The R&D definition garnered the greatest levels of response over any other design feature included in the Discussion Document, with 315 coded responses.

13. There was little support for the proposed definition, particularly with the proposal to limit R&D projects to those conducted using a scientific method. The proposed definition was viewed as overly restrictive and not reflective of R&D conducted in New Zealand.

14. Officials have undertaken additional work on this and suggest replacing ‘scientific method’ with ‘systematic approach’. This definitional change was canvassed during the consultation process and was supported in stakeholder meetings.

15. There is some concern from over 100 submitters that blanket R&D activity exclusions would mean activities critical to the R&D process could be excluded altogether.

16. Officials are moving away from idea of blanket exclusions to having a list of R&D activities included as support activities eligible for the R&D tax subsidy. Social science research would be one that could be included on this list.

17. The 80 out of 97 of submitters who commented on the dual purpose activity rule had doubts that this rule could work in practice. They believe that, if included, it would likely eliminate the majority of R&D undertaken in New Zealand as a result.

18. Officials are recommending dropping the dual-purpose activity rule but including a test to constrain claims to the genuine R&D portion instead.

The potential exclusion of SOEs, CRIs, TEOs, DHBs and their subsidiaries was unpopular

19. Of 95 responses, around two thirds indicated that exclusions for SOEs, mixed-ownership model companies, CRIs, TEOs, DHBs and their subsidiaries would be counterproductive. As part of their responses, a number of SOEs provided data on their R&D spending. Officials will analyse this data and incorporate it in the final policy recommendations.

20. At this stage, officials consider it beneficial to include SOEs, mixed-ownership model companies and their minority owned subsidiaries in the Tax Incentive scheme.

The credit rate was considered low, but was also misunderstood

21. 53 submitters commented on the credit rate. This number is likely to be low because there was not a specific question addressing the credit rate in the Discussion Document.

22. Submitters who did comment generally felt the rate was low compared to Growth Grants or other international schemes and may not induce additional R&D. Although only 11 respondents explicitly stated an alternative rate (rather than simply comparing the credit unfavourably with Growth Grants), three of those suggested 20 per cent, while three others stated that it should be comparative with the Australian rate (stated to be 43 per cent).

23. However, there appeared to be some confusion about how the proposed rate compares to the Growth Grant and the rates of tax incentives in other jurisdictions. It is inappropriate to compare headline rates (eg, the 12.5 per cent proposed in New Zealand with 43 per cent in Australia), because of the different structures of these incentives and tax systems that they interact with.

24. The OECD has developed a formula to aid such comparisons [Aide-Mémoire 3334 17-18 refers]. When this is applied, and the "implied tax subsidy" of the proposed R&D Tax Incentive is 12.5 to 17 per cent, whereas the Australian rate ranges from 5 to 19 per cent, depending on the size and profitability of the firm. While the Australian rate still higher for some businesses, the difference is not nearly so stark.

The minimum threshold was considered too high, particularly as this would impact startups

25. Around two thirds of the 117 responses on the minimum threshold indicated that $100,000 was too high and should be lowered. Most of the remaining responses were supportive of the threshold. Twenty-five submitters provided specific alternatives, the most popular of which was $50,000 (12 responses), followed by $20,000 (7 responses).

26. Reasons for preferring a lower threshold often centred on the impact on small businesses, and included:

    a. concern that projects in excess of $100,000 might be split across tax years and be thus rendered ineligible, and

b. concern that the actual costs of performing R&D might not be recorded in the accounts of startups, because the owners often worked unpaid at the beginning of the business.

The cap was largely supported, as was the pre-registration mechanism

27. 83 submitters comment on the $120 million cap on R&D and the mechanisms to go beyond it, with the vast majority in favour.

28. The Discussion Document proposed two mechanisms for exceeding the cap; pre-registration and ministerial discretion. Of these, submitters preferred pre-registration.

