MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Inland Revenue
Te Tari Taake

CallaghanInnovation

# BRIEFING

## R&D Tax Incentive: Support for loss-making firms and transition arrangements for Growth Grant recipients

| | | | |
|---|---|---|---|
| **Date:** | 19 July 2018 | **Priority:** | High |
| **Security classification:** | In Confidence | **Tracking number:** | MBIE 3950 17-18<br>Inland Revenue IR2018/499<br>CI B-18-024 |

**Action sought**

| | Action sought | Deadline |
|---|---|---|
| Hon Dr Megan Woods<br>**Minister of Research, Science and Innovation** | **Agree** to one of the presented options for providing support to firms in loss through the Tax Incentive<br><br>**Agree** to one of the presented options for transitioning existing Growth Grant recipients onto the Tax Incentive<br><br>**Discuss** further administrative options for the transition with Officials<br><br>**Forward** this briefing to the Minister of Finance | 30 July 2018 |
| Hon Stuart Nash<br>**Minister of Revenue** | **Agree** to one of the presented options for providing support to firms in loss through the Tax Incentive<br><br>**Agree** to one of the presented options for transitioning existing Growth Grant recipients onto the Tax Incentive<br><br>**Discuss** further administrative options for the transition with Officials<br><br>**Forward** this briefing to the Minister of Finance | 30 July 2018 |

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

| Name | Position | Telephone | | 1st contact |
|---|---|---|---|---|
| Richard Walley | Director, Science, Innovation and International, Ministry of | 04 901 4134 | s 9(2)(a) | ✓ |

| | | | | |
|---|---|---|---|---|
| | Business, Innovation and Employment | | | |
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| Becci Whitton | Manager Stakeholder and Government Engagement, Callaghan Innovation | - | s 9(2)(a) | |

| **The following departments/agencies have been consulted** |
|---|
| Treasury |

**Minister's office to complete:**

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| ☐ See Minister's Notes | ☐ Withdrawn |

**Comment**

# BRIEFING

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## Purpose

This paper is to provide advice on the options for providing support for loss-making firms and the transition arrangements for Growth Grant recipients.

## Executive summary

Government intends to introduce the R&D Tax Incentive on 1 April 2019. The eventual aim is to make the Tax Incentive refundable, to ensure loss making firms are able to benefit from the incentive on an equivalent basis to tax-paying firms. We have previously advised that this will not be possible in the first year of the Incentive, the 19/20 tax year, and have consulted on various transitional options to provide support for loss making firms.

Officials now consider limited refundability for the 19/20 tax year could be possible. If introduced, this will be end-of-year refundability, that is, cash payments made after 19/20 tax returns are submitted, some time from July 2020 onwards. In-year refundability, a scheme that could mirror the in-year payments made under the current Growth Grant scheme, could be possible for the 21/22 tax year.

Loss-making firms not eligible for a growth grant will be no worse off under any tax incentive, but may not respond to the Incentive until in-year payments are introduced. A number of consultees from the start-up community in particular commented on this in response to the consultation.

We think you have two main options for supporting these firms to accelerate their R&D expenditure more quickly. These are to implement end-of-year refundability as soon as possible in 19/20 (an advance on the position set out in the discussion document), or extend the Growth Grant scheme, including allowing new applications, until in-year refundability is available. On balance, officials prefer the first option, as it improves the situation of many R&D performing firms compared to the current state, and signals a clear future direction towards the Tax Incentive as Government's main broad-based R&D subsidy instrument.

These options interact with options to transition firms currently receiving Growth Grants onto the tax incentive. If Growth Grants are closed earlier than April 2021, these firms will experience a gap in cash-flow related to lack of in-year payments, which may negatively affect their R&D performance. However, grandparenting until 2021 means extending Growth Grants for two years, meaning some firms will experience an extended period of preferential treatment compared to those receiving the Tax Incentive. On balance, officials consider the longer grandparenting period preferable.

Further options to expedite the transition of grandparented firms onto the Incentive (such as reducing the Growth Grant rate to match that of the Incentive) are available, but come with additional administrative complexity and cost. This is not an insurmountable problem, and further advice can be provided if you are interested.

We will reflect your decisions on this paper in the Cabinet paper on policy settings for the Tax Incentive, and provide follow-up advice as required.

