

Research, Science and Innovation Briefings on the R&D Tax Incentive, 14 June – 29 August 2018

This release contains a number of Research, Science and Innovation Ministerial briefings and Cabinet papers concerning the New Zealand R&D Tax Incentive. All briefings in this release were sent between 14 June and 29 August 2018. The release also includes submissions received from members of the public to the consultation on the design of the R&D Tax Incentive undertaken in April 2018.

R&D Tax Incentive credit rate

The Government has agreed that a 15 per cent tax credit on eligible expenditure will be made available to business conducting R&D in New Zealand under the R&D Tax Incentive.

Based on the information available, the Government is confident that a 15 per cent credit rate starting in April 2019 is affordable. There is sufficient funding available to meet the forecast cost of the scheme through to the 2021/22 year, once Growth Grants funding is reprioritised as grants are phased out by April 2021. This is because a business will not be able to claim for both a Growth Grant and the Tax Credit.

It considers a 15% rate the best option given fiscal constraints because:

- A 15 percent credit rate is likely to induce a greater amount of additional R&D than the proposed 12.5 per cent rate;
- The rate is more favourable than the Growth Grant rate (15 per cent compared to 14.4 percent for businesses in profit);
- A 15 per cent credit rate is more internationally competitive, putting us in the top half of the B-Index within the OECD; and
- A higher credit rate combined with a mechanism to exceed the eligible R&D expenditure cap is likely to attract more international companies to relocate their R&D activity to New Zealand than would have otherwise.

To support this decision, officials forecast eligible R&D expenditure over a four-year period based on growth rates of BERD and a range of other behavioural assumptions¹ and used this to calculate the likely cost of the Tax Incentive under different credit rates. This approach then compared forecasts to total funding available, including R&D Tax Incentive budget allocation and baseline funding for Growth Grants.²

Budget Year	18/19 Q4**	19/20	20/21	21/22
R&D tax incentive budget allocation (\$million)	\$70	\$280	\$320	\$350
Growth Grant baseline funding (\$million)*	\$40	\$169	\$173	\$146
Total funding available (\$million)	\$110	\$449	\$493	\$496
Cost with 12.5% credit rate (\$million)	\$70	\$280	\$320	\$350
Cost with 15% credit rate (\$million)	\$80	\$342	\$379	\$414

*MYA as per Budget 17

¹ The forecasts are based on R&D expenditure estimates in the 2016 R&D Survey, extrapolated forward in line with GDP growth forecasts. They also incorporate an anticipated response to the R&D Tax Incentive, based on evidence of the response found by studies of overseas schemes.

² The model used to generate the forecasts assumes that all Growth Grant recipients switch to the R&D Tax Incentive from 1 April 2019, so the cost of providing an R&D subsidy to these firms through the Growth Grant regime instead of the Tax Incentive is therefore counted in the estimates

A complete list of the documents is as follows:

	Briefing number	Document type	Title/subject	Date sent to Minister/s
1	3437 17-18	Briefing	Approach to the R&D Tax Incentive bill	14 Jun 2018
2	3679 17-18	Briefing	R&D Tax Incentive: summary of submissions	29 Jun 2018
3	0061 18-19	Briefing	Report on UK and Norway R and D Tax Credit Schemes	6 Jul 2018
4	3681 17-18	Briefing	R&D Tax Incentive for Implementation	12 Jul 2018
5	3950 17-18	Briefing	R&D Tax Incentive: support for loss-making firms and transition arrangements for Growth Grant recipients	26 Jul 2018
6	0189 18-19	Briefing	Cabinet paper: R&D Tax Incentive for implementation	2 Aug 2018
7	0512 18-19	Briefing	R&D Tax Incentive: Options to expedite transition of Growth Grant	9 Aug 2018
8	0618 18-19	Briefing	R&D Tax Incentive: extensions to Growth Grant contracts	14 Aug 2018
9		Cabinet Paper	R&D Tax Incentive for implementation	29 Aug 2018
10		Submissions	Public submissions to the Discussion Document	Submissions received during the consultation period.