Overseas expenditure generated few responses

29. Only 30 respondents submitted on the issue of overseas expenditure. 22 of these indicated that critical R&D takes place overseas beyond the 10 per cent level. One suggestion was for some form of pre-approval system for businesses that could demonstrate that their R&D could not be performed in NZ (eg animal control products to be tested on animals not in New Zealand).

Limits on eligible expenditure was acknowledged as simple, but not favoured

30. The Discussion Document contained two proposals for limiting eligible expenditure:

    a. to limit claims to labour costs only, or

    b. to include some overheads as a percentage of total labour costs claimed.

    Both received over a hundred responses (117 and 103 respectively).

31. Limiting eligibility to labour costs only was the less popular of the two, with over half of respondents (63) arguing that the test does not accurately capture R&D expenditure. Others felt it favoured labour-intensive industries (28) or large firms (6). Only a sixth of respondents appeared in favour, arguing that it was simple to administer (17).

32. The inclusion of overheads as a proportion of labour costs received more support. A sizeable portion (63 of 103) felt it favoured certain industries or firms, but a third (31 of 103) appeared to be in favour, often because it was acknowledged as simple to administer.

Continuity rules were unpopular

33. Of 58 responses, 47 were against the extension of continuity rules to the R&D Tax Incentive. Many were concerned about the effect this would have on startups, which by their nature often undertake shareholding changes as they seek funding. It was also suggested that receiving the credit ought to be an incentive for investors, not a disincentive.

Businesses in tax loss felt they would be negatively impacted

34. While not asked specifically about this in the Discussion Document, over 50 submitters indicated the R&D Tax Incentive needed to be refundable from the start.

35. 42 submitters, most of whom were Growth Grant recipients, also implied that without quarterly cash injections their business would be negatively impacted.

Transparency and evaluation were popular in principle

36. The Discussion Document suggested the following would enhance transparency and evaluation:

    a. publishing the names of recipients, and the value of the credit (in bands), with a two-year delay

b. making taxpayer-specific information related to the R&D Tax Incentive available to Treasury, Callaghan Innovation and MBIE officials to support evaluation and policy development, and

c. integrating claim information into Stats NZ's Longitudinal Business Database and the National Research Information System.

37. Respondents were generally in favour of these measures. Roughly a third of responses (22 of 74) were against the measures, or raised caveats to their support. These caveats focussed on commercial sensitivity, particularly when the business is in competition internationally.

Extending penalties on advisors were also popular in principle

38. The Discussion Document asked whether penalties should be extended where a tax advisor is to be paid on a contingency basis, and the application demonstrates a serious offence. Some respondents (13 of 49) felt that raising penalties may have a negative impact, particularly that raising risk for advisors could increase consultancy fees, thus disincentivising applications for the tax credit.

Next steps

39. Officials will use the credit rate, threshold and cap to help forecast the fiscal cost of different variations to the R&D Tax Incentive to be implemented in 2019. Policy recommendations on the R&D Tax Incentive will be put to Ministers in July. MBIE will also provide a summary of Growth Grant transition submissions and policy recommendations to Minister Woods in July.

40. Draft Cabinet papers outlining decisions on the R&D Tax Incentive and the Growth Grant transition will be sent to Ministers in August, with the expectation that they will be submitted to the Economic Development Committee for approval in September.

Annexes

Annex One: Tables of Response Counts by Theme

Annex One: Tables of Response Counts by Theme

General support for the tax incentive		
Response	**Quote**	**Response count**
Submission supports R&D tax incentive	• Thanks for bringing this scheme back. It's very important we keep it running longer this time. • We agree that it is a good idea for New Zealand to have a research and development tax incentive scheme and regard it as rather unusual that we do not have one already.	48
Submission prefers Growth Grant to R&D tax incentive	• In our view there are better mechanisms available to assist the New Zealand business community with increasing its R&D investment than the re-introduction of an R&D tax credit. For example, the current grants administrated by the Callaghan Innovation. • The proposed 12.5% is lower than the equivalent of the R&D Growth Grant (as a tax credit) ie 14.4%. The effective decreased level of support will discourage more R&D.	44
Would like to see a mixture of Growth Grant and R&D tax incentive		15
Incentive favours large business over smaller start-ups		11
R&D tax incentive will not increase R&D spend		5
Better to use other incentives/mechanisms		5
Opposes the R&D tax incentive		3
Scheme possible to manipulate		3
Other comment made		5
	Total responses	139