## Recommended action

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

| | | Min RS&I | Min Revenue |
|---|---|---|---|
| 1) | **Agree** to<br>EITHER<br>a) provide R&D support to loss-making firms through the introduction of limited tax refundability, starting in the 19/20 tax year (**recommended**) | *Agree/ Disagree* | *Agree / Disagree* |
| | OR<br>b) keep Growth Grants open, including to new applicants, until April 2021, with altered settings to mirror the Tax Incentive (not recommended) | *Agree/ Disagree* | *Agree/ Disagree* |
| 2) | **Agree** to<br>EITHER<br>a) end all Growth Grants on 31 March 2020, as proposed in the discussion document (not recommended) | *Agree/ Disagree* | *Agree / Disagree* |
| | OR<br>b) keep Growth Grants for existing recipients available until 31 March 2021 (**recommended**) | *Agree/ Disagree* | *Agree/ Disagree* |
| 3) | If you agree to grandparent Growth Grants until March 2021, **discuss** the possibility of amending the terms and conditions of those Grants with officials, with a view to receiving further advice on the administrative cost and benefits of those changes. | *Agree/ Disagree* | *Agree / Disagree* |
| 4) | **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

19 / 07 / 18

s 9(2)(a) [redacted]

Vic Crone
Chief Executive
**Callaghan Innovation**

19 / 07 / 18

s 9(2)(a) [redacted]

Keith Taylor
Policy Manager
**Inland Revenue**

19 / 07 / 18

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

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Hon Stuart Nash
**Minister of Revenue**

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# Background

**Government intends to introduce the R&D tax incentive on 1 April 2019**

1. On 26 February 2018, Cabinet agreed to introduce a Research and Development (R&D) Tax Incentive on 1 April 2019.

2. The Government intends that the R&D Tax Incentive will support all businesses doing R&D regardless of their financial position. However, firms with insufficient tax liability – which includes both firms in loss and those in profit with a tax liability lower than their tax credit – will not be able to use a tax credit immediately. For simplicity, in the remainder of this briefing we refer to these firms collectively as loss-making firms, even though some of these firms may be making a small profit.

3. Consultation on the proposed R&D Tax Incentive scheme and the transition plan for Growth Grant recipients ended on 1 June 2018. We provided you with a summary of the main themes from submissions on the R&D Tax Incentive discussion document on 29 June 2018 (MBIE 3679 17-18). Annex One to this briefing presents a summary of main themes from the submissions on the transition plan for Growth Grant recipients.

4. A briefing on key design features of the R&D tax incentive was sent to Ministers on 12 July. (3681 17-18, IR2018/435, CI B-18-023 refers). This briefing covers permanent features of the tax credit, but did not cover some short term issues.

5. Because of the R&D Tax Incentive limitations under the current proposal, there are two further areas that need to be considered:

   a. How to support loss making businesses in the R&D Tax Incentive's first two years ; and

   b. How to best transition Growth Grant recipients onto the new R&D Tax Incentive scheme.

6. This paper treats these as two separate decisions, even though they are interconnected.

# Support for loss making firms

**The eventual aim is to make the tax incentive refundable, and we have previously advised that this will not be possible for the 19-20 tax year**

7. The Government intends that the R&D Tax Incentive will support all businesses doing R&D regardless of their financial position. However, loss making businesses will not be able to use a tax credit immediately.

8. Loss making firms will be able to carry tax credits forward to future years. For some firms, with good prospects of moving into profit and the ability to raise finance without diluting shareholding in the interim, the availability of a tax credit that can be claimed in future years will provide an incentive to do extra R&D. However, for other firms, typically small-and-medium enterprises (SMEs) in the start-up phase, an R&D tax credit that cannot be realised until an indefinite point in the future (and sometimes not at all if the majority shareholding changes significantly) will have limited impact on their decision making to do more R&D.

9. The Government intends to provide a mechanism for loss-making firms to cash out – or "refund" – their tax credits. We have previously advised that it will not be possible to implement a mechanism for refunding R&D tax credits through the tax system in time for the introduction of the R&D Tax Incentive on 1 April 2019 (MBIE 1714 17-18, IR2018/083). Support for firms in loss would be implemented from 1 April 2020 (Year 2 of the tax incentive). Officials were

directed to develop options for refundability through the tax system or a complementary grant mechanism.

10. The rationale for deferring refundability to 2020/21 was to enable a fuller policy process than would be possible in time for the introduction of legislation required to achieve a 1 April 2019 commencement. Though there are strong economic arguments in favour of refundability (in particular, the equal handed treatment of firms in profit and loss), it also comes with greater fiscal and fraud risks.