Base: 214 R&D tax incentive submissions

R&D definition scope		
Response	**Quote**	**Response count**
Scientific method too limiting	• Relying only on the so-called Victorian-age 'scientific method' actively excludes researchers, research and innovation that is managed through design thinking, developmental evaluation approaches, systems science or kaupapa Maori science. • The R&D definition should be expanded beyond "scientific method". The current definition will exclude genuine R&D which should be incentivised (e.g., data and software type R&D activities). A "systematic approach" type test may be more suitable.	83
Additional aspects need to be included	• We submit that Officials should add an additional limb to the definition of R&D, to recognise R&D that is 'novel' but does not necessarily / strictly resolve technological or scientific uncertainty (also commonly referred to as 'use cases'). • Patenting is a natural extension of research and secures benefits for the NZ company. Why should this be excluded? Also, statutory requirements relating to the research work can be a significant cost (e.g. animal ethics approvals).	78
Proposed definition too limiting	• Overall, we are concerned that the proposed scheme and definition potentially exclude or restrict software R&D, design-led innovation and early-stage companies • The definition of R&D is an issue if we are going to become more competitive, together with what is eligible expenditure in that regard. If we are academic about this, and less market focused we will miss the opportunity.	65
Too much focus on science not enough on development		29
Support for proposed definition		28
Another approved definiton better		10
Scientific method/defintion needs further clarification		8
Other comment made		14
	Total responses	315

Base: 214 R&D tax incentive submissions

R&D definition materiality test

Response	Quote	Response count
If included would limit important R&D	• We feel materiality tests are not appropriate. The measurements should be on the process of improvement and development. The introduction of materially is likely to encourage medium and large businesses only. Continuous Improvement may also be excluded under the materiality test.	43
Too difficult to measure	• This question alone would take hours to truly answer. It is lacks a of definition of what may constitute "materiality". Surely the purpose of R&D is to benefit the wealth & welfare of the citizens of the nation. Often the outcomes of R&D cannot be accurately foreseen, or change due to discoveries along the way.	28
General support for a materiality test		11
It would increase administrative burden		3
Other comment made		7
	Total responses	92

Base: 214 R&D tax incentive submissions

Business eligibility tests

Response	Quote	Response count
Business eligibilty tests would lead to exclusions (e.g. given)	• If this criterion remains in place, global businesses headquartered overseas will not consider New Zealand for their R&D functions when compared to other potential jurisdictions. This may limit the effectiveness of the regime and in particular job creation as it will not attract foreign investment to New Zealand.	11
Ownership structure not this simple		6
Another test would be better (e.g given)		5
Other comment made		2
	Total responses	24

Base: 214 R&D tax incentive submissions

Exclusions to business eligibility e.g. SOEs CRIs, TEOs, DHBs and their subsidaries

Response	Quote	Response count
These organisations are important players in the innovation system, exclusions will reduce R&D in New Zealand	• These organisations (not just private organisations) are major partners to private enterprise in assisting R&D endeavour. If there is no incentive for them to get involved and as such play an even larger role in R&D facilitation - this will certainly impede the scheme's progress in our view	43
These organisations are already government funded so should be excluded	• No impact from them being excluded as they can already access government funding.	18
The exclusions will have little impact on R&D in New Zealand		12
Anti-competitive if excluded		9
Need to support collaboration with others in the R&D system, exclusions will hinder this		8
Other comment made		5
	Total responses	95