11. The issues to be worked through include:

s 9(2)(f)(iv) [redacted]

**Officials now consider limited refundability for the 19/20 tax year could be possible…**

12. Inland Revenue considers deferral of refundability until 2020/21 the most prudent strategy. However, officials – including Inland Revenue – are mindful of the feedback received during the consultation and the benefits of providing support for cash-constrained R&D firms sooner.

13. It could be feasible to provide a limited form of refundability from the first year of the tax credit, if we attend to careful management of the risks through an initially conservative approach with built-in limits. These limits may include a cap on the amount of a claim, restrictions on the eligibility to receive a refund, and a discount imposed on the original value of the tax credit.

14. While the work to determine the limits that would need to be placed on refunds in the first year has not been completed, we anticipate the limits would need to be significant to avoid constraining the refundability policy that applies from 2020/21. Because of the time constraints associated with legislation, it is likely that the scheme would borrow from the mechanisms specified in existing legislation, such as the limitations that apply to the tax-loss cash-out[2].

15. If refundability were available for the 2019/20 tax year, eligible firms would start to receive pay-outs once their 2019/20 tax return was processed, which is an end of year process.  Business could expect to receive the credit from July 2020 onwards. This is different from an in-year 'real-time' cash payment, as is provided by the Growth Grant.

**…with in-year refundability possible for the 21/22 tax year**

16. Inland Revenue will not be in a position to provide in-year cash payments to firms during the 2019/20 and 2020/21 tax years for the following reasons:



[1] s 9(2)(f)(iv) [redacted]

[2] In 2019/20, the constraints applying to the tax-loss cash-out are: at least 20% of the firm's labour cost is R&D related and the maximum eligible R&D expenditure is $1.8m. For firms that met the R&D intensity test, and at a tax credit rate of 12.5%, this would mean a maximum payout of $225,000. In 2008/09, when the tax credit rate was 15%, 90 firms had tax credits above $225,000, while the remaining 550 firms received tax credits below that level. It is not known how many of the firms in 2008/09 would have met the wage intensity test. Currently, around 350 firms are in the tax-loss cash-out scheme and therefore meet that test.

a. Inland Revenue systems are currently organised around an annual tax return and changing to assess and process claims on more frequent intervals requires significant system changes.

b. For in-year refundability to be feasible, firms would need to submit their returns via approved third-party software that categorises expenditure according to pre-determined rules. This would provide higher confidence in the R&D claim. Inland Revenue has commenced discussions with software providers but any agreement to develop an R&D module is some way off.

c. Inland Revenue considers that implementing some form of pre- or in-year approval of the R&D activity (separate from the expenditure claim) is also a necessary complement to in-year refundability.

d. Inland Revenue is in the midst of its Business Transformation, so system resources cannot be readily prioritised to other issues.

17. s 9(2)(f)(iv) [redacted]

**Firms not eligible for a Growth Grant will not be made worse off by absence of in-year cash payments in 2019/20 and 2020/21, but may not respond to the R&D Tax Incentive**

18. A number of firms and commentators, especially those associated with the start-up community, have expressed opposition to the R&D Tax Incentive because of the perception that it is more suitable for established firms than for the young and small firms. The announcement in the R&D Tax Incentive proposal that refundability would not be available in the first year appears to have fuelled this perception.

19. A small number of those firms would have become eligible for a Growth Grant during the 2019/20 year, but the proposed closure of the scheme to new applicants on 31 March 2019 will mean that this option is not available to them. Based on previous trends, Callaghan Innovation estimates that there would be between 70 and 90 firms in this position each year, of which two thirds could be in loss. The inability to obtain in-year cash payments through either a Growth Grant or the R&D Tax Incentive in 2019/20 and 2020/21 will mean these firms will be worse off in the short term as a result of the transition to the R&D Tax Incentive, compared to the continuation of the Growth Grant scheme. However, these firms will still be eligible for the more generous Project Grants.

20. The remainder of loss-making firms (i.e., those that would not have been eligible for a Growth Grant) may be disappointed by the absence of in-year cash payments but will not actually be worse off than under the current system. In fact, the ability for some of them to obtain a refund of their tax credit after the end of the 2019/20 year will mean that the Government will be providing these firms with more support than they would have received under the current system.

21. The delay before these firms will receive cash payments may reduce the impact of the R&D Tax Incentive in the first year.