Base: 214 R&D tax incentive submissions

Core and support activity exclusions		
Response	**Quote**	**Response count**
Some activities should be included, as critical to R&D process	• Activities such as literature review, IP protection, competitor IP analysis, are critical to successful research (& Development). Likewise, product design is integral to Development.	78
Support for social science inclusion	• As economics is a social science, it is difficult to imagine business R&D anywhere without social science. Psychology, sociology, and anthropology also play roles in business R&D as the creation, maintenance, improvement, and expansion of a business is driven by the humans that operate it, and understanding human behaviour is vital to any firm's success.	24
Generally happy with blanket exclusions		14
Difficulty separating out some activities from the R&D process		3
Core activities only		2
Other comment made		4
	Total responses	125

Base: 214 R&D tax incentive submissions

Dual purpose activities		
Response	**Quote**	**Response count**
Too much overreach in the test	• We strongly recommend the removal of dual purpose activities from the exclusion list. In our view, it may be difficult to drive faster growth of business R&D if dual purposed activities are ineligible for the R&D tax incentive.	46
Difficult to distinguish in practice	• The proposed exclusion for 'dual purpose R&D' is unworkable as no business does R&D solely for the sake of doing R&D. Every business has a profit motive and conducts R&D for a commercial end.	23
Penalises certain types of firms and/or industry		11
Supportive of a dual purpose test		6
Would have little or no impact		4
Further innformation/clarification is required		2
Other comment made		5
	Total responses	97

Base: 214 R&D tax incentive submissions

Overseas R&D expenditure

Response	Quote	Response count
Critical R&D takes place overseas beyond this level	• We develop products for export that must be tested and registered overseas. [redacted] s 9(2)(b)(ii) [redacted] s 9(2)(b)(ii) The testing and development cannot be undertaken in New Zealand (we need access to the pest and non-target animals that do not exist here). Once we have developed and registered the products overseas we will manufacture and export them from New Zealand, and all revenue will return here.	22
The level set is about right		5
Other comment made		3
	Total responses	30

Base: 214 R&D tax incentive submissions

Commercial consideration

Response	Quote	Response count
Too much overreach in the test	• We understand that the intent of this limitation is to ensure that the entity claiming the credit bears the financial risk of the R&D, and that there is no 'double dipping'. However, if this is the concern, we expect it can be appropriately addressed through a more targeted measure. CompanyX is reimbursed for certain R&D activities by CompanyX Corporation. This is a commercial structure employed globally by many multinationals. It appears that the currentproposals would exclude any R&D undertaken by CompanyX that is subject to reimbursement, as this would be viewed as commercial consideration.	25
This test seems fair		13
Businesses shouldn't be penalised for risk mitigation		10
A percentage approach better		8
Test is not clear/would create uncertainty		7
Other comment made		8
	Total responses	71

Base: 214 R&D tax incentive submissions

Eligible expenditure constraints - labour only

Response	Quote	Response count
Test does not accurately capture R&D expenditure	• While labour costs recognise the intellectual capital of the scientific process and would simplify decision-making by government, it is simply too narrow. Direct labour costs also ignores materials and equipment that the labour relies on and without which scientific methodologies are not undertaken or are sub-optimal	63
Favours labour intensive industries over capital intensive	• If eligible expenditure is limited solely to R&D labour costs this will favour certain industries over others, such as software which is labour intensive, whereas manufacturers and agribusinesses traditionally have a lower labour component. Further, it will distort the real cost of R&D	28
Simple to administer		17
Favours large firms over small		6
Other comment made		3
	Total responses	117

Base: 214 R&D tax incentive submissions

Eligible expenditure constraints – overheads as proportion of labour costs

Response	Quote	Response count
Simple to administer	• Makes it simple and consistent to apply and administer, I'd support it. It may not reflect the actual situation for any business (be too high or too low).	23
Favours labour intensive industries over capital intensive	• Calculating overhead costs as a set percentage of direct labour is, in our view inappropriate for determining true eligible R+D costs. We feel the first option delivers a more realistic outcome. For example: tooling, engineering or modelling for Proof of Concept studies in the pharmaceutical industry is capital intensive.	21
Doesn't accurately capture the true overhead cost of R&D	• Calculating overhead cost is a fixed percentage of R&D investment is not an accurate way to apportion spend. We believe that it is reasonably straight forward to identify the true proportion of overhead costs and we have certainly been able to do that in our organisation. Specifying a fixed percentage is not an accurate or fair method to use.	19
Favours large firms over small/doesn't take firm differences in to account		13
Supportive of the measure		9
Would be complicated to administer		7
Other comment made		11
	Total responses	48