**Growth Grant recipients are unlikely to take up the proposed temporary grant as they can continue receiving quarterly cash payments through their Growth Grant**

22. As an alternative to the current Growth Grant, we had consulted on a temporary grant for loss-making firms that mirrored the R&D Tax Incentive but with quarterly cash payments. The intention of the proposed temporary grant was to remove a barrier to loss-making Growth Grant recipients from moving onto the Tax Incentive from 1 April 2019. The grant would be administered by Callaghan Innovation, with the processes they use for assessing and paying

out Growth Grants. Support from Inland Revenue would ensure the terms of temporary grant mirrored those of the R&D Tax Incentive.

23. We believe it is unlikely that any Growth Grant recipients in loss would move onto the temporary grant scheme. All Growth Grant recipients that participated in interviews and that provided written feedback on the proposal indicated that they would be likely to stay on the Growth Grant until 31 March 2020. The main reason is that they perceive the terms of the Growth Grant to be more favourable than the terms of the R&D tax incentive (under the current proposal), and that the temporary grant conferred no additional benefit. Our own analysis also indicates only a handful of Growth Grant recipients would be better off under the R&D Tax Incentive on its proposed terms than under the Growth Grant scheme, so would not benefit from taking up the temporary grant.

24. Moreover, among those who submitted on the transition proposal there also appeared to be widespread confusion about the form of temporary grant so many had not seriously considered it as an option. The uncertainty around what R&D will be eligible under the Tax Incentive and the costs of changing their funding for a short period, means that even if Growth Grant recipients could benefit from the temporary grant (eg, because they could claim for more R&D) they would still be unlikely to take it up for the 2019/20 year.

## Options for supporting firms in loss

**There are two main options for providing support for firms in loss in the initial years of the tax incentive**

25. On the assumption that in-year refundability will not be available in the 2019/20 and 2020/21 tax years (but will be available in the 2021/22 tax year), we consider there are the following broad options for supporting businesses in loss:

    a. Through the tax incentive: Provide limited, end-of-year refunds for claims under the R&D Tax Incentive for the 2019/20 tax year and more comprehensive, end-of-year refunds for the 2020/21 tax year for loss-making firms.

    b. Through the Growth Grant: Keep the Growth Grants scheme open to new applicants until 31 March 2021, possibly with changes to the eligibility criteria and subsidy rate to mirror the R&D Tax Incentive.

26. These options are not mutually exclusive. Combinations of these options will be important for transitions, which are discussed in the section of the briefing following this one.

**The addition of end-of-year refundability to the first years of the tax incentive is a more advanced proposal than was set out in the discussion document, and can contribute to the uptake of the tax incentive**

27. Option a. is closest to the proposal outlined in the Discussion Document. It includes in addition the offer of limited, end-of-year refunds available for claims under the R&D Tax Incentive for the 2019/20 tax year.

28. The addition of limited refunds for the 2019/20 tax year option is likely to address some of the concerns raised in consultation. It will also bring more firms onto the tax incentive more quickly, and contribute to the medium-term stability and success of the initiative.

**Keeping Growth Grants open will provide comprehensive in year-support but will probably be a more attractive option than the tax incentive while they remain open**

29. Option b., keeping the Growth Grant scheme open until 31 March 2021, including to new applicants, would enable in-year payments to firms in loss for the 2019/20 and 2020/21 tax

years, after which Inland Revenue expects to be able to provide in-year refundability through the tax system.

30. This would counter the concerns of those firms that would have been eligible for a Growth Grant, and hence are made worse off by the absence of in-year payments under the R&D Tax Incentive in the first two years. Moreover, the eligibility criteria and subsidy rates for the Growth Grant could potentially be changed to mirror those of the R&D Tax Incentive, and thereby provide in-year payments in the first two years to all firms.

31. Callaghan Innovation notes that it is relatively simple to change the eligibility requirements (e.g., lower the minimum R&D expenditure threshold) and the rate at which the Growth Grant is paid out for new applicants.[3] Moreover, the processes for determining expenditure eligibility under the Growth Grant rules are already well developed.

32. s 9(2)(g)(i) [redacted]

## Options for transitioning businesses from Growth Grants to the tax incentive

**Some businesses indicated that they would prefer more time to transition off Growth Grants than was proposed**

33. The proposal outlined in the discussion document is to allow all businesses with an active Growth Grant on 31 March 2019 to continue receiving Growth Grant funding for any R&D activity performed through to 31 March 2020. This will alleviate some of the risks associated with transitioning current Growth Grant holders from the Growth Grant Scheme on to the R&D Tax Incentive.