Base: 214 R&D tax incentive submissions

Continuity rules

Response	Quote	Response count
Unsupportive of continuity rules	• The tax credits should be available to be carried forward. It would be important to retain the value of the credit generated while in a loss making situation. The ability to carry forward will also make a venture more attractive for securing further investment.	28
Continunity rules would disadvantage start ups	• The business start-up and equity raising cycles in software product businesses means continuity rules would be have negative impacts on start-up business.	19
Supportive of continuity rules		3
Other comment made		8
	Total responses	22

Base: 214 R&D tax incentive submissions

Minimum threshold

Response	Quote	Response count
Threshold negatively impacts start-ups and/or should be lowered	• The discussion document assumes that innovative start-up entities conducting R&D will employ at least one full-time employee. This is simply not the case. Often innovators are not remunerated because the entity does not have the funds to finance a salary. Any available funds/finance is used for other expenditure which may not exceed $100,000 p.a. This could also limit access for those entities that commence their R&D program late in the financial year. • How about a threshold of $50,000 per year, or firms that spend $100,000 over 2-3 years get to file a return when the limit is reached?	61
Supportive of $100,000 minimum threshold	• We agree that this minimum threshold is reasonable. Organisations need to have a critical mass of R&D for their activity to have a long term impact in building their internal R&D capability. The figure of $100,000 is approximately 1 full time equivalent skilled employee fully costed for overheads.	33
There shouldn't be a minimum threshold		9
Not set at the right threshold because…		5
Miniumum threshold should be dependent on administration cost		3
Support for a higher minimum threshold		3
Other comment made		3
	Total responses	117

Base: 214 R&D tax incentive submissions

Cap

Response	Quote	Response count
Supportive of proposed mechanisms to go beyond the cap (pre-registration or ministerial discretion)	• For reasons of programme sustainability we support a cap. A mechanism to go beyond the cap for genuine large R&D spenders would be beneficial for the New Zealand economy.	26
	• Pre-registration. Ministerial discretion immediately makes it a political decision which no one wants.	
Supportive of a cap		13
Cap is important to prevent misuse		12
Not applicable to the business		6
Cap may limit R&D in New Zealand		4
Cap too high		3
Supportive of another mechanism to go beyond the cap		3
Use cap to vary credit rate		3
Not supportive of a mechanism to go beyond the cap		2
Need an independent monitoring body		1
Other comment made		10
	Total responses	83

Base: 214 R&D tax incentive submissions

Credit rate

Response	Quote	Response count
Too low compared to growth grants	• The proposed 12.5% is lower than the equivalent of the R&D Growth Grant (as a tax credit) ie 14.4%. The effective decreased level of support will discourage more R&D. If the purpose is to encourage R&D then it needs to be at least equivalent to the Growth Grant.	22
Proposed rate wouldn't induce more R&D	• The Discussion Document states the R&D tax credit will be set at 12.5%. This is below the 15% rate previously introduced under the 2008 tax credit scheme and lower than the 20% growth grant (14.4% after tax) over the last four years. A relatively low 12.5% does not seem consistent with the aspirational goals outlined in the Discussion Document	14
Too low compared to other international schemes		12
Other comment made		5
	Total responses	53

Base: 214 R&D tax incentive submissions

Businesses in tax loss

Response	Quote	Response count
The incentive does not benefit businesses in tax loss, it should be refundable	• We strongly urge it to consider a "refundability" mechanism and that these refunds are paid on a quarterly basis. Start-up companies need cash in order to fund their ongoing R&D Activities and to accelerate the growth of the business. While there is uncertainty around the refundability of the R&D Tax Incentive it will be more difficult for early stage businesses to raise capital from investors.	53
Prefer retention of R&D tax loss cash-out policy/R&D grants		4
Other comment made		5
	Total responses	62