34. However, even if (partial) refundability is introduced in 2020, the other feature of Growth Grants appreciated by recipients, namely in year payments, will not be available through the tax system until at least the 2021/22 year (as discussed above).

35. Additionally, based on submissions received through consultation, most submitters indicated that they would like a longer time to transition. Of the 52 submissions (out of a total pool of 275 Growth Grant recipients):

- Forty-five of the respondents commented on the length of time that they require or would like to have to make the transition.

- A third (15) of these indicated that the proposed one-year time frame was sufficient, whereas 27 said they would like a longer transition.

**There are two main options for transitioning Growth Grant recipients**

36. The following options are available to support the transition of Growth Grant recipients:

   a. Implement the current proposal, transitioning all Growth Grant recipients at 31 March 2020

[3] It would be more difficult to change the rate at which the Growth Grant is paid out for current recipients as it would require a signed variation to each contract.

b. Extend the transition period for all Growth Grant recipients to 31 March 2021

**Stopping on 31 March 2020 will introduce the tax incentive quickly, but may have a negative impact on some firms**

37. We initially proposed a 'hard' end date of 31 March 2020 to expedite a transition of all firms onto the tax incentive as soon as possible. However, even with end-of-year refundability, existing Growth Grant recipients will experience a twelve month cashflow gap until in-year payments are available through the tax incentive in 2021/22. This may lead to a slowdown in R&D growth for some firms, or the cessation of some programmes.

38. It is impossible for us to make an accurate assessment of the precise impact of this change. No firm wishes to see a reduction in revenue, and firms are therefore strongly incentivised to report problems with a potential interruption to cashflow, as they did through the consultation.

39. Tax-positive firms (those with sufficient tax liability to take full advantage of the tax incentive), approximately one third of Growth Grant recipients, should in theory be able to adjust provisional tax payments downwards in-year in response to the tax incentive, hence mimicking the cashflow benefits of a Growth Grant to a certain extent. However, this is unlikely to happen uniformly due to initial business uncertainty about the correct application of the tax incentive. Our summary judgement is that some form of negative impact will be felt by many firms currently in receipt of Growth Grants, and potentially all of them. Some stalling in growth of, or real reduction in, R&D in these firms may take place.

40. However, many firms may nonetheless cope with minor adjustments, and Ministers may consider this short-term disadvantage a fair trade-off against moving the full population of firms onto the tax incentive from April 2020.

**Stopping on 31 March 2021 extends the transition period; which can be both a good and bad thing**

41. Allowing all current Growth Grant recipients to remain on the Growth Grant until 31 March 2021 would be simple to communicate and be in line with the majority of responses from consultation. Firms will have plenty of time to plan and adjust, and we expect they would enter a scheme offering in-year refundability in March 2021. A two-year transition for Growth Grant recipients would have a supplementary benefit of easing logistical pressures for administration of the tax incentive. This will make it easier to give the new entrants to the tax incentive a better experience of the scheme.

42. We would expect most firms to stay on the Grant in the mean time, especially if the effective tax incentive rate is lower than the Growth Grant. Some firms whose R&D Tax Incentive payment exceeded their Growth Grant payment might switch, but we would expect this number to be low given firms' response to consultation. However, if the effective R&D Tax Incentive rate was equal or higher to that of the Growth Grant, more businesses might voluntarily transition.

43. The main disadvantage of this option is that it will also extend the period the grandparented Growth Grant is being used, exacerbating the problem that a small group of firms will be receiving support on more favourable terms than the majority of the firm population, and potentially undermining Government's apparent commitment to the tax incentive policy.

**There are other options, but they are more complex**

44. Officials have also considered options where the Growth Grant could be adjusted to match the settings of the tax incentive (e.g. by limiting eligibility to loss makers or reducing the rate), or other limitations to facilitate a smooth transition. This would ameliorate some of the problems noted around keeping Growth Grants for an extended period, in particular the problem of differential support to a sub-group of firms. However, unlike changing settings for new entrants

to the scheme, changing settings for existing recipients is administratively relatively complex, and would likely require careful management and additional administrative resource for Callaghan Innovation.

## Administration Costs

45. Any of the options, relating to support for loss making firms and transition for Growth Grant customers, will have administration costs. High level estimates of the costs will be developed once Ministers take decisions about which options they want to pursue, with these costs being progressively refined in the lead up to Budget 2019. These will be included in the Cabinet paper that is being prepared on design options for the R&D tax incentive.

46. In terms of choosing between the options described in this paper, officials do not consider administration costs are an influential issue, for two reasons:

- The added costs arising as a result of any of the options is likely to be small in relation to the total administration costs of the R&D tax incentive
- The options are more likely to cause a redistribution of the costs amongst agencies than shift overall costs.

## Recommended Option

47. s 9(2)(g)(i) [redacted]

48. On the basis that the latter factor carries more weight, officials recommend favouring refundability over a grant-based solution for supporting loss making firms.

49. Because of the limitations associated with what can be provided through the tax incentive for 2019/20 and 2020/21, officials recommend a two year transition for current Growth Grant recipients. This would mean they could remain on the Growth Grant until 31 March 2021. Within this option, a sub-option would be to adjust the features of the Growth Grant so as to increase the relative attractiveness of the tax incentive. However, this would increase administrative costs for businesses and Callaghan Innovation as it would have to vary contracts more than once, and Callaghan Innovation would need to build new system processes, assessment mechanisms and compliance controls. This administrative complexity significantly increases the likelihood of compliance failures and delays in claim processing.

## Next Steps

50. Based on your decision on this paper, we will provide further advice on the precise funding and timing implications of different options, and include these in the Cabinet decisions around introduction of the tax incentive at the appropriate point.

## Annex One: Summary of submissions from Growth Grant transition proposal

51. The transition proposal was emailed directly to all 275 Growth Grant recipients and was made available on the MBIE website. During the consultation process, officials from Callaghan Innovation, MBIE, and Inland Revenue conducted three interviews with Growth Grant recipients specifically on the transition proposal and held informal discussions relating to the transition proposal a number of additional firms.

52. We received 52 submissions on the proposed transition plan for Growth Grant recipients, either separately on the transition proposal specifically or as part of a submission on the main R&D Tax Incentive Proposal. One quarter (13) of respondents submitted only on the transition proposal, while the remainder made submissions on the R&D Tax Incentive Proposal as well.

53. As not all respondents indicated whether they are current Growth Grant recipients, it is impossible to say precisely the proportion of Growth Grant recipients whose views are represented in the submissions. Nevertheless, the number of submissions reflected only a small fraction of the total.

54. As for the submissions on the R&D Tax Incentive Proposal, not all submitters on the transition proposal responded on every question.

**Many expressed dissatisfaction with change from Growth Grant to Tax Incentive**

55. Many of the respondents on the transition proposal used their submission to express views about the change from the Growth Grant to the R&D Tax Incentive generally (as opposed to the transition arrangements specifically).

56. Most (44 out of 48) respondents who commented on the impact on their R&D programme said that the impact would be negative. For just under half (19) of these, this can be attributed to their perception that the R&D Tax Incentive will be less favourable than the Growth Grant, 13 to lack of refundability/cash payments under the R&D Tax Incentive, and 8 to the uncertainty around the terms of the Incentive (particularly the definition of eligible R&D).

57. Most of the 46 responses on other potential impacts to their business expressed similar concerns; 15 said the impact would be negative if the amount of support was reduced and 20 said it would be negative if there were no refundability. Three said that their internal processes would be affected and 3 said they would need to make changes to their reporting system.

**Majority would like a longer time for the transition**

58. Forty five of the respondents commented on the length of time that they require or would like to have to make the transition. A third (15) of these indicated that the proposed one-year time frame was sufficient. More than half said they would like a longer period; 6 would like at least two years after the R&D Tax Incentive is in place, 6 said they would like at least three years, and 12 said that they should be allowed to remain on the Growth Grant until the end of their current contract (or a renewal that they were already anticipating). Three would like as long as possible (i.e., to remain on the Growth Grant indefinitely), particularly if the terms of the R&D Tax Incentive are less favourable.

59. There was no specific question asking firms to indicate whether they would remain on the Growth Grant during the transition period, but 8 respondents indicated that was their intention.

**Proposed temporary grant was largely misunderstood**

60. The majority of responses on the proposed temporary grant (16 out of 27) appeared to misunderstand what it meant. (Many interpreted the temporary grant as the proposal to extend

the Growth Grant until 21 March 2020.) Two more stated explicitly that it was unclear what was meant by the temporary grant. Of the remainder, three said it would have no impact, three said it would be positive (because it would allow them to maintain their R&D) and three said it would be negative (because the terms of the Tax Incentive are less favourable than the Growth Grant).