Base: 214 R&D tax incentive submissions

Transparency and evaluation

Response	Quote	Response count
Supportive of the measures (but commercially sensitive information must be protected)	• Support the measures listed. There should be no publication of the nature of the R & D, not that it is suggested. Although an internet search will generally disclose what is it but that is controllable by the business undertaking the research. • Transparency is important. Recipient names being published is acceptable, amounts involved could have business impacts, particularly in competitive environments.	44
Disagrees with some of the measures (e.g. publishing of recipient names and amount of credit) due to risks-transparency conflicts with commercial sensitivity	• We are opposed to the suggested transparency method as it will negatively affect business behaviour and competition. It will allow competitors access to confidential information that could impair business activities. • That information is still commercially sensitive, even after a two-year period, especially as we are competing in global markets.	22
Other comment made		8
	Total responses	74

Base: 214 R&D tax incentive submissions

Penalties

Response	Quote	Response count
Support extending penalties	• Please make this programme simple enough that we do not need to hire expensive advisors. And yes, make them liable.	25
Proposed penalties likely to have negative impact	• There is a risk that exposure to penalties will be pushed down to businesses via increased advisor fees. We do not support this approach. We would encourage government to consider softer alternatives to advancing the promoter penalty rules. For example, a mandatory declaration that a claim has been filed with a contingent fee basis may allow for more refined risk profiling.	13
Other comment made		11
	Total responses	49

Base: 214 R&D tax incentive submissions

Administration

Response	Quote	Response count
Role of administrative agency is important (including role of CI and other agencies)	• Without a clear line of sight between Callaghan and the IRD, we are concerned that we will lose the value-add that Callaghan brings in terms of advice and networking regarding new business opportunities that can be collaboratively or individually pursued.	17
Audit and integrity measures are important		16
Other comment made		8
	Total responses	24

Base: 214 R&D tax incentive submissions

Cash flow timing issues

Code	Quote	Response count
Would have a negative impact on R&D	• R&D companies rely on the cash received from the Growth Grant and tax loss cash-out scheme, and under the new scheme there will be no financial benefit until in a profit position. We would therefore prefer a scheme which provided rebates on a quarterly basis, and cash out of tax losses under the current scheme. • It seems the proposed system allows for claims once per financial year. The Growth Grant currently allows for quarterly claims which means companies get in injection of cash every quarter to help them to pay for ongoing R&D throughout the year. The proposed scheme should continue to allow for quarterly pay outs otherwise it will dramatically affect the cashflow and days to zero for start-ups.	42
Other comment made		3
	Total responses	45

Base: 214 R&D tax incentive submissions

Pre-approval process

Response	Quote	Response count
Would increase business certainty		11
Administrative agency (including role of CI) is important		2
Other comment made		2
	Total responses	4

Base: 214 R&D tax incentive submissions

Data/information needed to support the claim

Response	Quote	Response count
Reduce administrative burden	• The support should be tiered with the investment made by the business, with very low administrative hurdles to access low levels of support. These early stage businesses do not often have the time, resources or skills to satisfy complex administrative requirements, even though they are exactly the type business or idea targeted by the scheme. • Inland Revenue processes are focussed on low compliance costs and ease of use, preferably paperless. The proposed process is in line with that direction. Tax Incentive process officials should look to reduce compliance costs and processes.	43
Keep current level of record keeping (i.e. growth grants)	• From our experience, setting up processes to capture the eligible R&D and the ongoing tracking has been challenging. In saying this it has been of benefit to the company as it has allowed us to make informed decisions regarding the direction of projects. The current growth grant and the information required is the right level.	18
Third party software is a good idea to support claims		17
Ensure extensive education and guidance		16
Other comment made		21
	Total responses	72

Base: 214 R&D tax incentive submissions